Serving Britain's shoppers a little better every day.

4 October 2017

Dave Lewis – CEO
Alan Stewart – CFO

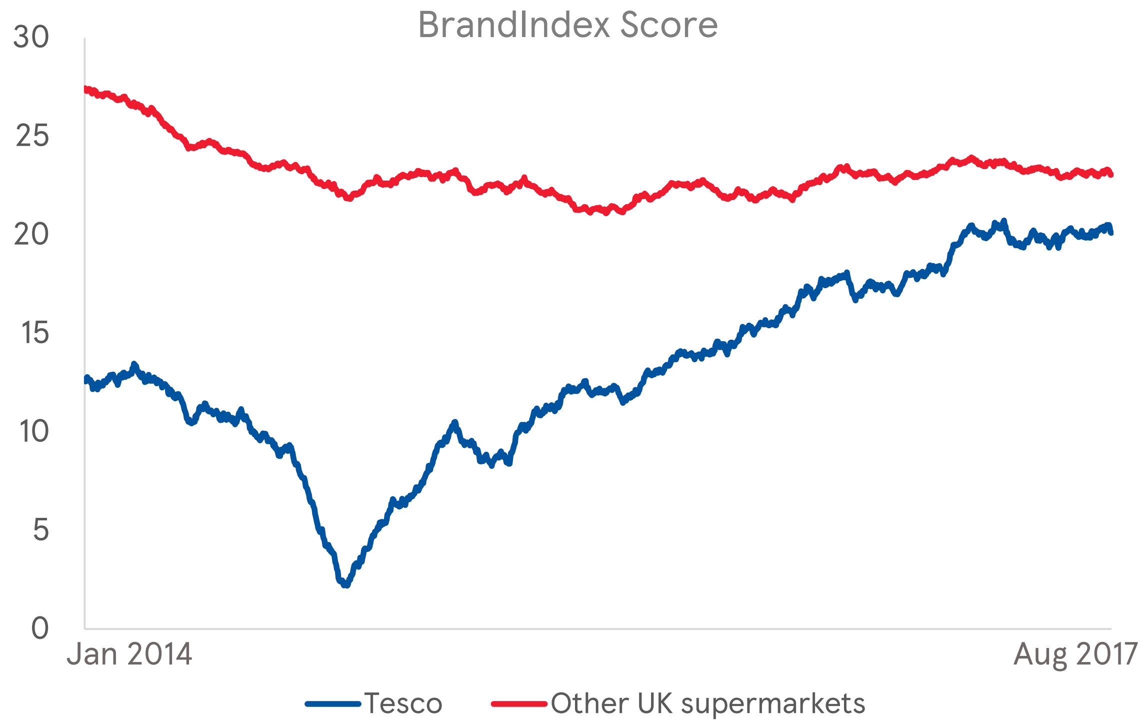
TESCO

Agenda.

- Six strategic drivers
- 1H results
- Creating long-term value for our four key stakeholders

A differentiated brand

Jan 2014 – Aug 2017



1H 17/18

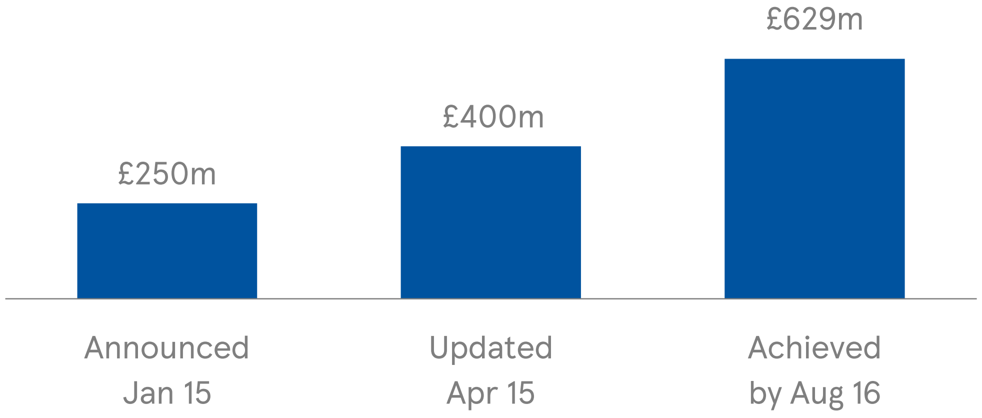
- **NPS + 11 YoY**[1]
- **YouGov Most Improved Brand**[2]
- **Value perception +2.9 points**[3]
- **Quality perception +1.9 points**[3]

1. Reflects % of Fans minus Critics answering the question "Based on your visit, how likely is it that you would recommend the following to a friend or colleague?" for large stores.
2. As per YouGov's 2017 inaugural mid-year Brand health rankings report.
3. Reflects year-on-year change in YouGov Brand perception measures of value and quality.

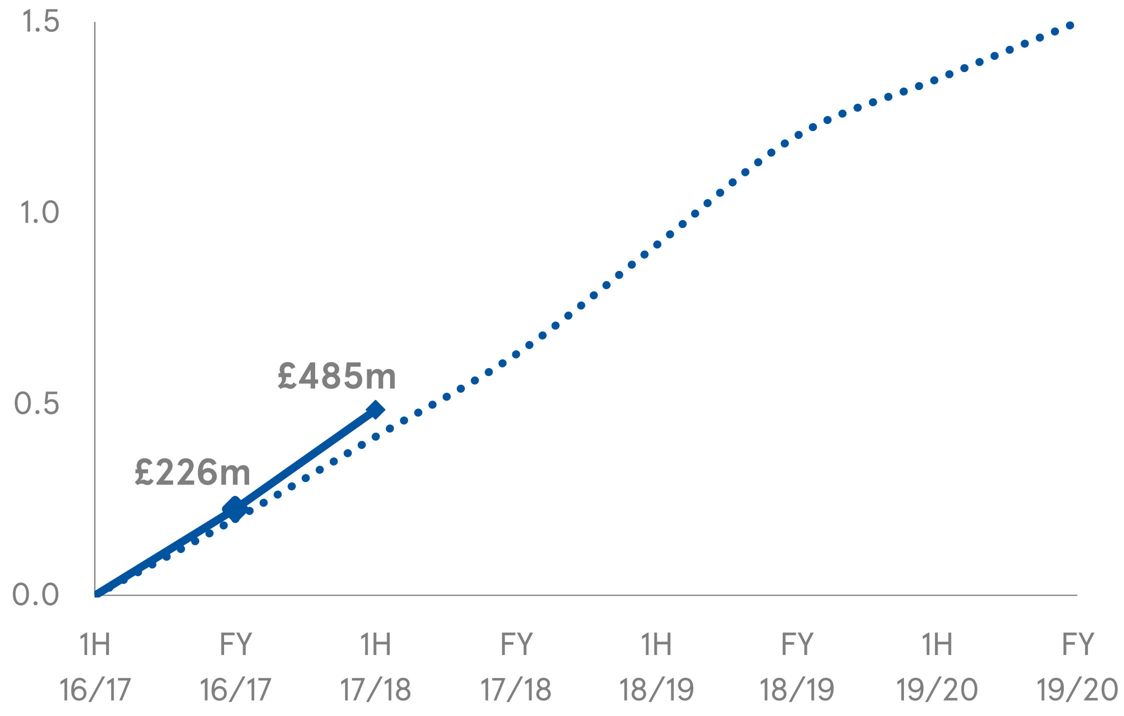
Reduce operating costs by £1.5bn

Jan 2015 – Aug 2016

Cumulative cost savings prior to £1.5bn target



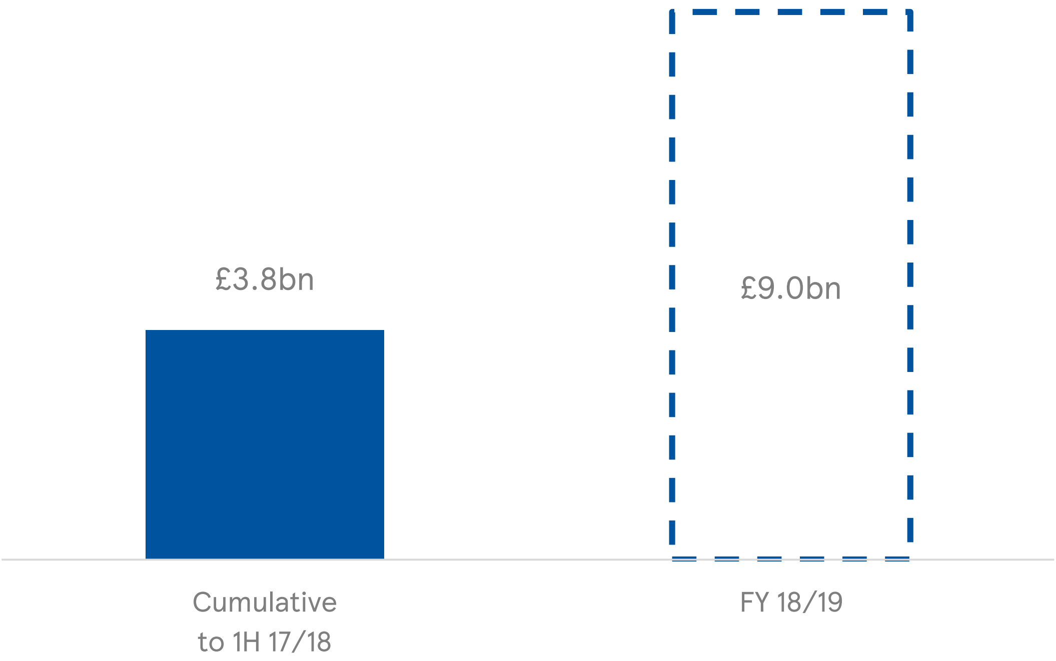
Cumulative cost savings from Oct 2016 £1.5bn target



Generate £9bn cash from operations

Feb 2016 – Aug 2017

Cumulative retail cash generated from operations[1]



