First half progress

Positive sales growth\(^1\)

\[ \begin{align*}
\text{1H 16/17} & : \£24.4bn \\
\text{1H 17/18} & : \£25.2bn \\
\end{align*} \]

\( +3.3\% \)

Strong profit growth\(^2\)

\[ \begin{align*}
\text{1H 16/17} & : \£596m \\
\text{1H 17/18} & : \£759m \\
\end{align*} \]

\( +27.3\% \)

Strong cash generation\(^3\)

\[ \begin{align*}
\text{1H 16/17} & : \£955m \\
\text{1H 17/18} & : \£1,139m \\
\end{align*} \]

\( +19.3\% \)

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.
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

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

---

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 margin¹

1. Before exceptional items.
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

Net debt

<table>
<thead>
<tr>
<th></th>
<th>1H 16/17</th>
<th>FY 16/17</th>
<th>1H 17/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>£4.4bn</td>
<td>£3.7bn</td>
<td>£3.3bn</td>
<td></td>
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</tbody>
</table>

Lease commitments

<table>
<thead>
<tr>
<th></th>
<th>1H 16/17</th>
<th>FY 16/17</th>
<th>1H 17/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>£7.8bn</td>
<td>£7.4bn</td>
<td>£7.3bn</td>
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</table>

Pension deficit

<table>
<thead>
<tr>
<th></th>
<th>1H 16/17</th>
<th>FY 16/17</th>
<th>1H 17/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>£5.9bn</td>
<td>£5.5bn</td>
<td>£2.4bn</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>1H 17/18</th>
<th>FY 16/17</th>
<th>1H 16/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Debt/ EBITDA¹</td>
<td>1.3x</td>
<td>1.6x</td>
<td>2.1x</td>
</tr>
<tr>
<td>Fixed Charge Cover²</td>
<td>2.4x</td>
<td>2.2x</td>
<td>2.0x</td>
</tr>
<tr>
<td>Total indebtedness ratio³</td>
<td>3.7x</td>
<td>5.0x</td>
<td>5.6x</td>
</tr>
</tbody>
</table>

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

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

* Retail cash excluding overdraft and cash set aside for Booker

Weighted Average Maturity: c.8 years
£500m bond repurchase tender – July 2017

Offer was part of continuing efforts to strengthen the balance sheet and was aimed at efficiently using surplus liquidity to reduce gross debt

<table>
<thead>
<tr>
<th>Bond</th>
<th>Currency</th>
<th>Amount Outstanding (m)</th>
<th>Amount Purchased (m)</th>
<th>Amount Remaining (m)</th>
<th>Coupon</th>
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</thead>
<tbody>
<tr>
<td>Nov 37</td>
<td>USD</td>
<td>1,050</td>
<td>300</td>
<td>850</td>
<td>6.150%</td>
</tr>
<tr>
<td>Apr 47</td>
<td>EUR</td>
<td>600</td>
<td>244</td>
<td>356</td>
<td>5.125%</td>
</tr>
<tr>
<td>Mar 57</td>
<td>GBP</td>
<td>279</td>
<td>55</td>
<td>225</td>
<td>5.200%</td>
</tr>
</tbody>
</table>

Offers targeted at long dated bonds across USD, EUR and GBP with the best economic value.
Gross debt position & outstanding bonds by type

77% of outstanding debt is hedged back to GBP (remainder is in EUR)

Gross Debt = Net Debt + Cash and Cash & Cash Equivalents and Short Term investments + Joint Venture Loans/Receivables
Credit spread performance

Source: Bloomberg.
### Credit ratings

<table>
<thead>
<tr>
<th>Agency</th>
<th>Long Term Rating</th>
<th>Short Term Rating</th>
<th>Outlook</th>
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<tbody>
<tr>
<td>S &amp; P</td>
<td>BB+</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Fitch</td>
<td>BB+</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Moody's</td>
<td>Ba1</td>
<td>NP</td>
<td>Stable</td>
</tr>
</tbody>
</table>

Stable outlook from all three credit rating agencies
Summary.

• Delivering against our six strategic drivers
• Strong financial performance across the Group
  – 3.3% sales growth
  – 27% increase in operating profit; margin up 50bps
  – 19% increase in retail cash generation
• Reinstatement of dividend reflecting confidence in the business
• Balance sheet significantly strengthened
  – £1bn of debt repaid including £0.5bn bond tender
  – Annual pension contributions agreed at £285m p.a. from April 2018
  – Continued improvement in debt metrics
Appendix – 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

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## Appendix – Debt metric calculations

<table>
<thead>
<tr>
<th></th>
<th>H1 1718 (LTM)</th>
<th>FY1617</th>
<th>H1 1617 (LTM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Debt</td>
<td>3.3</td>
<td>3.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Pension Deficit</td>
<td>2.5</td>
<td>5.5</td>
<td>5.9</td>
</tr>
<tr>
<td>NPV of operating leases</td>
<td>7.3</td>
<td>7.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Total Indebtedness</td>
<td>13.0</td>
<td>16.7</td>
<td>18.0</td>
</tr>
<tr>
<td>EBITDAR</td>
<td>3.5</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Total indebtedness ratio</td>
<td>3.7x</td>
<td>5.0x</td>
<td>5.6x</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2.5</td>
<td>2.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Net Debt/EBITDA</td>
<td>1.3x</td>
<td>1.6x</td>
<td>2.1x</td>
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<tr>
<td>Operating Lease Expense</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
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<tr>
<td>Finance Costs</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Fixed Charges</td>
<td>1.5</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Fixed Charge cover ratio</td>
<td>2.4x</td>
<td>2.2x</td>
<td>2.0x</td>
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