Debt Investor Call.

3 October 2018

Alan Stewart – CFO
Lynda Heywood – Group Treasurer

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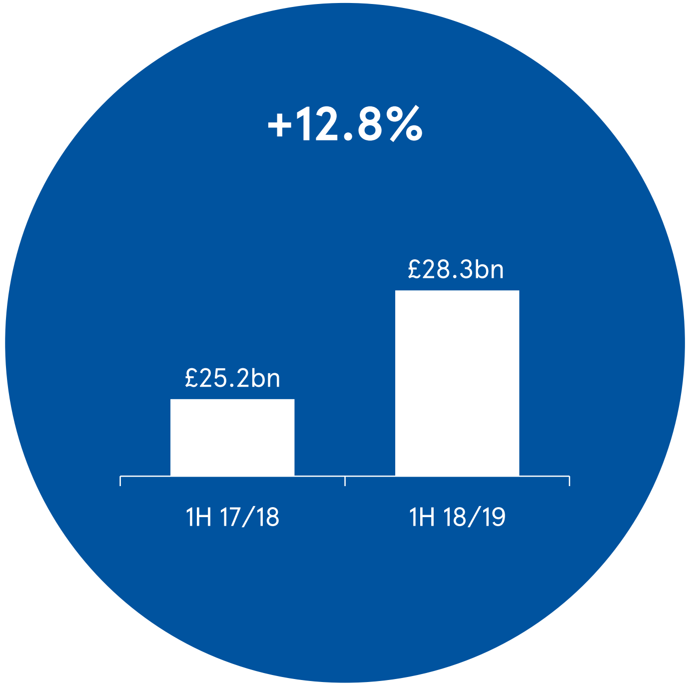
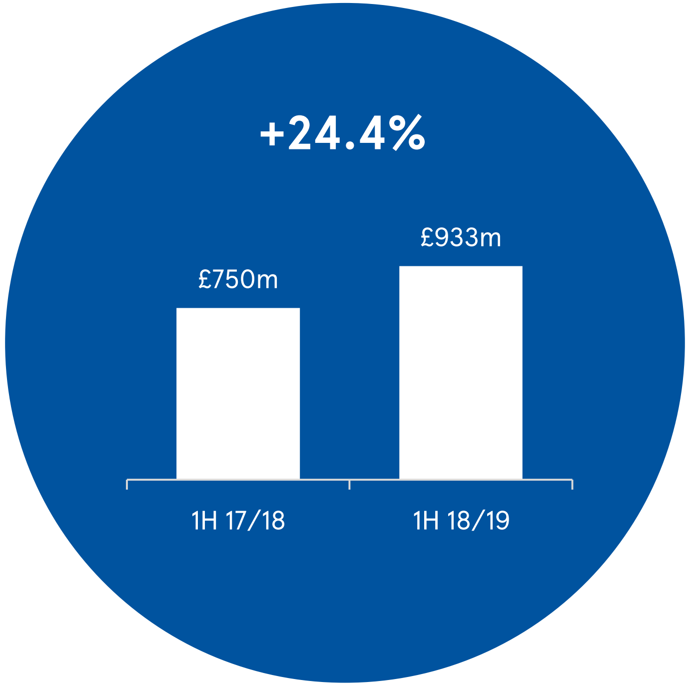
1H results.