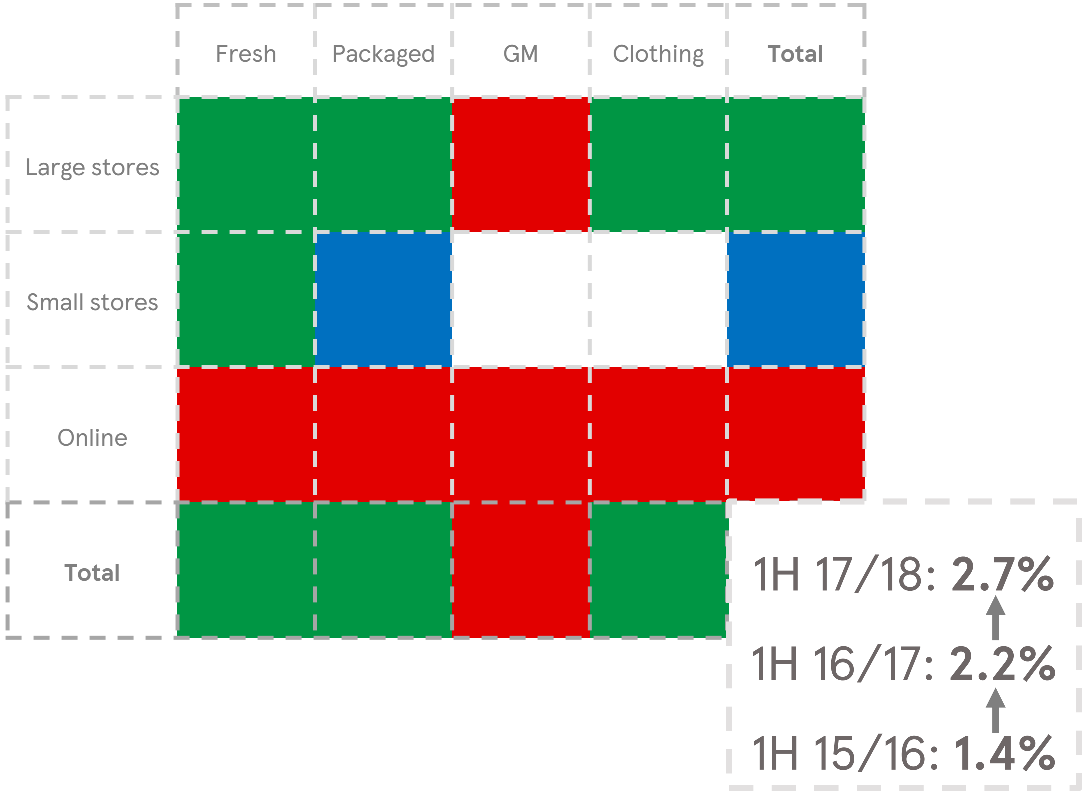
1H 17/18

- £237m working capital inflow[2]
- Further £71m reduction in stock[3]
- One-touch replenishment now running at c.100 million cases p.a.

1. Cumulative retail cash generated from operations excluding pension deficit repayments.
2. Excluding exceptionals.
3. Represents stock holdings across stores and depots in the UK.

Maximise the mix to achieve a 3.5% - 4.0% margin

Oct 2016



1H 17/18

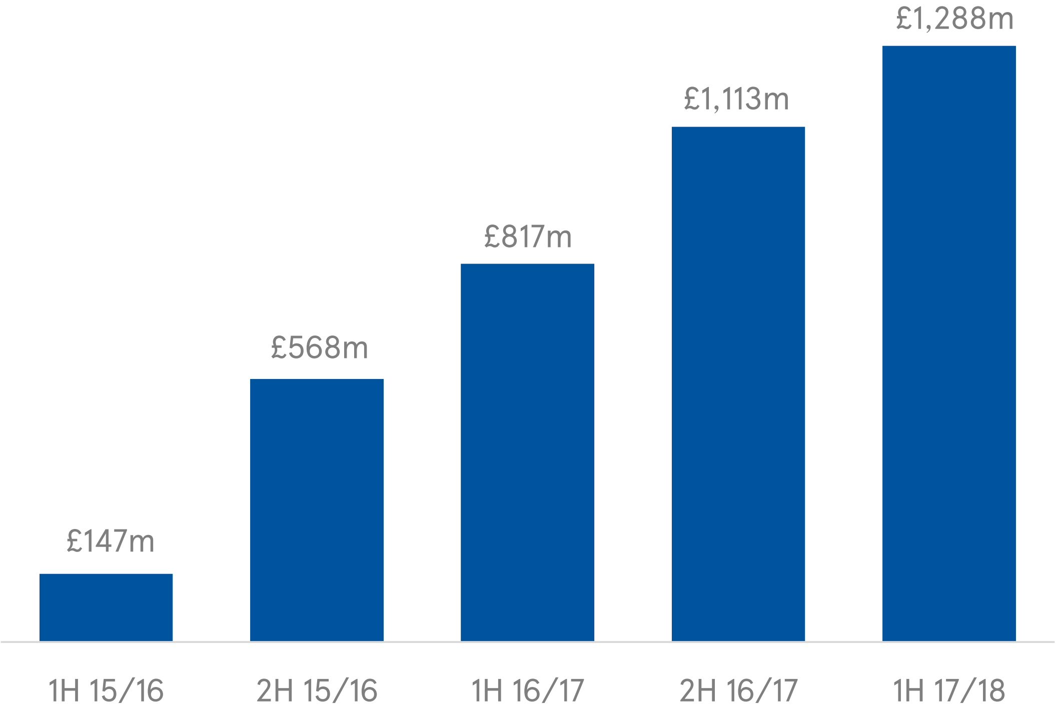
- **Group** 2.2% ➡ 2.7%, up 50bps
- **UK&ROI** 1.8% ➡ 2.1%, up 32bps
- **Central Europe** 0.6% ➡ 1.9%, up 132bps
- **Asia** 4.1% ➡ 5.6%, up 146bps

Colour of boxes illustrates indicative margin percentage relative to total (blue – above average, green – at average, red - below average).

Maximise value from property

Feb 2015 – Aug 2017

Cumulative value from property proceeds[1]



1H 17/18

- **£175m value released**
  inc. £55m from Hackney 'air rights'
- **Store buyback from BLT[2]**
  3 Extras, 4 superstores; 665k sq.ft[3]
- **410k sq.ft repurposed**
  e.g. H&M, Decathlon, TK Maxx

1. Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale and development stock.
2. As announced in April 2017.
3. On a gross internal area basis.

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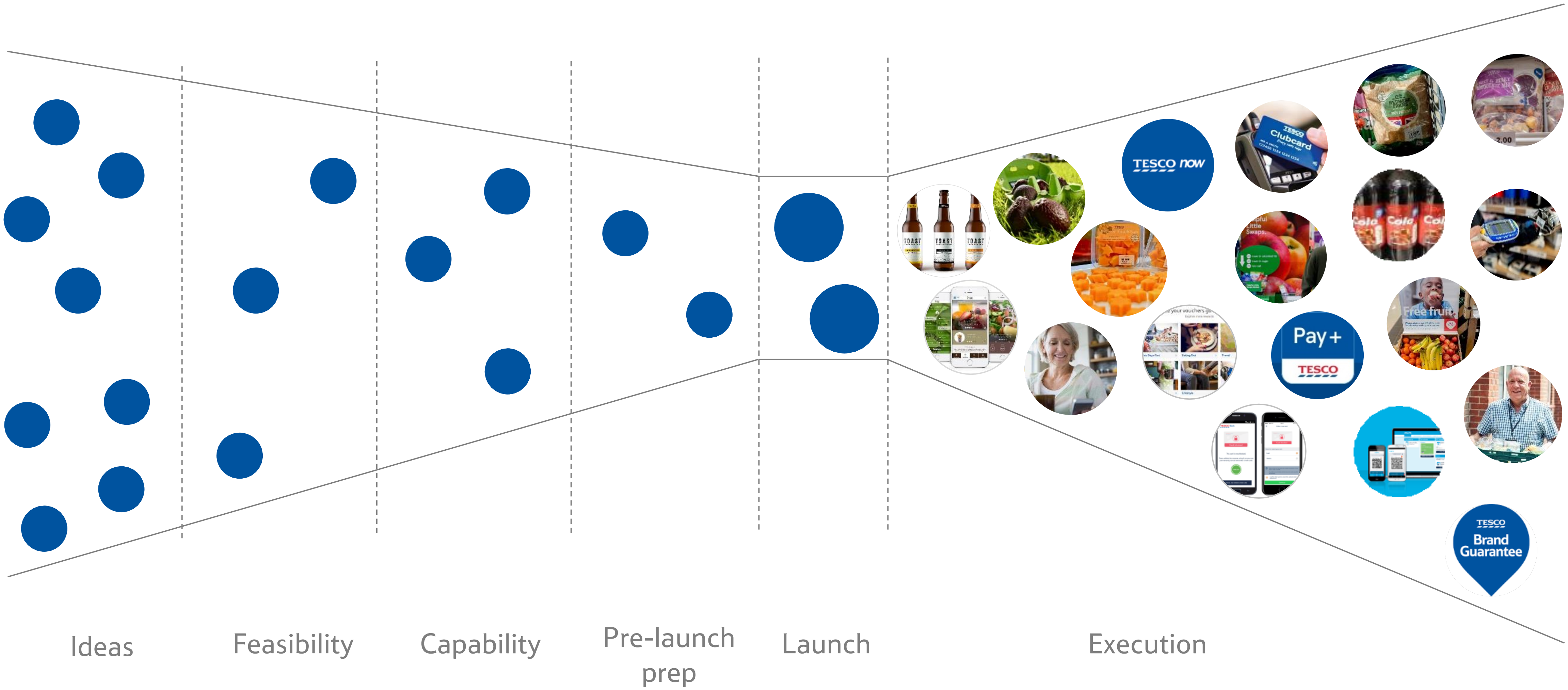
Innovation


TESCO now
Clubcard
Pay+
TESCO
Free fruit
TESCO
Brand
Guarantee
Ideas
Feasibility
Capability
Pre-launch
prep
Launch
Execution

1H results.

