5 October 2016

Debt Investor Update – Interim Results 2016/17

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TESCO

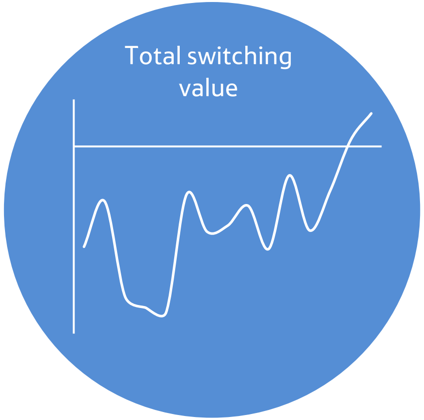
Three priorities

1. Regaining competitiveness in core UK business
2. Protecting and strengthening the balance sheet
3. Rebuilding trust and transparency

More competitive in the UK

Lower prices[1]

Increasing footfall[2]

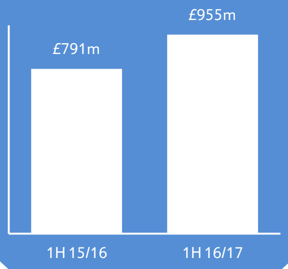


Switching gains[3]

1. Price data shows the price paid for a typical basket of products as at August 2014, August 2015 and August 2016.
2. Data from Kantar Worldpanel – change in customer numbers 14th September 2014 to 11th September 2016.
3. Data from Kantar Worldpanel – net switching to competitors 4 weeks ending 11th September 2016.

A more secure balance sheet

Retail cash generation[1]



Generating cash

£4.4bn

Lower net debt

Group

50% → 55%

UK & ROI

41% → 48%

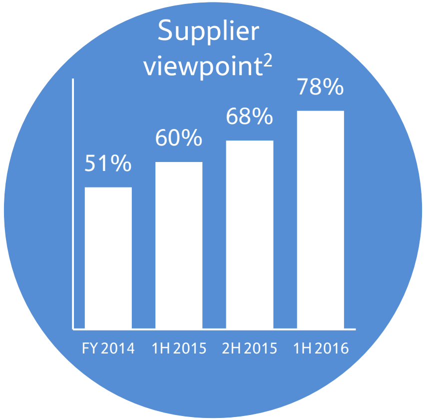
Long-term property approach[2]

Defined contribution pension scheme

1. For continuing operations.
2. Percentage of Group (on a continuing operations basis) and UK & ROI property owned by value, FY 2014/15 to 1H 2016/17.

Rebuilding trust and transparency

61% → 74%



Trust in leadership[1]

Trusted by suppliers

Improved transparency

1. Reflects % of colleagues who trust the decisions made by their country's board of directors to serve shoppers a little better every day, as part of What Matters To You? survey undertaken in August 2016.
2. Reflects % of UK suppliers responding positively when asked "Overall how satisfied are you with your experience of working with Tesco?" as part of the Supplier Viewpoint survey undertaken in August 2016.

Group performance

Continuing operations	1H 16/17	Change constant rates	Change actual rates
Group sales (exc. VAT, exc. Fuel)[1]	**£24.4bn**	**1.3%**	**3.3%**
Group operating profit before exceptional items	**£596m**	**56.7%**	**60.2%**
Exceptional items	£(81)m	n/m	n/m
Group statutory operating profit	£515m	34.4%	38.4%
Group PBT before exceptional items and net pension finance costs	**£410m**	**-**	**124.0%**
Diluted EPS before exceptional items and net pension finance costs	**3.74p**	**-**	**163.4%**

1. Change shown on a comparable 26 week basis.

Segmental performance

	Sales				Operating profit before exceptional items			
	1H 16/17	1H 15/16	Change constant rates [1]	Change actual rates[1]	1H 16/17	1H 15/16	Change constant rates	Change actual rates
UK & ROI	£18.6bn	£18.4bn	0.6%	1.2%	£389m	£164m	134.1%	137.2%
International	£5.3bn	£4.8bn	3.2%	10.9%	£118m	£122m	(9.8)%	(3.3)%
Bank	£0.5bn	£0.5bn	5.3%	5.3%	£89m	£86m	3.5%	3.5%
Group	**£24.4bn**	**£23.7bn**	**1.3%**	**3.3%**	**£596m**	**£372m**	**56.7%**	**60.2%**

1. Change shown on a comparable 26 week basis.

Finance income and costs

	1H 16/17	1H 15/16
Interest payable	£(274)m	£(252)m
Capitalised interest	£3m	£6m
IAS 19 net pension finance costs	£(58)m	£(84)m
Finance income	£83m	£44m
Net finance costs	**£(246)m**[1]	**£(286)m**

1. Statutory net finance costs include a £(200)m impact from FX losses on translation of sterling balances received from Korea disposal being held in a Euro subsidiary.

