

INTERVIEW WITH SIR TERRY LEAHY ON TESCO'S THIRD QUARTER INTERIM MANAGEMENT STATEMENT

Q. Terry, welcome, thank you for joining us today. First of all, you're still showing very good growth overall, even though things have slowed in the UK and elsewhere. What are your feelings about this?

A. We're encouraged with the performance that we're achieving in the prevailing climate. We have a strong overall strategy for growth that is delivering good top-line numbers, but we're affected along with everybody else by the recession in the UK and the slowdown generally around the world. We're coping with it well, we're facing into it, we're doing the right things. The shops are in good order and the business is in good heart.

Q. We're always hearing about how Christmas is that crucial time for traders. Are you concerned about the outlook?

A. Retailers always like Christmas. It is an exciting time of the year. Obviously other seasons around the world matter just as much, but again, the staff will be working very hard, we have very good plans for Christmas. I actually think people always find money at Christmas. I think Christmas may be a little better than people at the moment feel.

Q. As we have been saying, these figures are holding up fairly well, so what are you doing to cope with the current economic climate?

A. The main thing is that we have to reshape the business. There are the same number of customers out there, they're just different customers. They have less money to spend, they need retailers to adjust their prices, adjust their range in order that they can cope better. I think we have really gripped this, and what we've done, we've squeezed the inflation out of our business, and we've switched it for volume. We are getting more customers, they are buying more volume from us which is good, and I believe it is a sustainable level of growth. The nominal like-for-like is actually down a bit from 4% in the second quarter to 2% in the third quarter, but it is comprised of volume, and that is much more sustainable going forward, and the business feels a lot better and more customers are buying more things from this.

Q. Can you tell us in a bit more detail about that slowdown in like-for-like from 4% to 2%? Are you concerned about it?

A. Not when I look at the shape of it. Most of the growth in Q2 was comprised just of inflation, and that inflation was not going to stay around. What we've done is we've introduced the discounter range, it is hugely successful, but it has driven down the average item price in the business as we offered hard up customers a better deal. They have responded, because they are now buying more volume from us, there's been a big uplift in volume, and they are visiting us more often, and there are more new customers. Whilst the headline like-for-like is down, it has a much better feel to it because it is comprised of customer growth and volume growth.

Q. Some of your major competitors appear to be trading more strongly than Tesco at the moment. Are you worried about that?

A. We want to deal with it because we want Tesco to be the best performing business. We want it to have the best growth. There are some factors at the moment. We're facing a little bit of an economic head wind because people are hard up. People who have a strong price perception - forget about the reality - if they have a strong price perception, they have a little bit of a tail wind at the minute as people look around and try them out to see if they're cheaper. The work we're doing, though, to improve our price reality and improve our price image, improve the range we're offering, so you can really save money now at Tesco with this discount range, it will address those things. It already is, and we're seeing big improvements in our price image, particularly amongst price sensitive people, and we are seeing these customers and seeing growth in customer numbers, not just in price sensitive, but right throughout the range of customers.

Q. Let's switch now to talk about the global picture. In the last few years, you expanded very quickly around the globe, but now it looks like the economic slowdown is spreading internationally. How will that affect your plans?

A. You have to adjust to your plans sensibly because some of these countries like Hungary, Turkey, Ireland, are facing big slowdowns, recessions, so we have ambitious growth plans, we have wonderful businesses in those countries, but it makes sense just to temper them a little bit because there's going to be a year or two of recession. Having said that, we're still in a very strong position, not just in those countries, but in all of our countries, to make sure that we grow market share and we make faster progress than anybody else, even though at a slightly lower rate than our original plan, so it's a sensible adjustment, it doesn't give up on the strategic opportunity for the future. That is the key thing and it's what I learned managing Tesco through the last recession in the late 1990s and indeed, in the recession before that. Keep going sensibly through the downturn; it puts you in a very strong position in the upturn.

Q. The world's largest economy has seen its own fair share of the downturn. We've been hearing recently that you've slowed the rate of expansion in the US. Of course, Fresh & Easy has been getting a lot of attention recently. What more can you tell us about these plans?

A. It is the same thinking. The US is in recession. The western United States, where we're opening, is in severe recession at the moment, so it makes sense to maintain our rate of opening rather than the planned acceleration in the rate of opening because you can't just buck a downturn of that magnitude. The business is very popular, it is well received by customers. The US will bounce back, the western United States will bounce back. We'll be able to step up our rate of growth when that happens.

Q. If we look across the consumer sector, we are seeing profit forecasts being cut. What is your view on the outlook for Tesco?

A. We're comfortable with where forecasts are. We are a strong business. We own 80% of our property, we have good market positions. We're an efficient business. We have a firm control of costs. We planned ahead, so we're taking all the

measures necessary to ensure that we remain in a strong confident position and can face into the challenges of the recession in the UK, and some of our markets and the general slowdown within the economy.

Q. Talking about that recession, we have also seen a lot of trouble in the banking sector. How are Tesco's finances looking right now?

A. They are in good shape. We have a successful Eurobond issue away this year. We are able to sell property, we are selling property, and as I said, we own 80% of our property which is a huge advantage financially compared with many other retailers at this time. We're pleased with the financial planning that we've undertaken.

Q. Given all those massive problems in the banking sector, are you still as keen an enthusiastic about moving deeper into banking as you were a few months ago when you announced you were taking over the whole of Tesco Personal Finance?

A. Tesco Personal Finance is 10 years old. It has always been very successful, and it's been successful because it is a very straightforward business. It takes deposits from our customers and makes sensible lending to them across a range of simple, transparent products which are good value and well-understood. Because of that, we've always had success, we've never run into any difficulties. If I may say so, I think TPF is a model for how banks will have to become in the future, much simpler, much more straightforward. You take deposits, you lend out to consumers. Tesco is a very well-respected name. It is well trusted, and that's why we're seeing good growth in TPF, including big growths in deposits.

Q. In the last few days alone, we've seen the likes of Woolworth's and MFI going into administration. What's your feeling as far as non-food goes. What has your experience been in the past few months? What is the outlook like?

A. It is concerning. It is a great shame when retailers with the name of MFI and Woolworth's go into administration. I want to reassure our staff and our customers that our business is strong. We have this huge advantage of owning all our own property which allows us to come strongly through these slow periods. Our non-food business is actually in very good shape. We are growing market share, we're outperforming the market because the market is in decline at the moment. We are holding our own in terms of sales and therefore growing market share. We have firm control of our stock, we have no worries on that side. To some extent, the strong value position we have in non-food, both in clothing and in hard lines is helping us. We have a great range bought for Christmas. We have started the marketing already, and I'm pleased to say it's going very well. I was talking to our category director for electrical goods this morning, and we're seeing very good growth there.

Q. Terry, thank you very much indeed.

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