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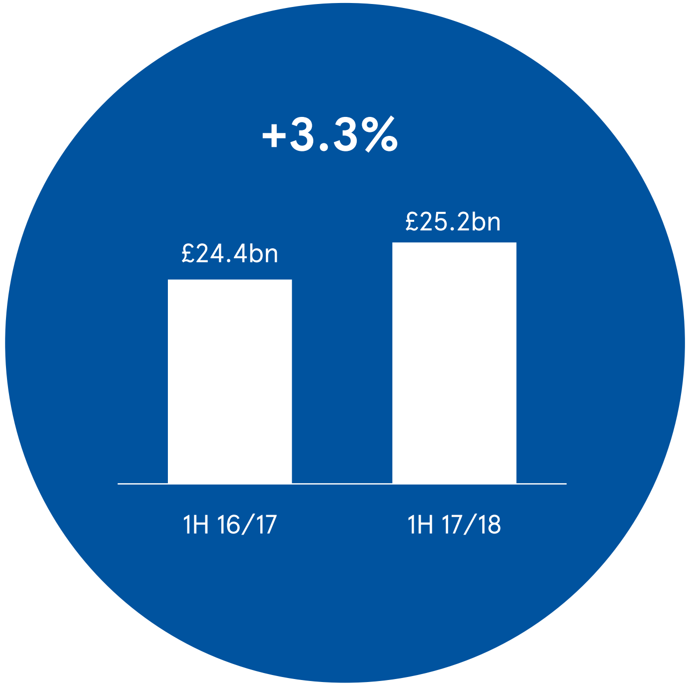
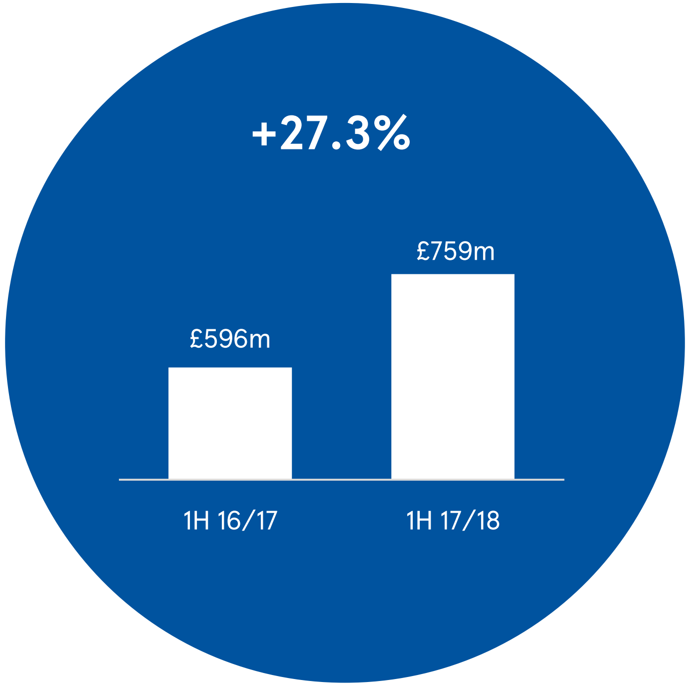
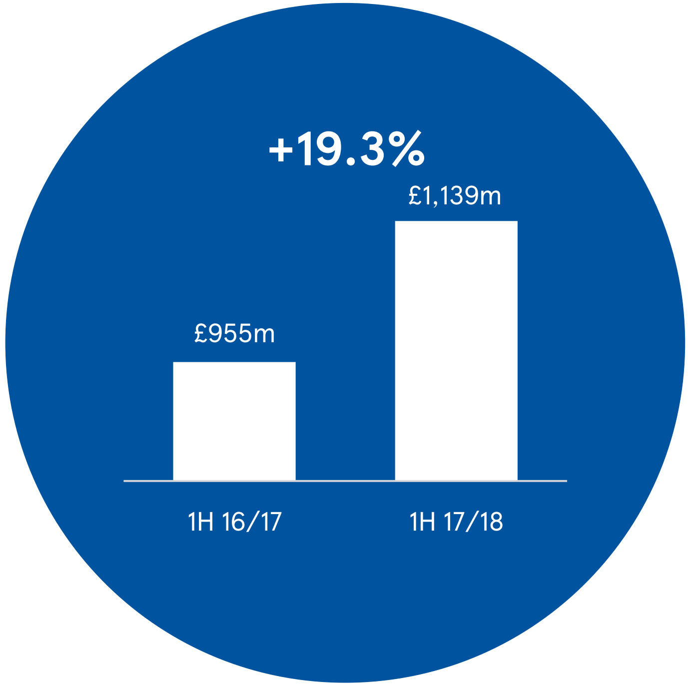
First half progress



Positive sales growth[1]



Strong profit growth[2]



Strong cash generation[3]

1. Group sales growth at actual rates on a comparable days and a continuing operations basis.
2. Group operating profit before exceptional items on a continuing operations basis.
3. Retail cash generated from operations on a continuing operations basis.

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UK performance

Volume growth[1]

Improving the customer offer[2]

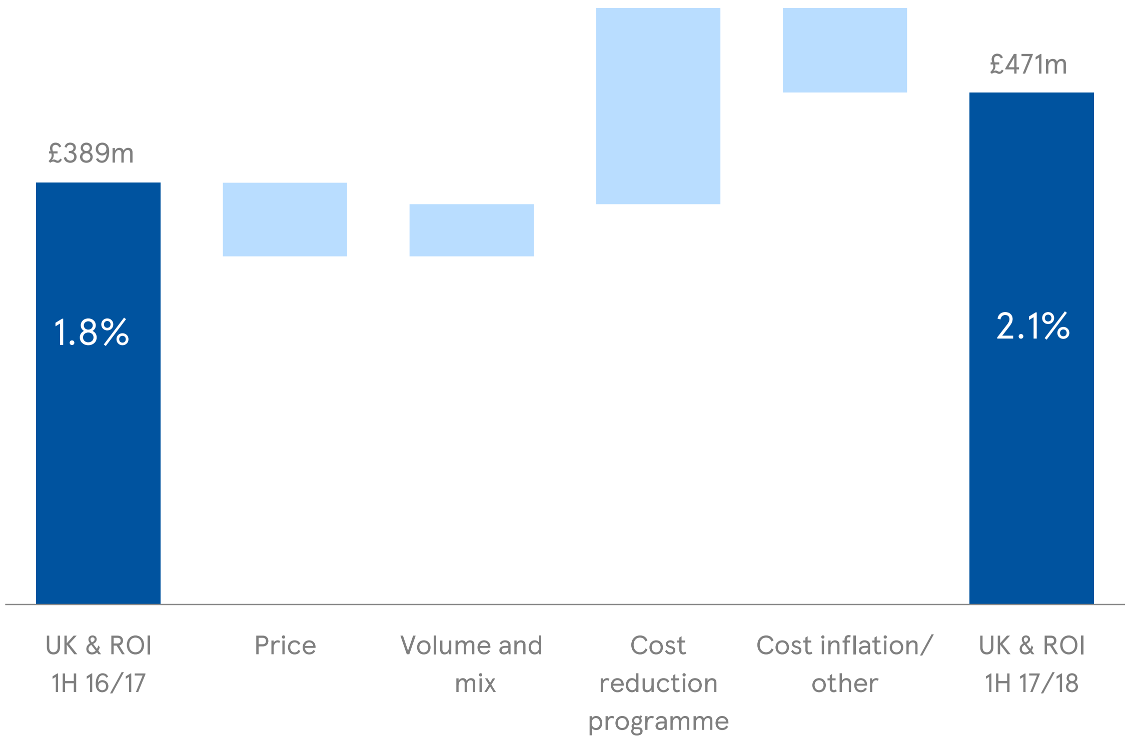
Better sales mix[3]

1. Excluding tobacco and fuel.
2. Bakery Industry Awards.
3. Percentage of clothing sales at full price.

UK & ROI

- Strong like-for-like sales growth, up 2.1%
- Lower level of inflation than market
- Extra LFL: +1.6%; Online grocery: +4.6%
- Positive fresh food volume +1.5%
- More selective in General Merchandise
- Significant cost reduction of £181m

Operating profit and margin[1]

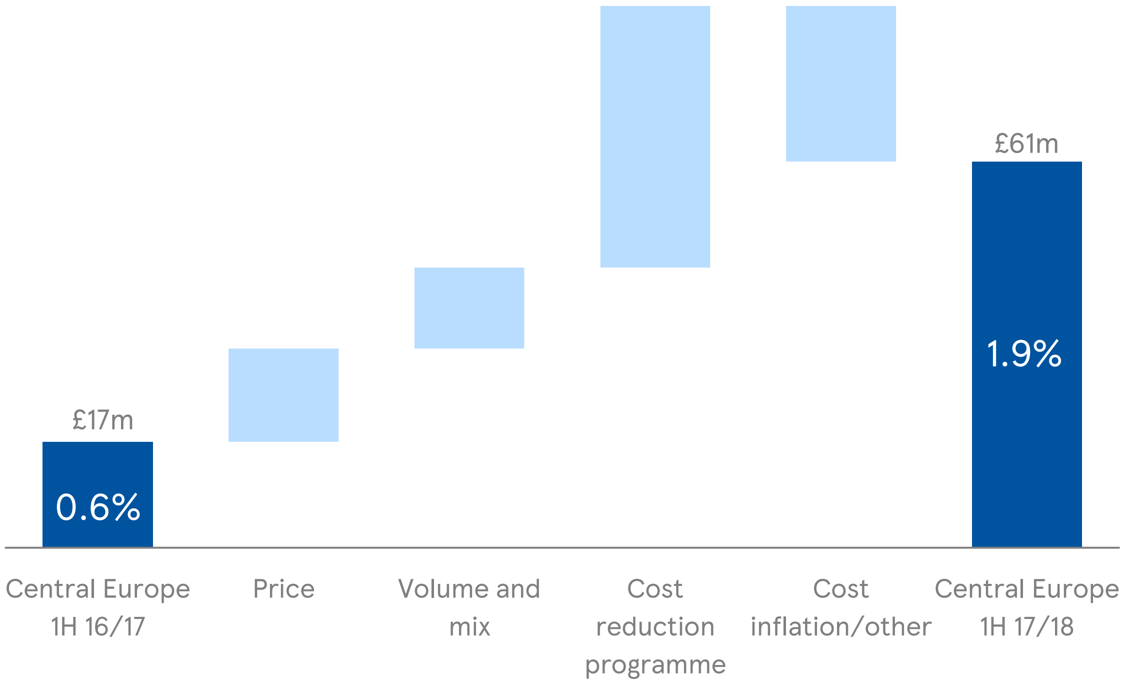


1. Before exceptional items.

Central Europe

- Improving like-for-like sales growth
  - 1Q: (0.4)%; 2Q: +0.6%
- Ongoing investment in offer
- Significant cost reduction of £42m
- Working closely with suppliers to mitigate inflation

Operating profit and margin[1]