Tax

	1H 16/17	1H 15/16
Profit before tax before exceptional items	£352m	£99m
Tax charge	£(98)m	£(52)m
Effective tax rate	28%	53%

- Expect full year effective tax rate of c.25%

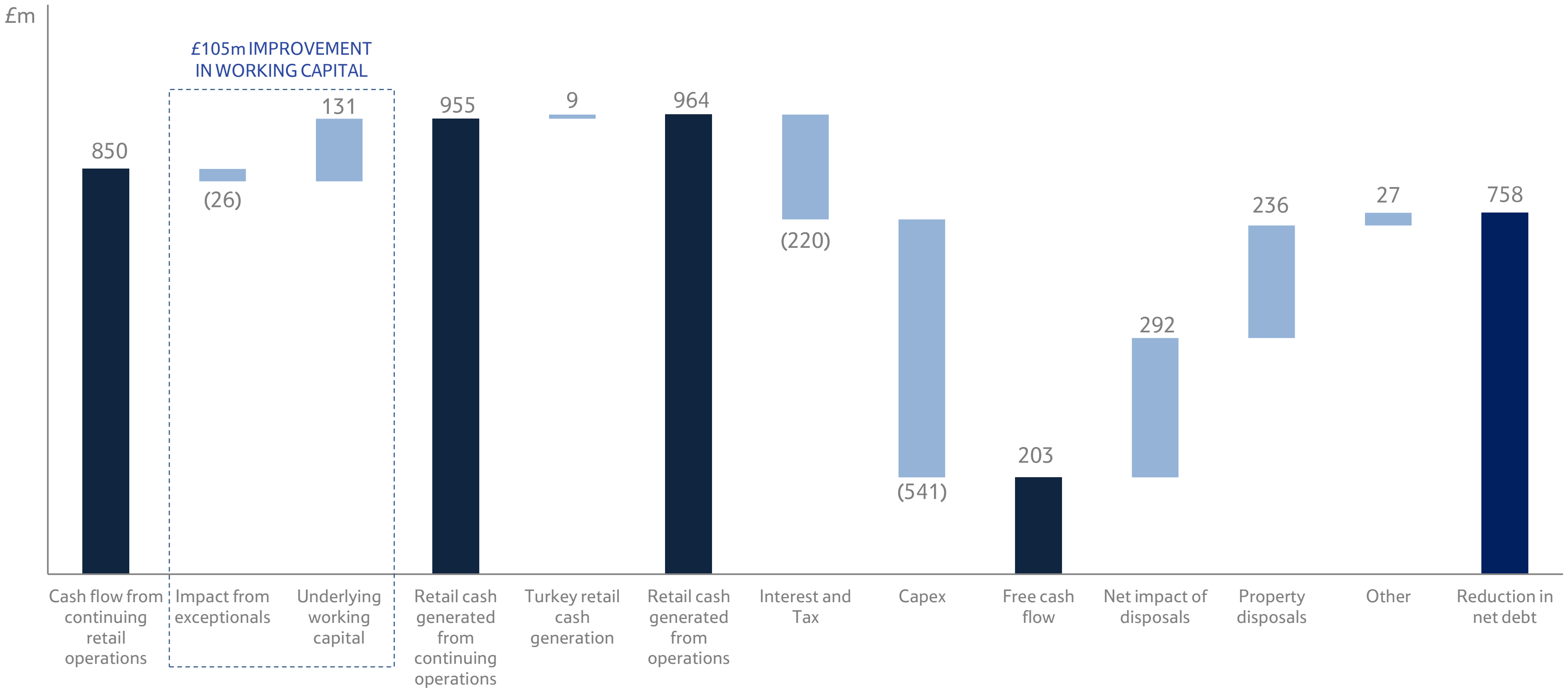
Exceptional items

	1H 16/17	1H 15/16
Restructuring and redundancy	£(95)m	-
Tesco Bank customer redress	£(45)m	-
Property transactions	£59m	-
Total exceptional items in operating profit	**£(81)m**	-