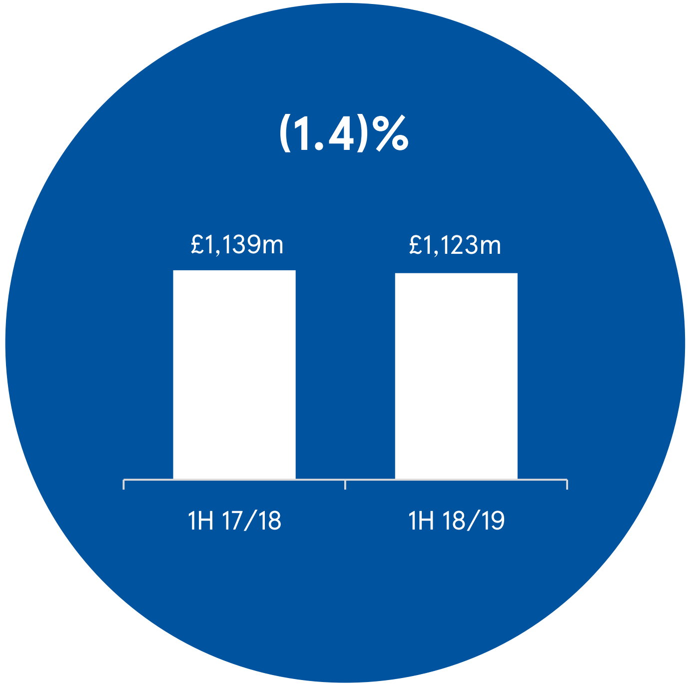
Group performance



Positive sales growth[1]



Strong profit growth[2]



Strong retail cash generation[3]

1. Group sales growth at actual rates on a comparable days and a continuing operations basis and includes an adjustment to last year's figures to reflect a change in the reporting of consignment sales.
2. Group operating profit before exceptional items and amortisation of acquired intangibles on a continuing operations basis.
3. Retail cash generated from operations on a continuing operations basis.

Note: All prior year numbers and growth rates above do not include Booker in the base. Last year figures restated for impact of IFRS 15.

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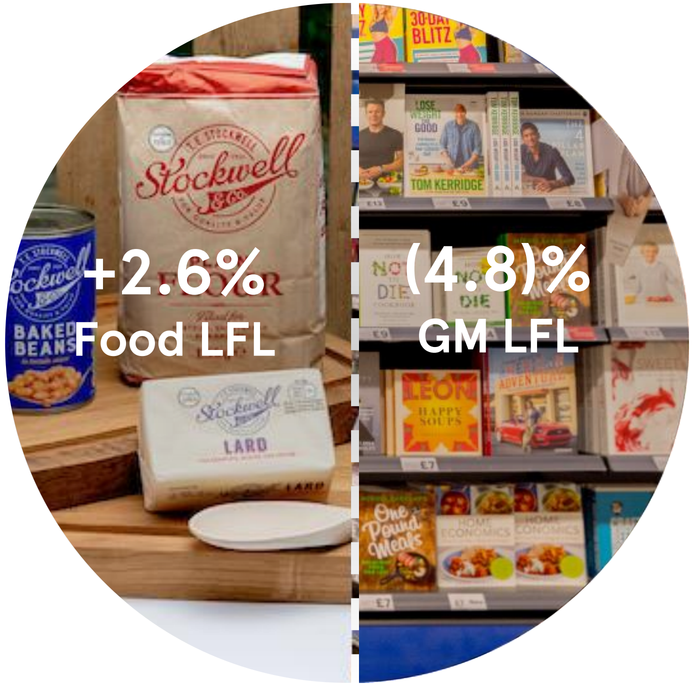
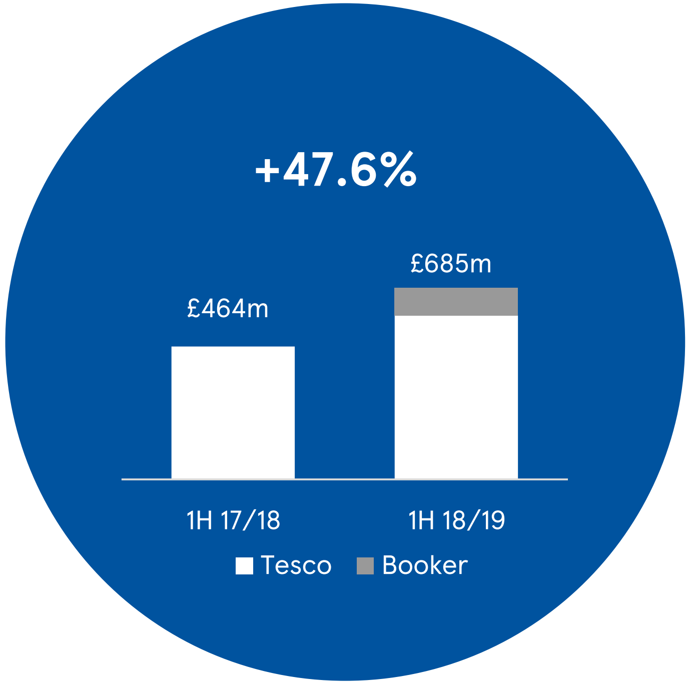
UK & ROI performance