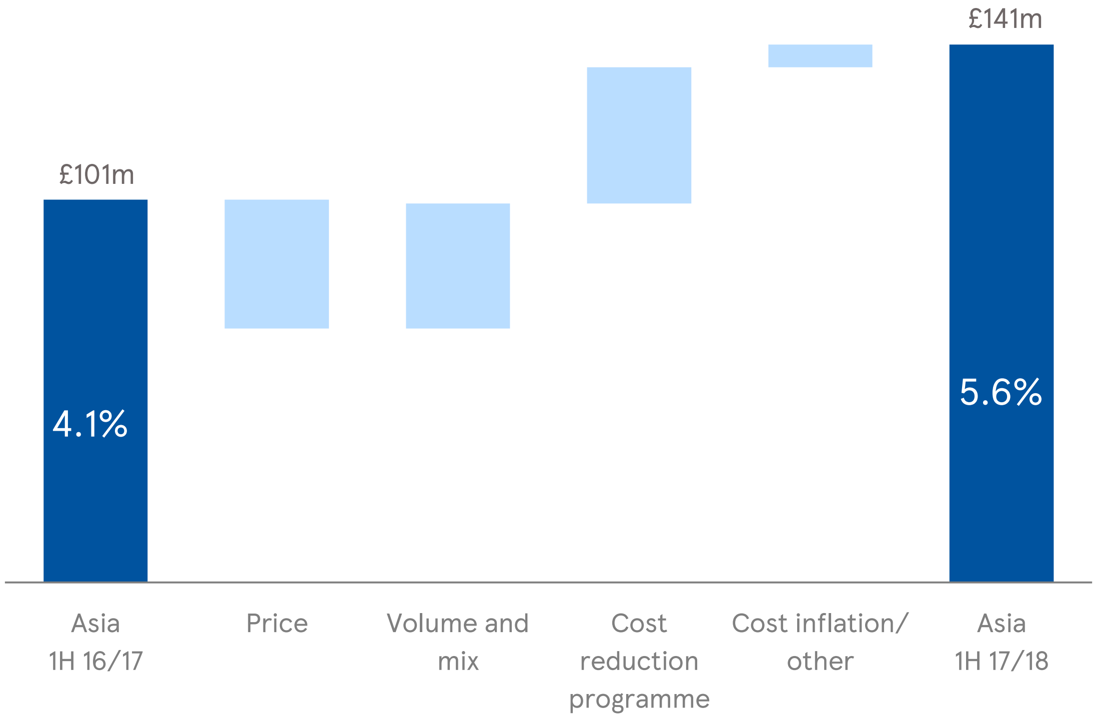


1. Before exceptional items.

Asia

- Like-for-like sales reflect decision to stop unprofitable bulk selling
- 1H LFL excluding this impact: c.(2)%
- Significant reduction in short-term couponing, particularly in 2Q
- Improved mix

Operating profit and margin[1]



1. Before exceptional items.

Tesco Bank

- 2.6% growth in active customer accounts
- 16% growth in lending balances, with an increasing focus on secured lending
  - Mortgage lending growth of 37%
  - Increased proportion of secured vs unsecured lending up 4% to 24%
- Operating profit before exceptional items down (3.4)%
  - Strong retail banking performance
  - Offset by higher than usual debt sale last year

TESCO Bank

Tesco Bank

	1H 17/18	Change
Lending to customers	**£10,762m**	**16.2%**
Secured lending	£2,542m	37.0%
Unsecured lending	£8,220m	11.0%
Bad debt: asset ratio	**1.3%**	**0.4%**
Operating profit pre exceptional items	**£86m**	**(3.4)%**
Cost: income ratio[1]	59.6%	2.6% improvement
Net interest margin	4.0%	0.1%
Tier 1 capital ratio	**16.5%**	**(0.1)%**
Total capital ratio	**19.7%**	**(0.2)%**

1. 1H 16/17 adjusted for £(45)m customer redress and £(21.8)m in restructuring; Statutory cost: income ratio 1H 17/18 59.4% and 1H 16/17 79.2%.

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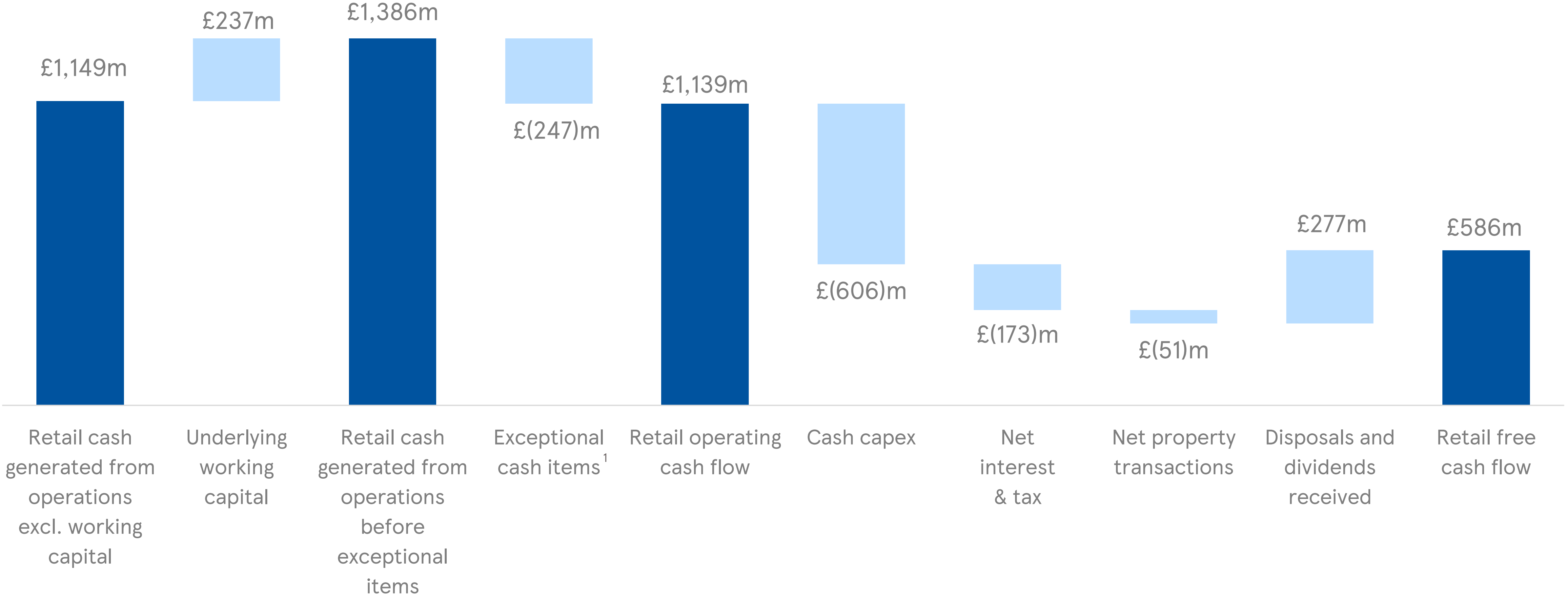
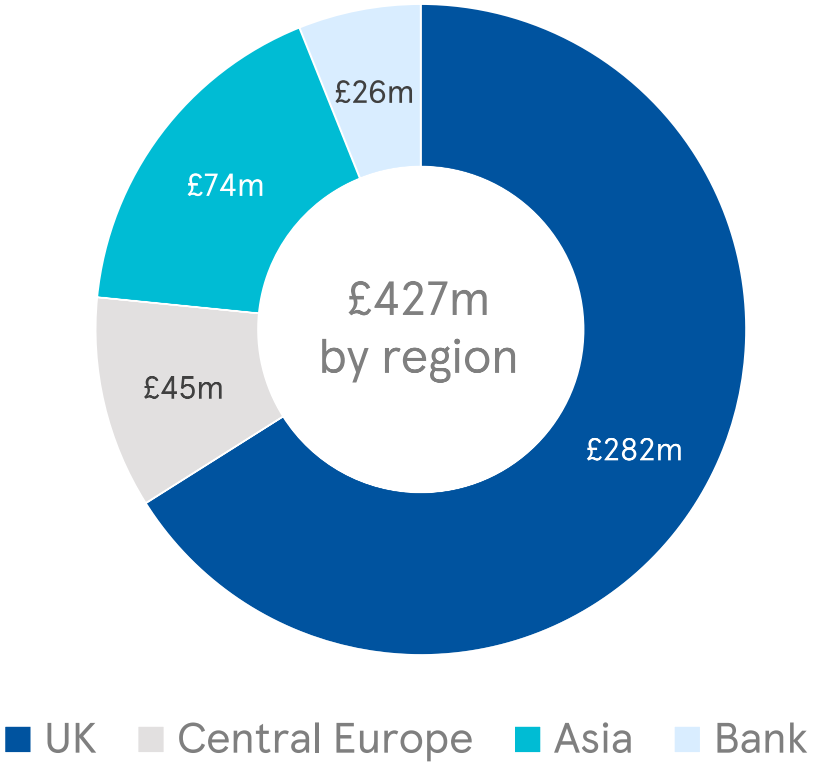
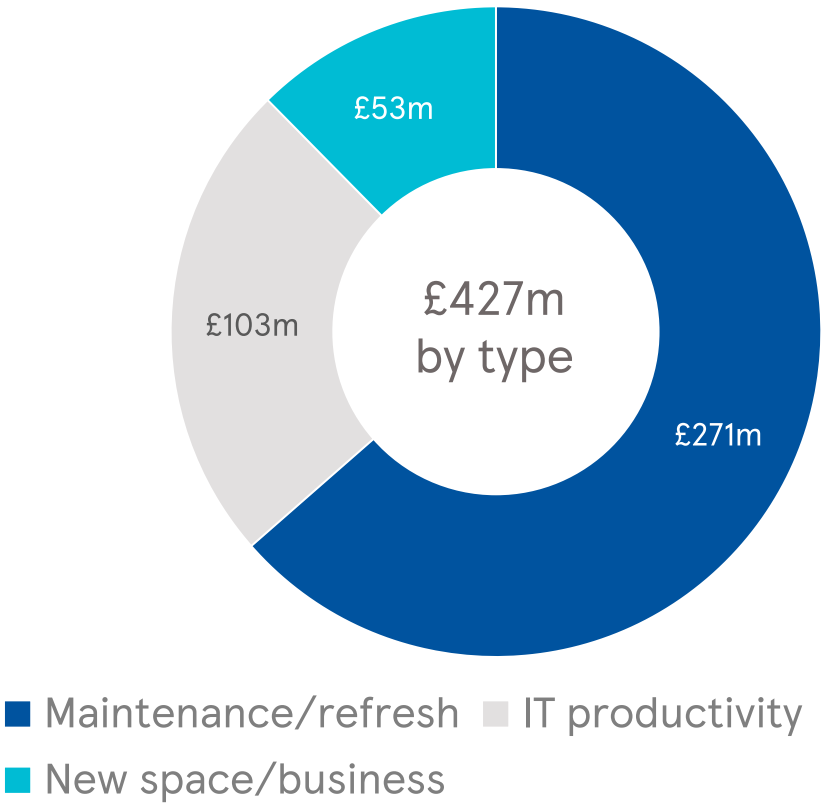
Sources and uses of cash



1. Exceptional working capital includes £(135)m of payments in relation to the Deferred Prosecution Agreement with the SFO and initial shareholder compensation payments, £(39)m utilisation of onerous leases, £(53)m of restructuring payments relating to the prior year, £(29)m of restructuring payments relating to the current year and £9m of other items.