Pension scheme

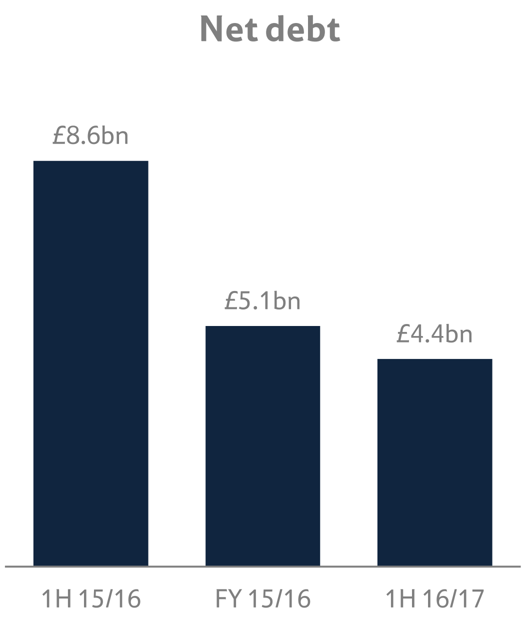
- Reduced pension risk with scheme closure
- IAS 19 deficit calculation impacted by drop in corporate yields – no change in underlying cash commitments to pension members
- Asset de-risking strategy progressing well
- Strong performance of scheme assets
- Long-term deficit funding plan of £270m per annum cash contribution
- Triennial valuation March 2017 with outcome expected in 2018

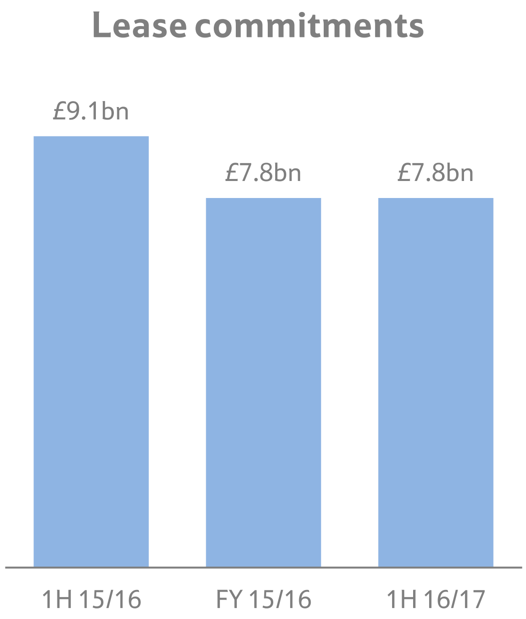
Movement in net debt[1]

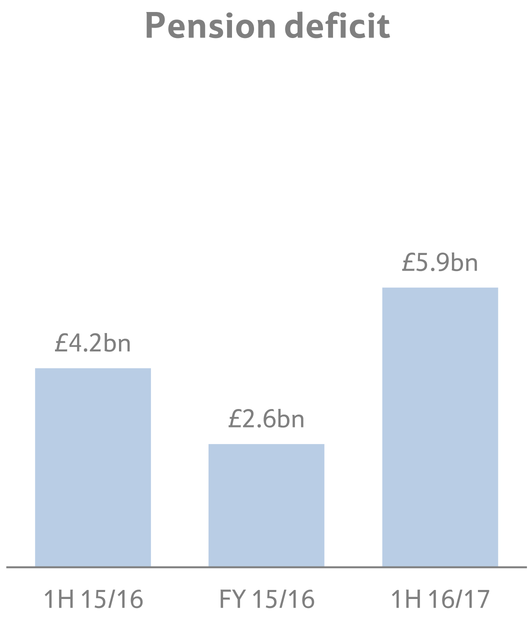


1. Includes both continuing and discontinued operations.

Total indebtedness







Underlying debt metrics

	1H 16/17	FY 15/16[3]	1H 15/16
Total indebtedness ratio[1]	5.6x	5.1x	8.0x
Net Debt/EBITDA	2.1x	2.7x	5.2x
Fixed charge cover[2]	2.0x	1.9x	1.6x