Continued focus on food

More customers shopping with us[1]



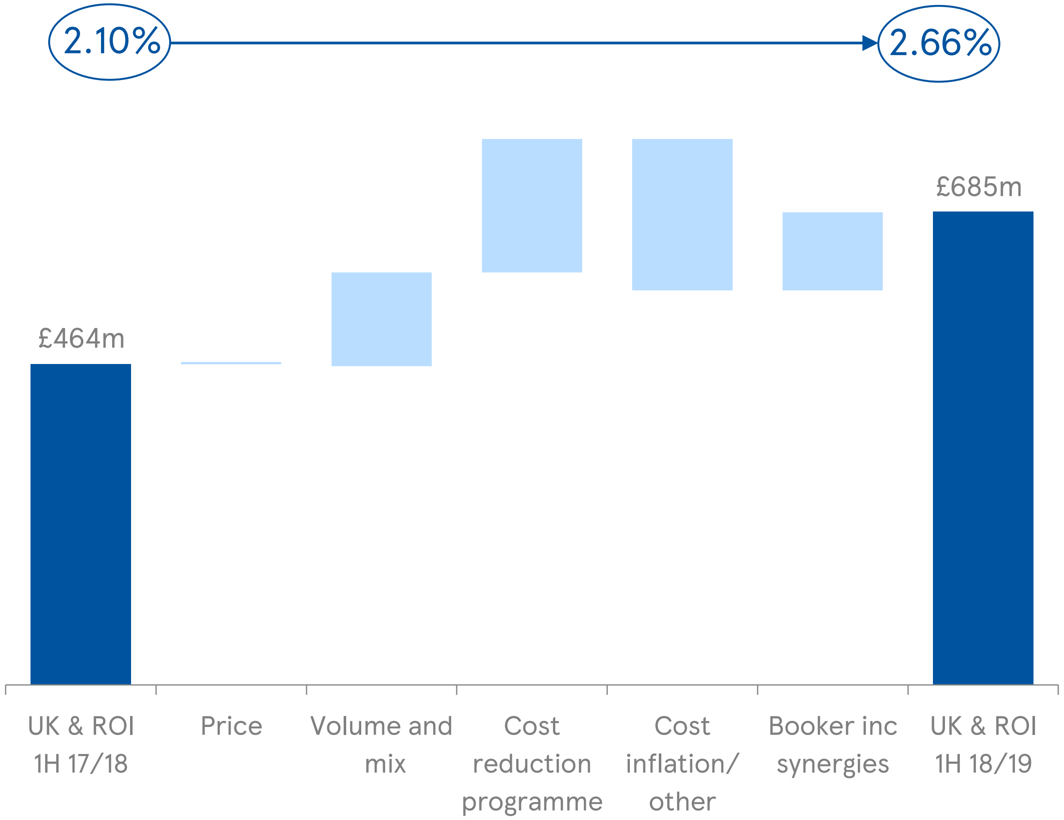
Improved profitability

1. KantarWorldpanel UK data for the 52 weeks ending 9 September 2018.

UK & ROI

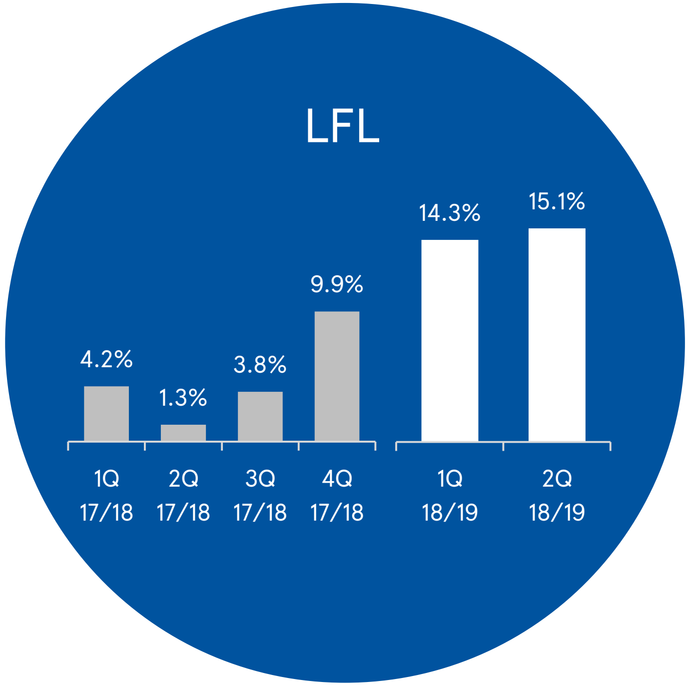
- Booker consolidated from 5 March 2018
- Continued strong LFL sales performance; 1H +3.8%, 2Q +4.2%
- Improved profitability:
  - 1H margin +56bps YoY
  - £171m saved through cost savings plan
- Closed Tesco Direct in July
  - 1H 18/19 sales: £92m; £(23)m loss