Capital expenditure





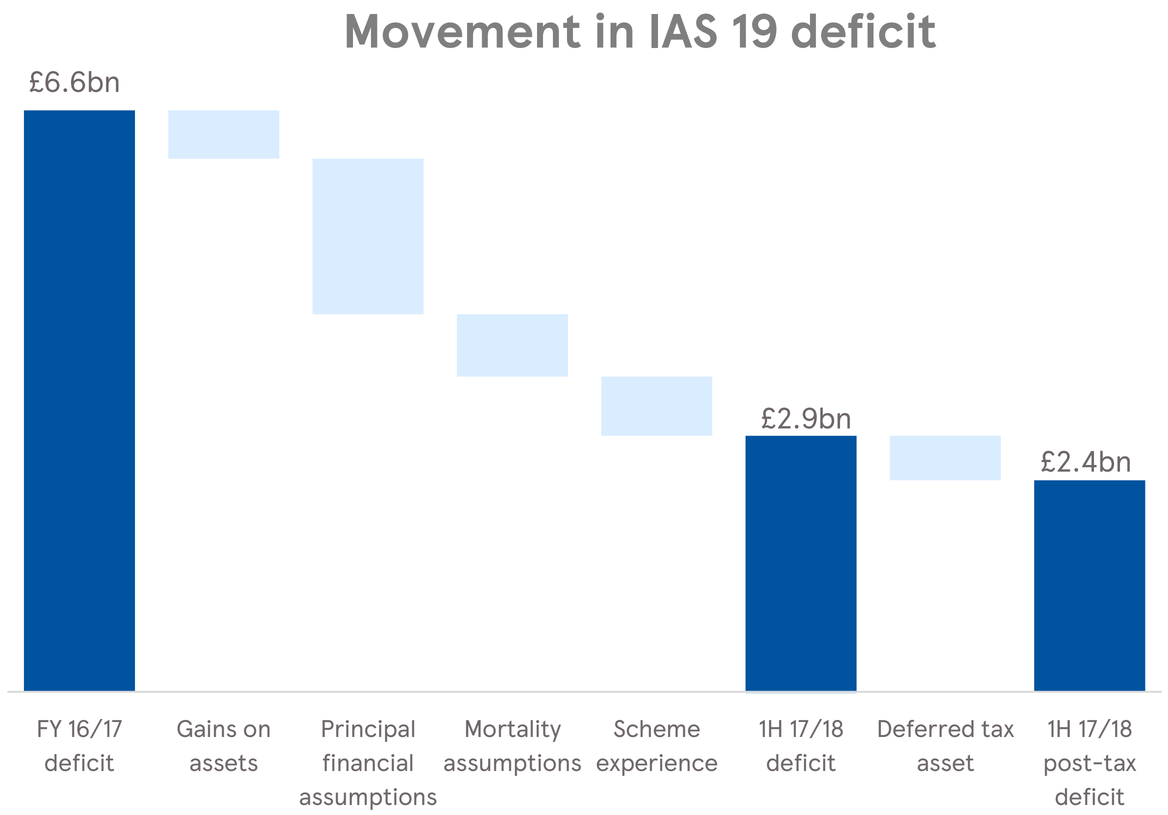
FY 17/18 capex guidance: c.£1.1bn
FY 18/19 onwards: between £1.1bn and £1.4bn

Triennial pension review

- Triennial pension review concluded
- Annual contributions to increase by £15m to £285m p.a. from April 2018
- Long-term framework unchanged
- Actuarial deficit as at March 2017: £3.0bn (March 2014: £2.75bn)

IAS 19 pension deficit

- IAS 19 pension deficit reduced to £2.4bn
- Discount rate more appropriately reflects corporate bond yields over life of liabilities
- Latest industry life expectancy tables applied
- Actual scheme experience favourable versus March 2014 expectations



Balance sheet progress

Total indebtedness decreased from £21bn in 2014 to £13bn in Oct 17

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Improving debt metrics

	1H 17/18	FY 16/17	1H 16/17
Net Debt/EBITDA[1]	1.3x	1.6x	2.1x
Fixed Charge Cover[2]	2.4x	2.2x	2.0x
Total indebtedness ratio[3]	3.7x	5.0x	5.6x

1. EBITDA is based on continuing operations (excluding Turkey).
2. EBITDAR/(Interest + Rent).
3. Net Debt + pension deficit + NPV of lease obligations / EBITDAR.

Earnings per share

	1H 17/18	% change
Operating profit[1]	**£759m**	**27.3%**
JVs & Associates	£12m	500%
Net finance costs[2]	£(195)m	19.4%
Profit before tax[3]	**£576m**	**61.8%**
Taxation	£(130)m	(35.4)%
Profit after tax[3]	**£446m**	**71.5%**
Diluted weighted average number of shares (m)	8,175	0.4%
Diluted EPS[3]	**5.46p**	**71.2%**

1. Before exceptional items.
2. Before IAS 19 net pension finance costs and IAS 39 'Financial instruments' - fair value remeasurements.
3. Before exceptional items, IAS 19 net pension finance costs and IAS 39 fair value remeasurements attributable to owners of the parent.

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Dividend

- 1p interim dividend
- Ex-dividend date 12 October 2017; Payment date 24 November 2017
- Total cash cost of £82m
- Intend to reach targeted cover of around two times earnings in the medium term
- Reflects improved performance and Board confidence

Guidance

Operating margin	3.5% to 4.0% Group operating margin by 19/20
Operating costs	Reduce operating costs by a further £1.5bn by 19/20
Retail cash generation	Generate £9bn of cash from operations by 18/19
Working capital	Underlying decrease of around £0.2bn per annum
Pension deficit contribution	Increasing from £270m to £285m per annum, from April 2018
Capex	Current year: £1.1bn Future years: £1.1bn - £1.4bn per annum
Net finance costs[1]	c.4% of long-term debt per annum
Effective tax rate	c.25% for the current year Decreasing to c.20% over medium term
Dividend	Targeting cover of around 2 times EPS in medium term Broadly one-third : two-thirds split between interim and final

1. Before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements.

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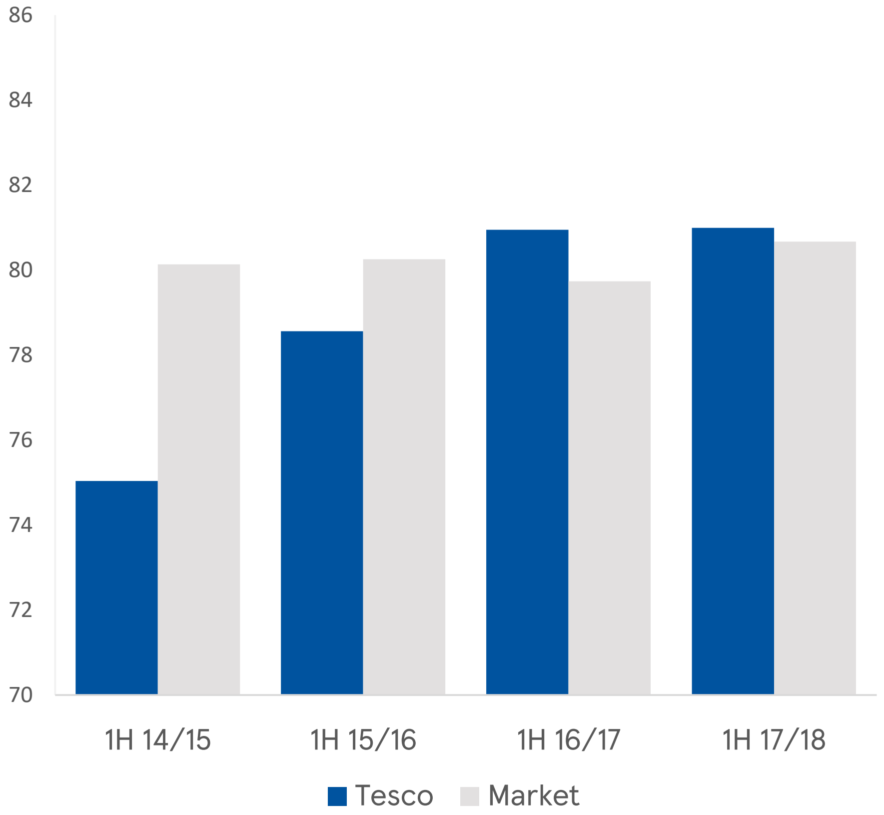
Financial summary.