All measures are based on an LTM basis

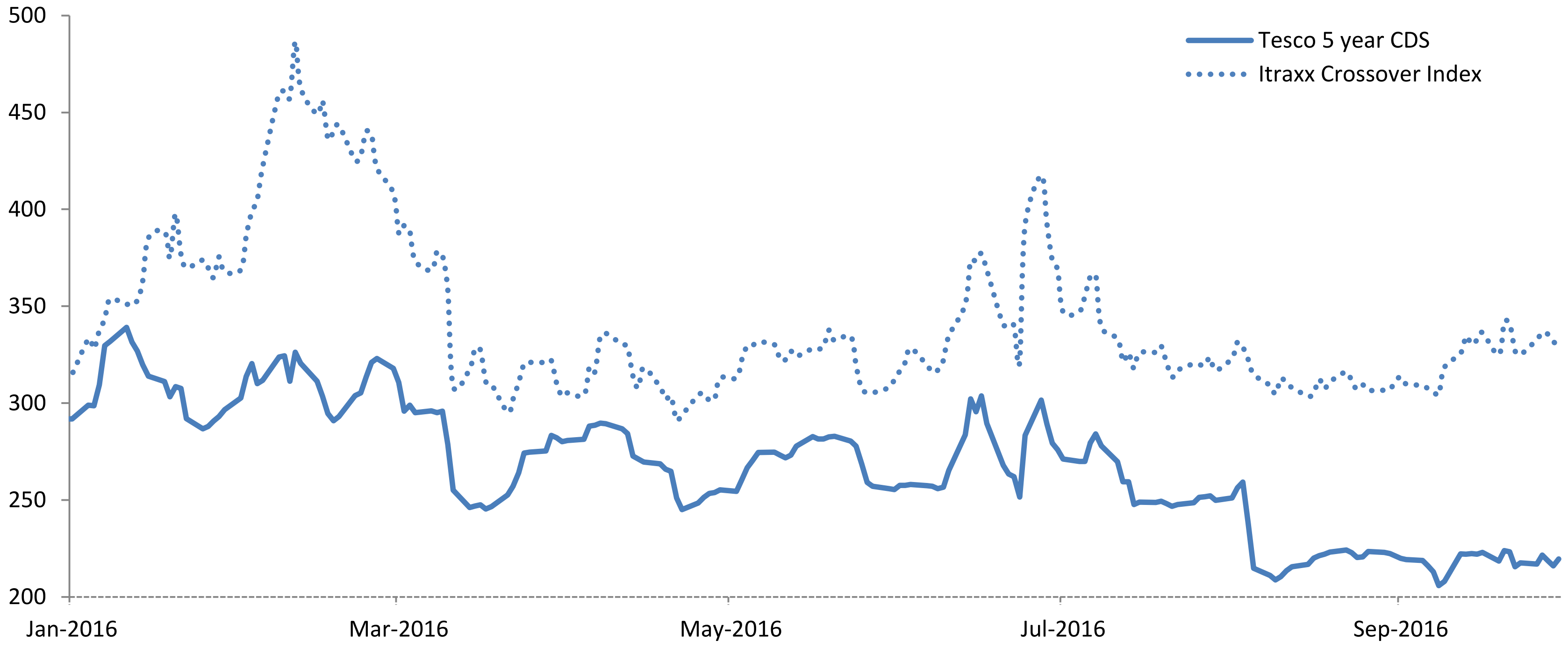
1. Net Debt + pension deficit + NPV of lease obligations)/ EBITDAR.
2. EBITDAR/(Interest + Rent).
3. Restated to exclude earnings from discontinued operations in Turkey

Credit ratings

Agency	Long Term Rating	Short Term Rating	Outlook
S & P	BB+	B	Stable
Fitch	BB+	B	Stable
Moody's	Ba1	NP	Stable