Operating profit and margin[1]



1. Before exceptional items and amortisation of acquired intangibles.

UK & ROI - Booker



Strong sales

£97m

Profit contribution

(pre-synergies)

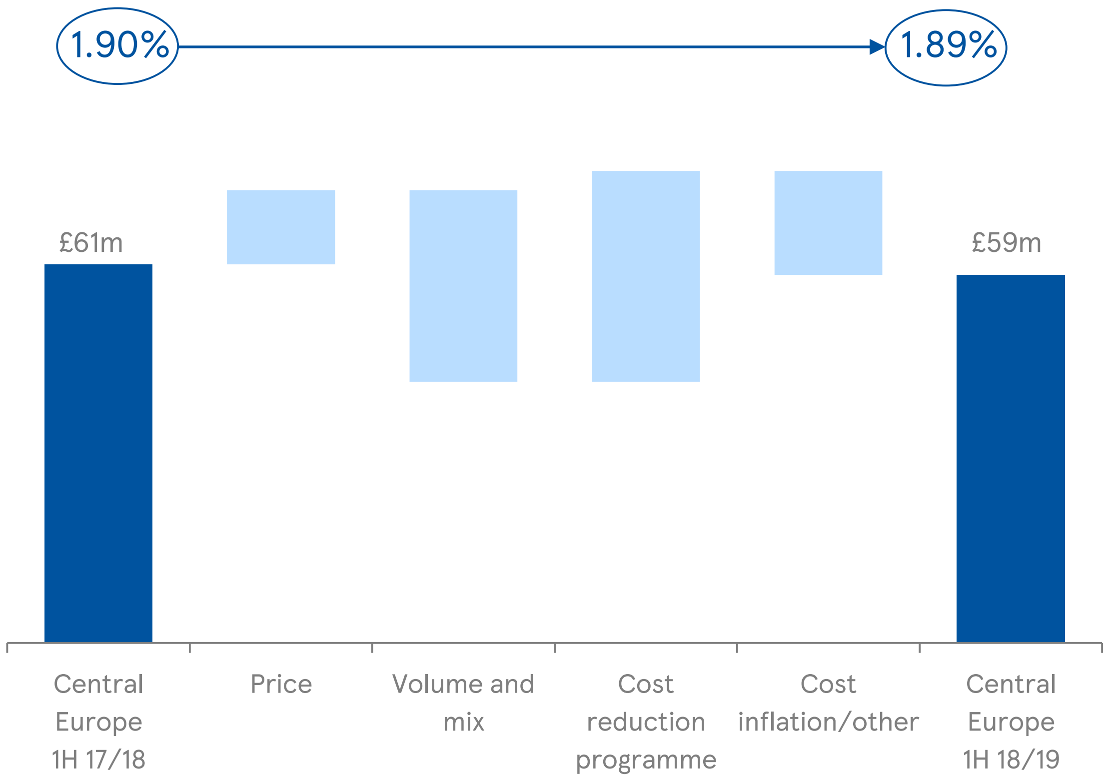
£16m

Synergies on track

Central Europe

- Sales impacted by trading laws in Poland
  - 13 fewer days impacting CE LFL by (1.2)%
  - 18 store closures and a further 13 announced
- Operating profit £59m
  - Year-on-year decline reflects £9m property profits last year
  - £34m saved through cost savings plan