- Strong financial performance across the Group
  - 3.3% sales growth
  - 27% increase in operating profit; margin up 50bps
  - 19% increase in retail cash generation
- Balance sheet significantly strengthened
  - Net debt reduced by £469m from FY 16/17
  - £1bn of debt repaid including £500m bond tender
  - Annual pension contributions agreed at £285m p.a. from April 2018
- Reinstatement of dividend

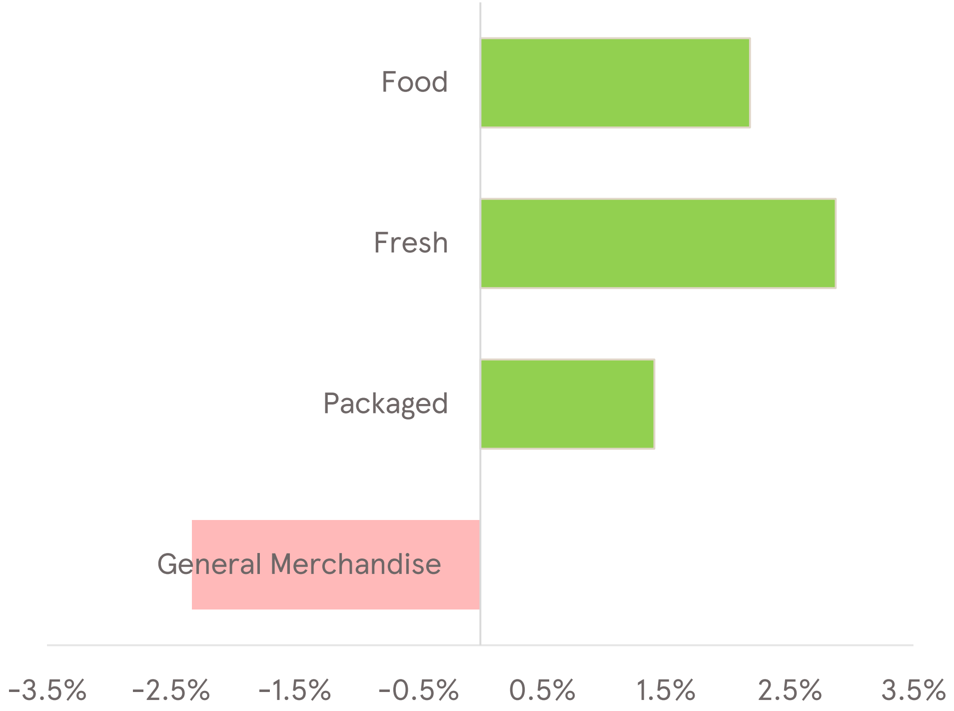
Creating long-term value for our four key stakeholders.

Customers

“Everything I wanted to buy was available”[1]



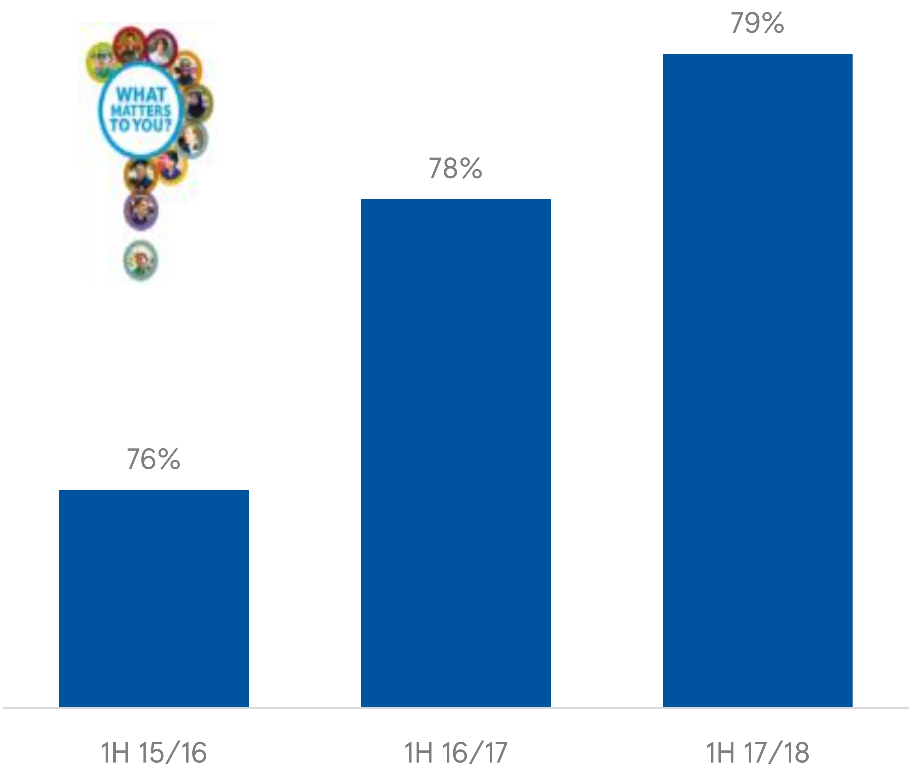
Market outperformance[2]



1. Reflects customers responding positively to “Was everything you wanted to buy available?” as part of the periodic Customer Spotlight survey.
2. Shows volume outperformance. Data is for Tesco Weeks 1-26 and is sourced from IRI Retail Advantage™, global insight providers to the retail industry. IRI market definition excludes Aldi and Lidl.

Colleagues

A great place to work[1]



1H 17/18

- 10.5% pay increase[2]
- Simpler structures
- >45,000 more hours to serve customers[3]

1. Reflects % of colleagues recommending Tesco as a great place to work as part of our ‘What Matters To You?’ survey undertaken every January and August.
2. For store colleagues over two years.
3. Refers to the additional number of colleague hours available per week as a result of the changes to the replenishment model.

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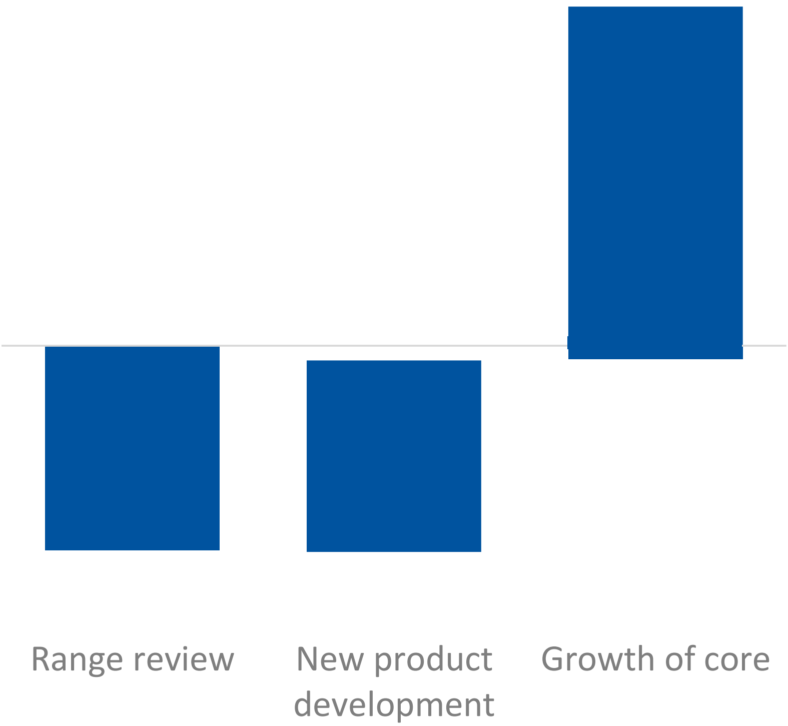
Suppliers

Growing volumes with supplier partners

No. of partners	Volume growth
95	>100%
185	>50%
330	>25%
568	>10%

Contribution to volume growth



Data is as presented at IGD Tesco update in May 2017, showing volume growth for the last 12 months.

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Shareholders - a structurally advantaged business

Unrivalled store network

Unparalleled online reach

Loyal customer base

Supply chain expertise[1]

Unique own label capability

Long-standing supplier partnerships

1. Reflects percentage of cases in packaged food that do not require re-working by colleagues in stores.

Shareholders – January 2015 internal plan

Sales base	Levers	Ambitions
£50bn exc. fuel	⬆ Volume	Reduce costs by **£1.5bn**
£56bn inc. fuel	⬆ Mix	**3.5% - 4.0%** operating margin
Assuming ongoing sales **deflation**	⬇ Costs	**£9bn** retail cash flow

Shareholders - a sustainable model to deliver strong returns

Ambitions

Reduce costs by **£1.5bn**

3.5% - 4.0% operating margin

£9bn retail cash flow

Financial efficiency

Capital discipline: £1.1bn - £1.4bn p.a.

Optimise working capital c.£0.2bn/yr

Lower cost of debt

Outcome

Significant **free cash flow**

Uses of cash

Shareholder returns

- Significant EPS growth
- Dividend around 2x cover in medium term

Strengthen the balance sheet

- Return to investment grade credit metrics

Reinvest in the business

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Capacity to innovate

	Market	Tesco
AB	25.0%	26.0%
C1	27.1%	27.4%
C2	20.4%	20.3%
D	15.2%	15.2%
E	12.6%	11.4%

Breadth of appeal[1]

Own label

Loyalty

Truly multichannel

1. Kantar Worldpanel data as at September 2017.

Creating the UK's leading food business

Creating the UK's leading food business – CMA timetable

- Provisional findings by end of October 17
- Final report due by end of calendar year

CMA
Competition & Markets Authority

ANTICIPATED MERGER BETWEEN TESCO PLC AND BOOKER GROUP PLC

Administrative timetable*

* Published on 28 July 2017, as required by Rule 7 of the *CMA rules of procedure for merger, market and special reference groups*. Any revisions made to the timetable will be published on this website.

Phase 2 date	**Action**
Tuesday 26 December 2017	Statutory deadline
Mid December 2017	Publish final report
Mid November 2017	Final deadline for all parties' responses/submissions
Early to mid November 2017	Response hearing(s), if required
Mid to late October 2017	Notify provisional findings and consider possible remedies
Early October 2017	Main party hearings; verify information; consider provisional findings
Early October 2017	Deadline for all parties' responses/submissions before provisional findings
Mid August 2017	Publish issues statement
Late July/early August 2017	Gather information, issue questionnaires, hearing third parties
12 July 2017	Merger reference made

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Summary.