- Stable outlook from all three credit rating agencies

Credit spread performance 2016 YTD

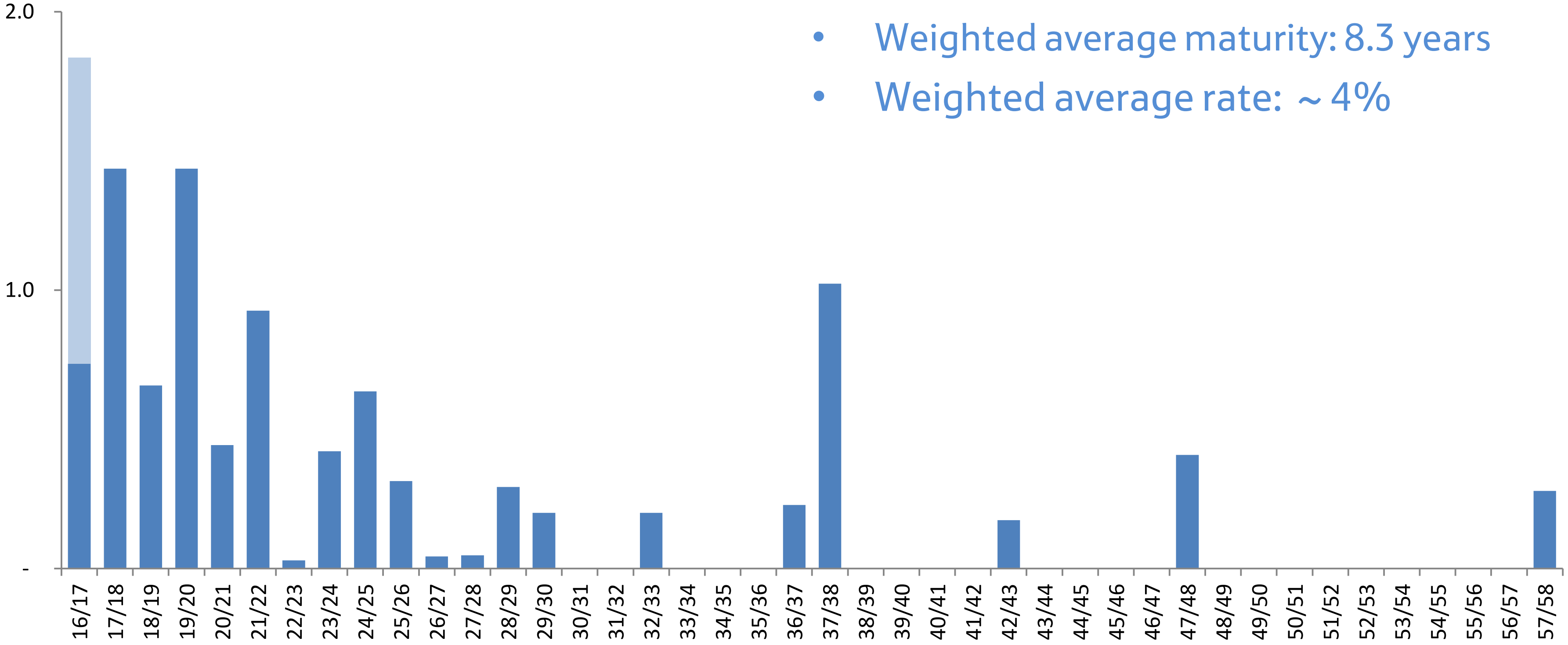


Source: Bloomberg

Liquidity position

- Strong liquidity
- £5.2bn available cash
- £5.0bn in committed facilities
- £1.2bn redeemed in September 2016; £2.2bn maturities in the next 18 months
- Focused on improving debt metrics

Debt maturity profile*



- Weighted average maturity: 8.3 years
- Weighted average rate: ~ 4%

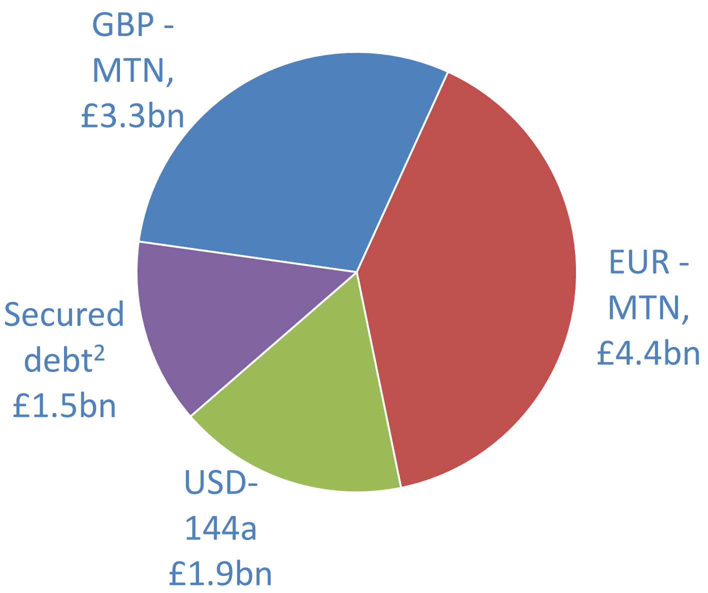
*as at 1H 16/17, subsequently £1.2bn of bonds matured in September 2016