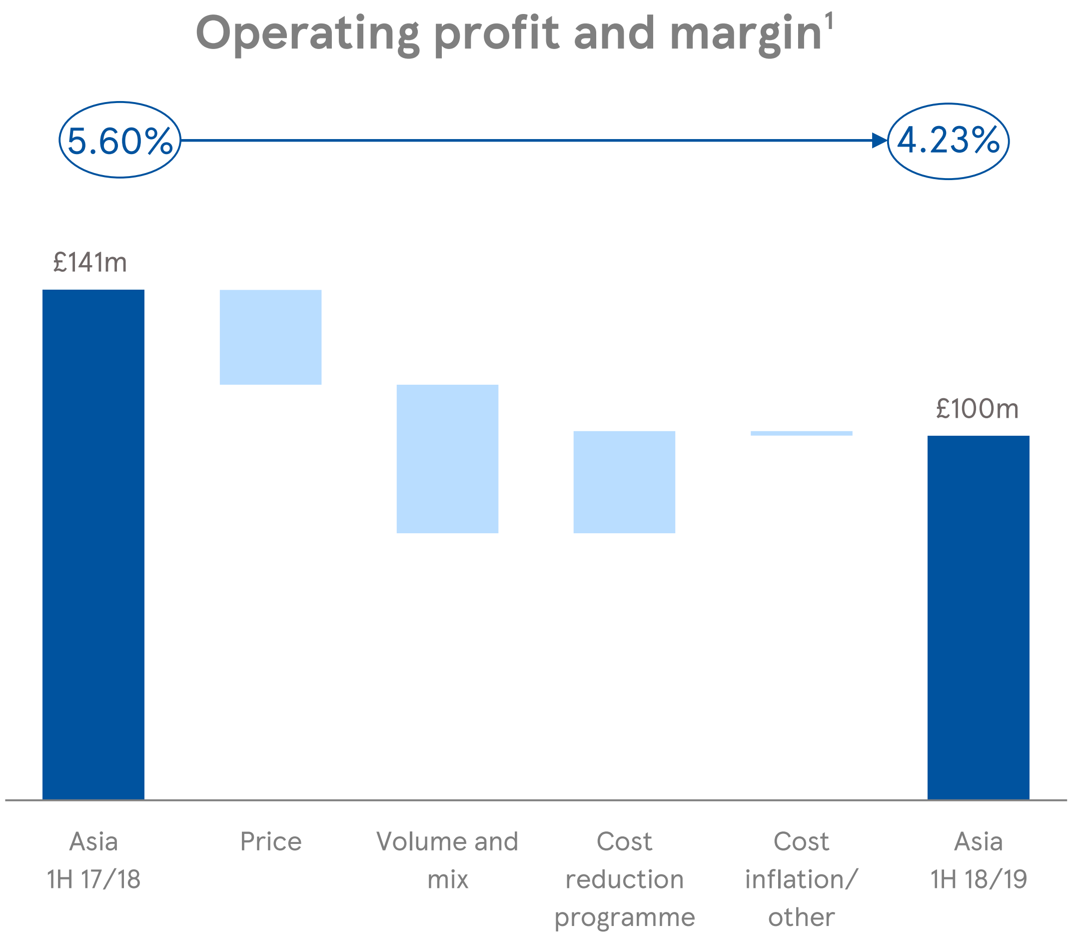
Operating profit and margin[1]