- Delivering against our six strategic drivers
- Continued momentum in our performance
  - Sales up, profits up, cash up
  - More competitive offer, more customers shopping at Tesco
  - Balance sheet significantly strengthened
  - Dividend reinstated
- A sustainable model to deliver strong shareholder returns

Q&A

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Appendix

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Segmental performance

	Sales				Operating profit before exceptional items			
	1H 17/18	1H 16/17	Change constant rates[1]	Change actual rates[1]	1H 17/18	1H 16/17	Change constant rates	Change actual rates
UK & ROI	£19.0bn	£18.6bn	1.8%	2.2%	£471m	£389m	20.3%	21.1%
Central Europe	£3.1bn	£2.8bn	(0.9)%	9.2%	£61m	£17m	235.3%	258.8%
Asia	£2.5bn	£2.4bn	(6.0)%	3.9%	£141m	£101m	24.8%	39.6%
Bank	£0.5bn	£0.5bn	4.8%	4.8%	£86m	£89m	(3.4)%	(3.4)%
Group	**£25.2bn**	**£24.4bn**	**0.7%**	**3.3%**	**£759m**	**£596m**	**23.7%**	**27.3%**

1. Change shown on a comparable days basis.

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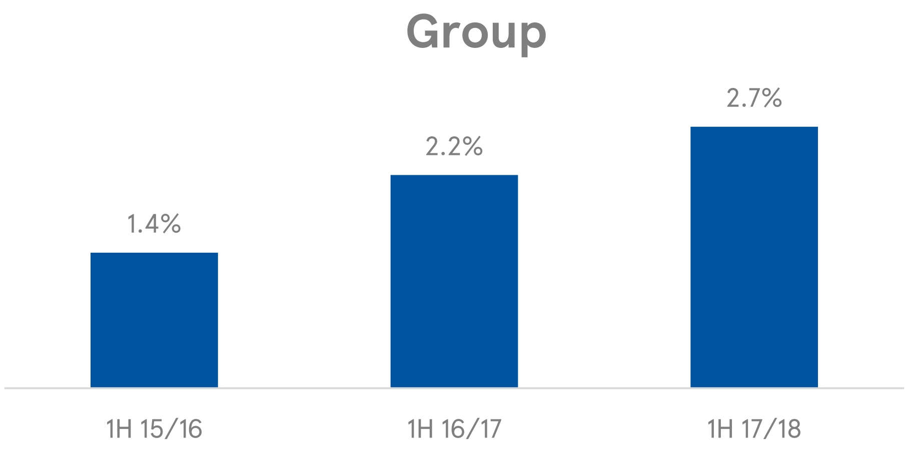
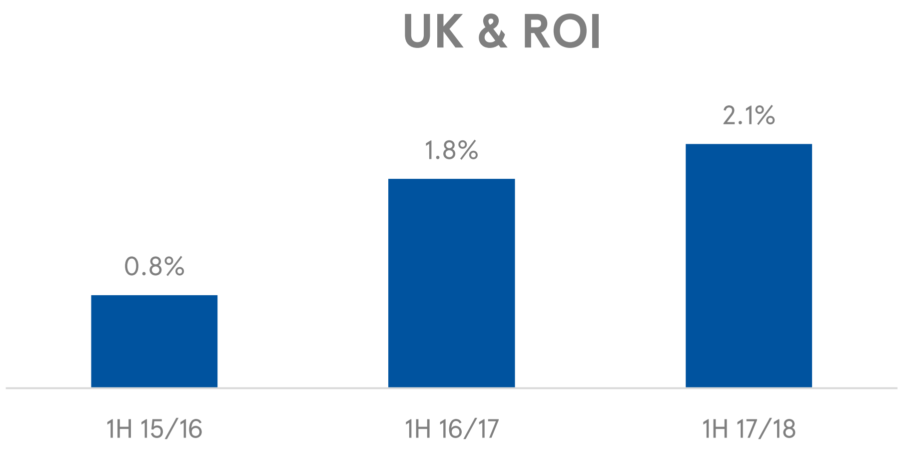
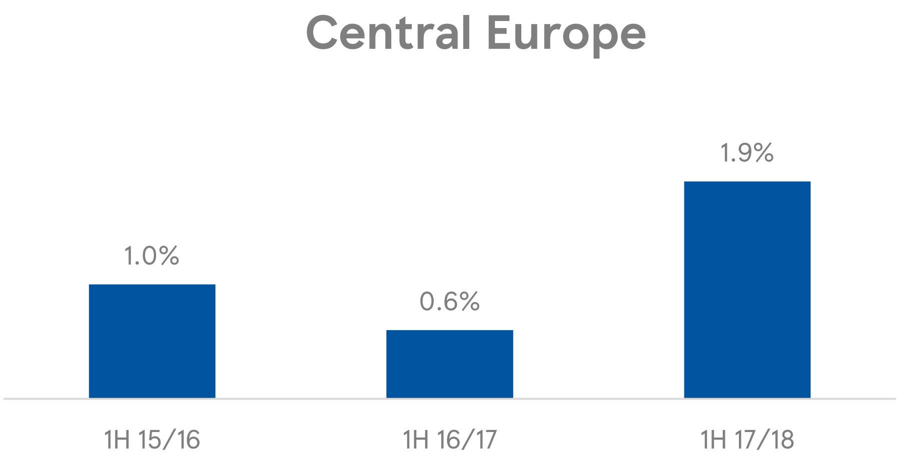
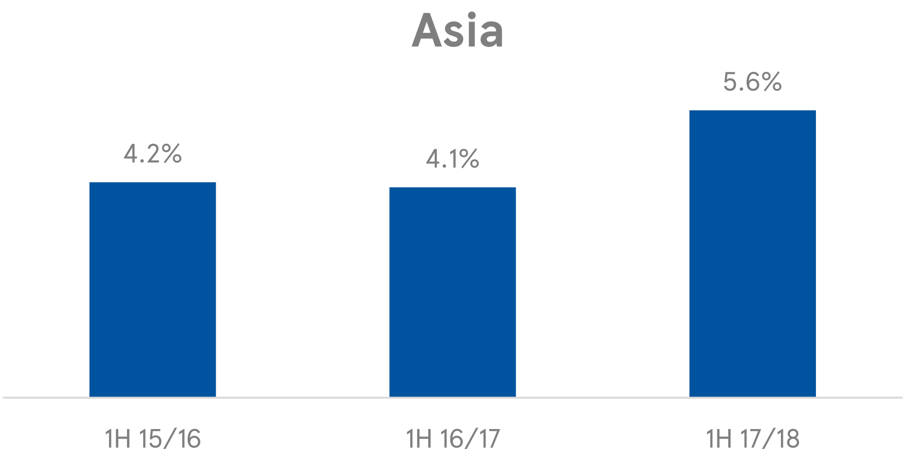
Margin progression