Debt facilities and programmes

Undrawn Committed Facilities	Size
Syndicated RCF	£2.6bn
Bilateral RCF	£2.4bn

Funding Programmes	Size
Euro Commercial Paper	£2bn
US Commercial Paper	$4bn
EMTN Programme	£15bn

£11bn Debt Outstanding[1]



[1] Excluding Tesco Bank and accrued interest
[2] Secured debt brought on balance sheet as a result of property transactions in 2014/15

Six strategic drivers

1. A differentiated brand

2. Reduce operating costs by a further £1.5bn

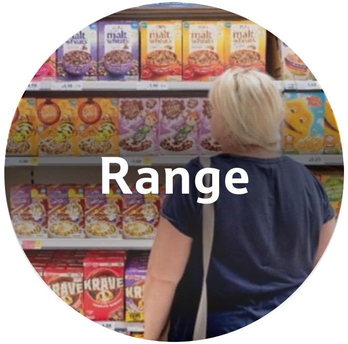
3. Generate £9bn cash from operations

4. Maximise the mix to achieve a 3.5 – 4.0% Group margin

5. Maximise value from property

6. Innovation

1. A differentiated brand: Proposition



TESCO Bank

TESCO mobile

2. Reduce operating costs by a further £1.5bn

Store operating model

Logistics and distribution

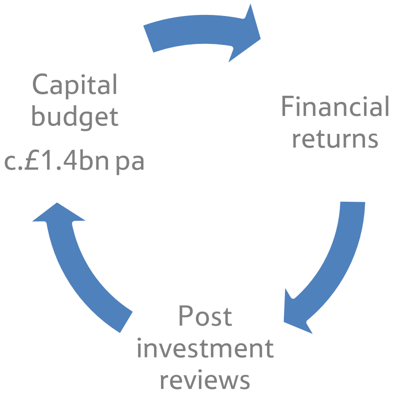
Goods not for resale

3. Generate £9bn cash from operations

3.5-4.0%

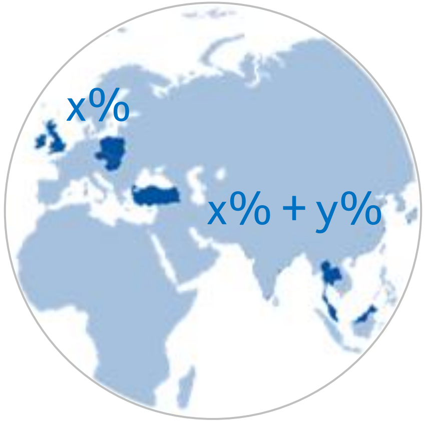
Margin improvement

Stock reduction



Capital discipline

4. Maximise the mix to achieve a 3.5 – 4.0% Group margin



Geography

Channel

Product

5. Maximise value from property

↓ £121m

Rental insulation[1]

Property asset optimisation

Non-core property assets

1. Annualised savings of property buybacks.

6. Innovation

Never beaten on brands

Exclusive fresh food brands

Food waste

Technology

With much more to come…

Appendix

Debt ratio calculations

(£m)	HY1617 (LTM)	FY1516
Net Debt	4.3	5.1
Pension Deficit	5.9	2.6
NPV of operating leases	7.8	7.8
Total Indebtedness	**18.0**	**15.5**
EBITDAR	**3.2**	**3.1**
Total indebtedness ratio	**5.6x**	**5.1x**
EBITDA	2.1	1.9
Net Debt/EBITDA	**2.1x**	**2.7x**
Operating Lease Expense	1.1	1.1
Finance Costs	0.5	0.5
Fixed Charges	**1.6**	**11.6**
Fixed Charge cover ratio	**2.0x**	**1.9x**

Last Twelve Months figures calculated as H1 1617 + H2 1516
Based on Continuing Operations and excluding Bank
Finance Costs exclude: FX losses on GBP investments held in overseas entities; net pension finance costs; capitalised interest and fair value re-measurement on financial instruments.

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