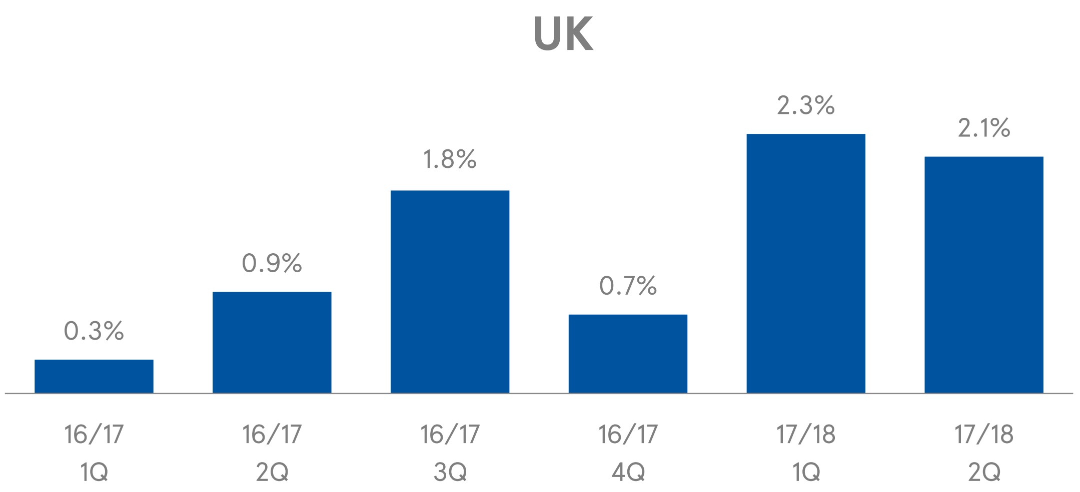


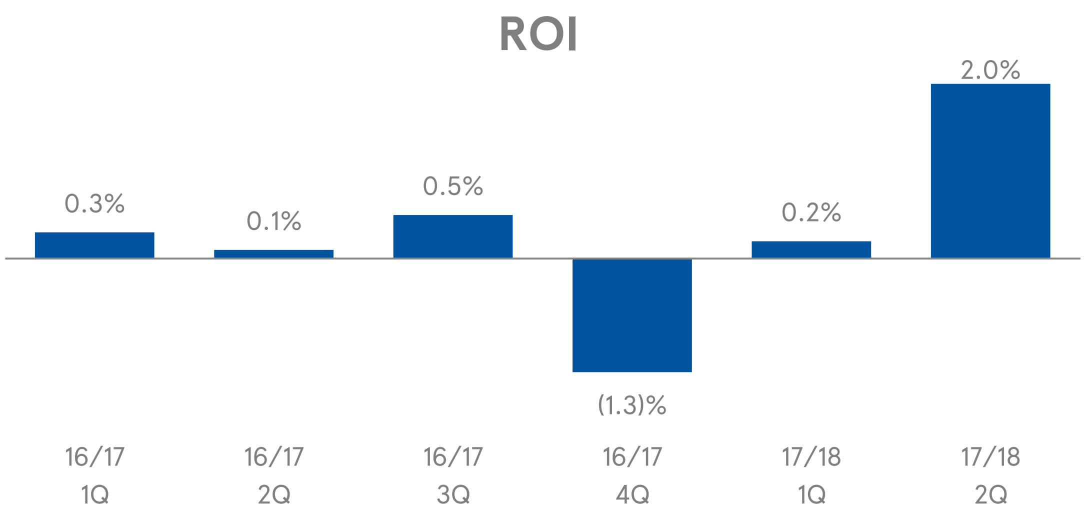


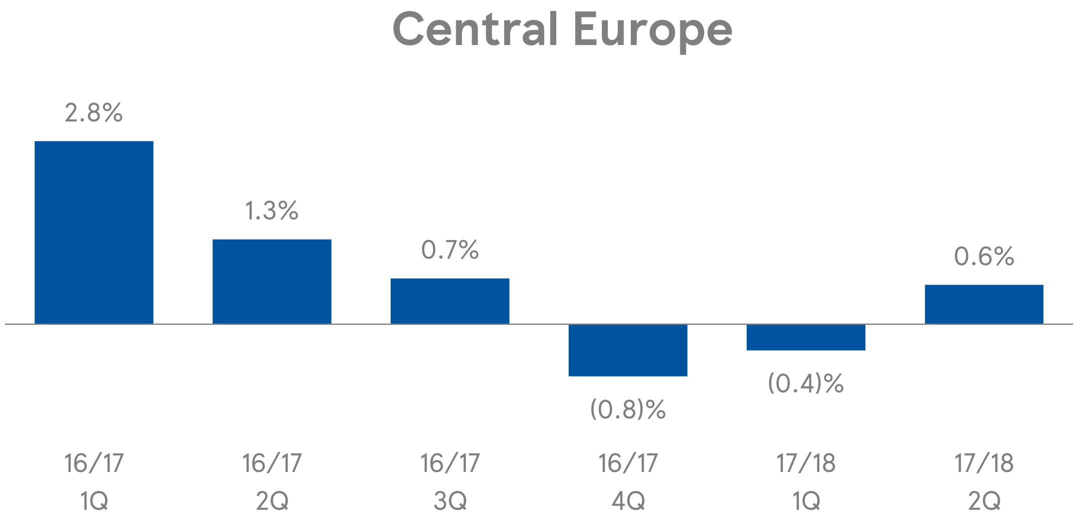


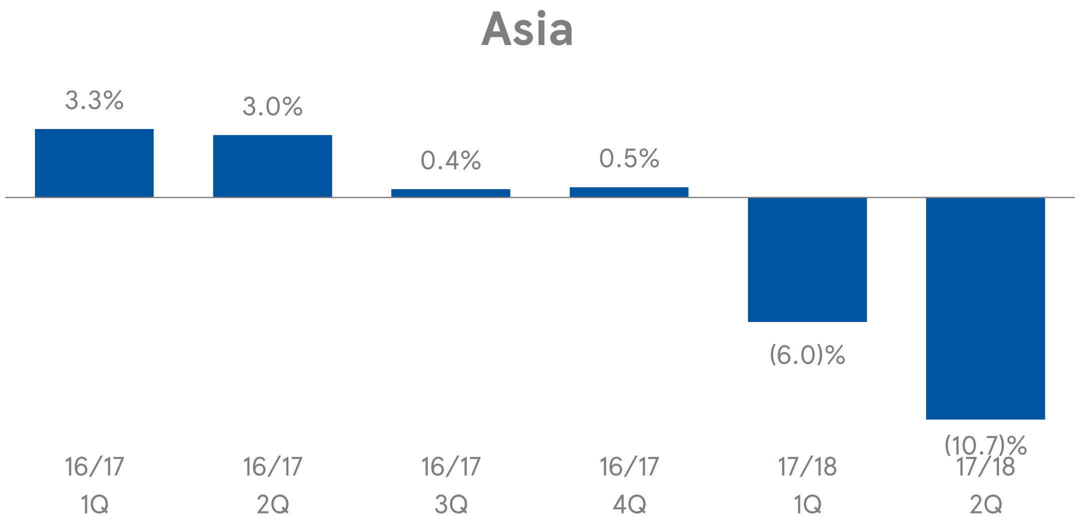
Operating margin shown before exceptional items.

Like-for-like sales performance[1]





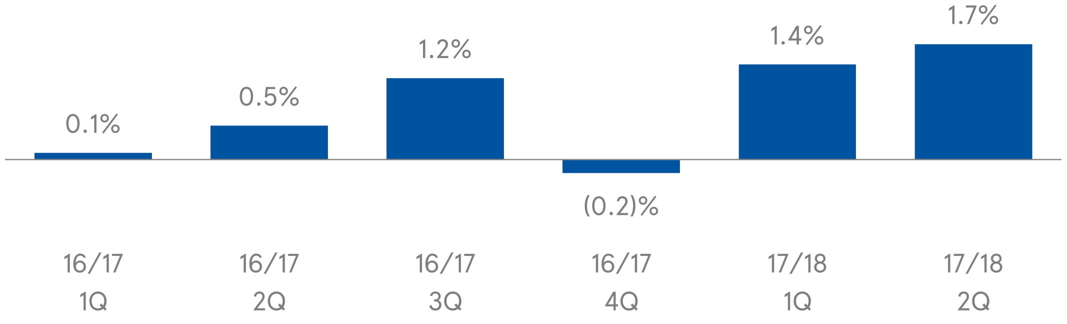




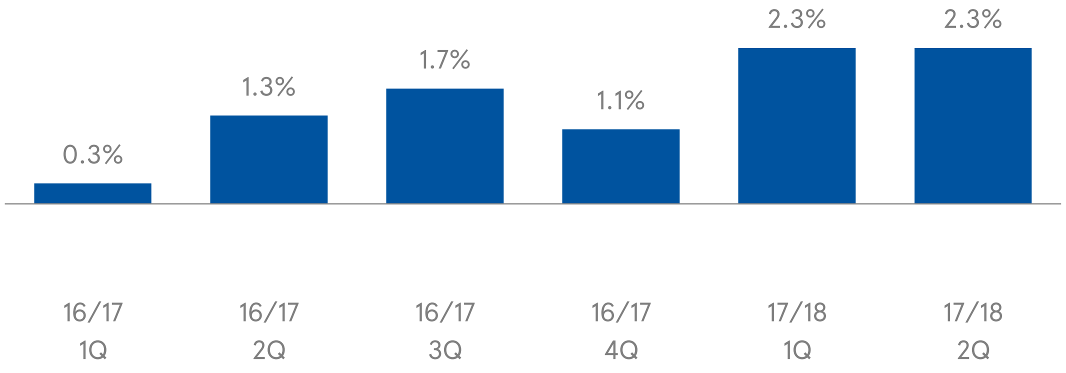
1. Exc. VAT, exc. Fuel.

UK like-for-like sales performance[1] by format

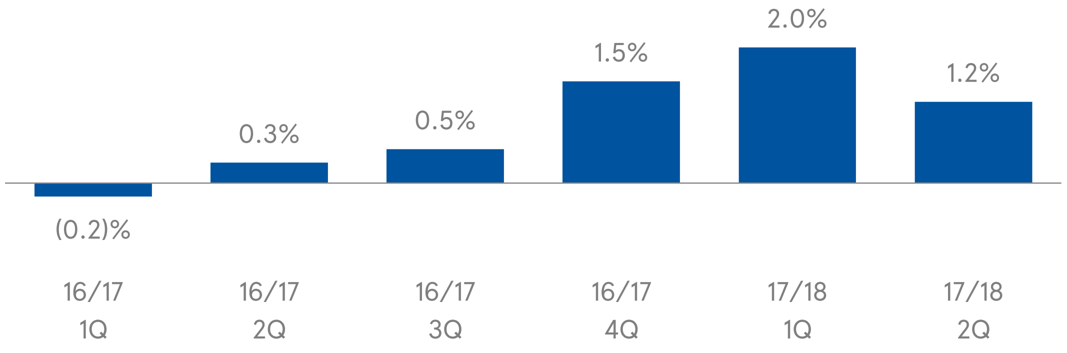
Extra



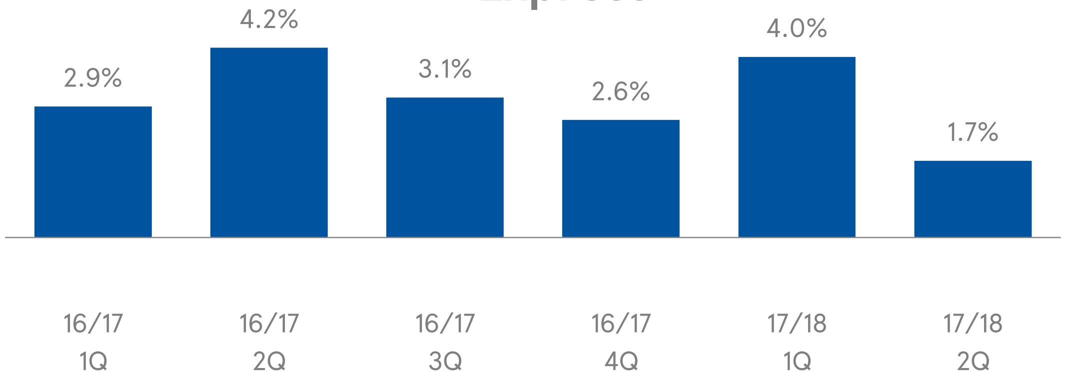
Superstores



Metro



Express



Online 1H 17/18: Grocery 4.6% General Merchandise & Clothing (6.7)%

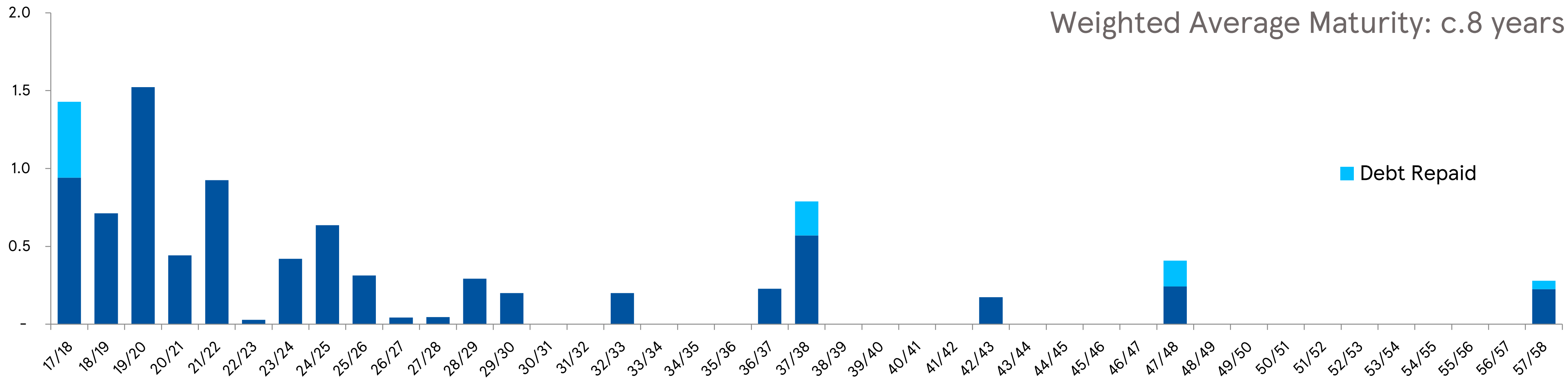
1. Exc. VAT, exc. Fuel.

Exceptional items

	1H 17/18	1H 16/17
Restructuring and redundancy	£(63)m	£(95)m
Property transactions	£65m	£59m
Profit on the sale of Lazada	£124m	-
Tesco Bank customer redress	-	£(45)m
Total exceptional items in operating profit	**£126m**	**£(81)m**

Strong liquidity position

- £3.8bn of cash and short term investments[1]
- £4.4bn undrawn committed facilities expiring 2019-21



1. Retail cash excluding overdraft and cash set aside for Booker.

Disclaimer.

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