1. Before exceptional items.

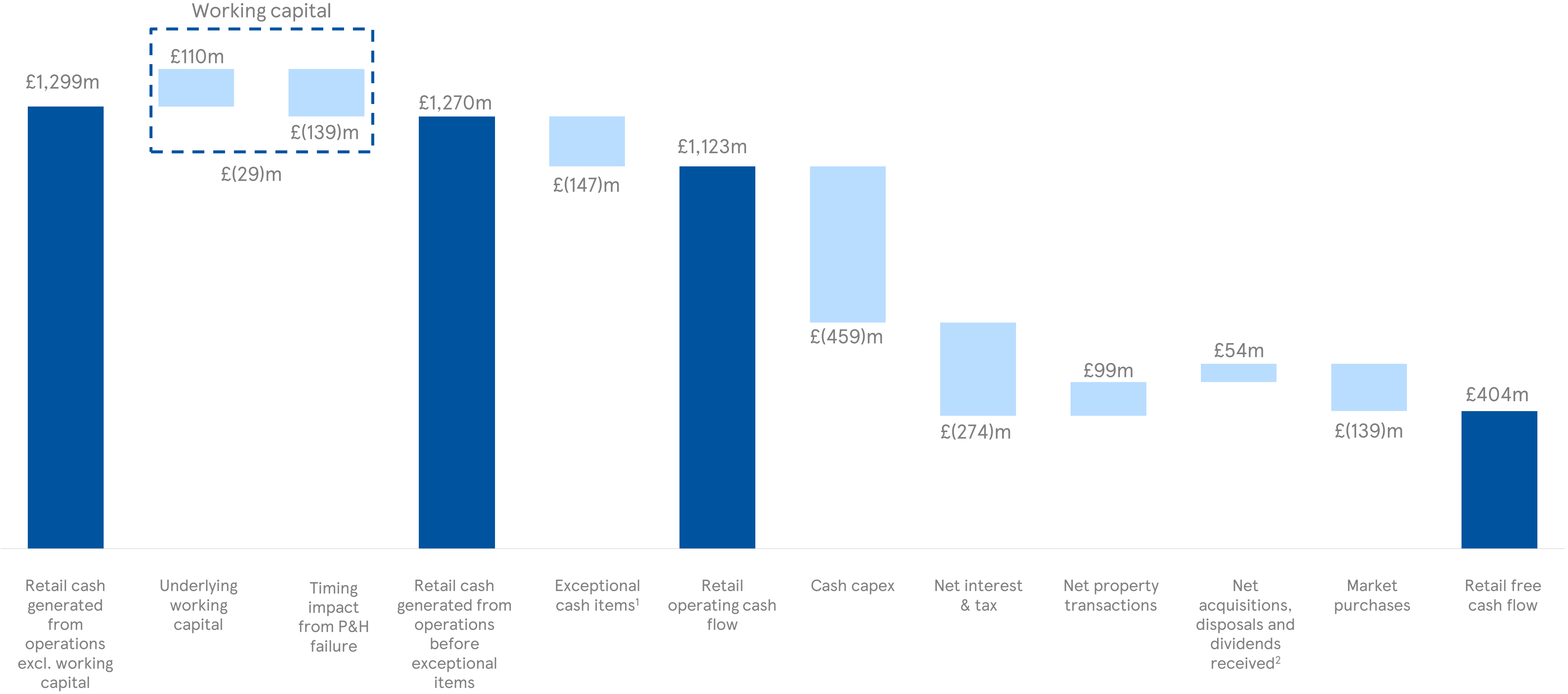
Asia

- 1Q LFL : (9.0)% ➡ 2Q LFL: (4.8)% following annualisation of bulk-selling
- LFL sales in Thailand impacted by:
  - Significant changes to sales mix and promotional strategy
  - Government welfare cards c.(2)% LFL
  - Deflationary effect from price investment
- Profitability decline driven by significant price investment and repositioning of offer
- Impact to continue in 2H



1. Before exceptional items.

Sources and uses of cash



1. Exceptional cash items includes £(88)m of restructuring payments, £(32)m utilisation of onerous leases, £(27)m for payments in relation to Shareholder Compensation Scheme payments.
2. The cost of major acquisitions and disposals are removed from the Group's free cash flow.

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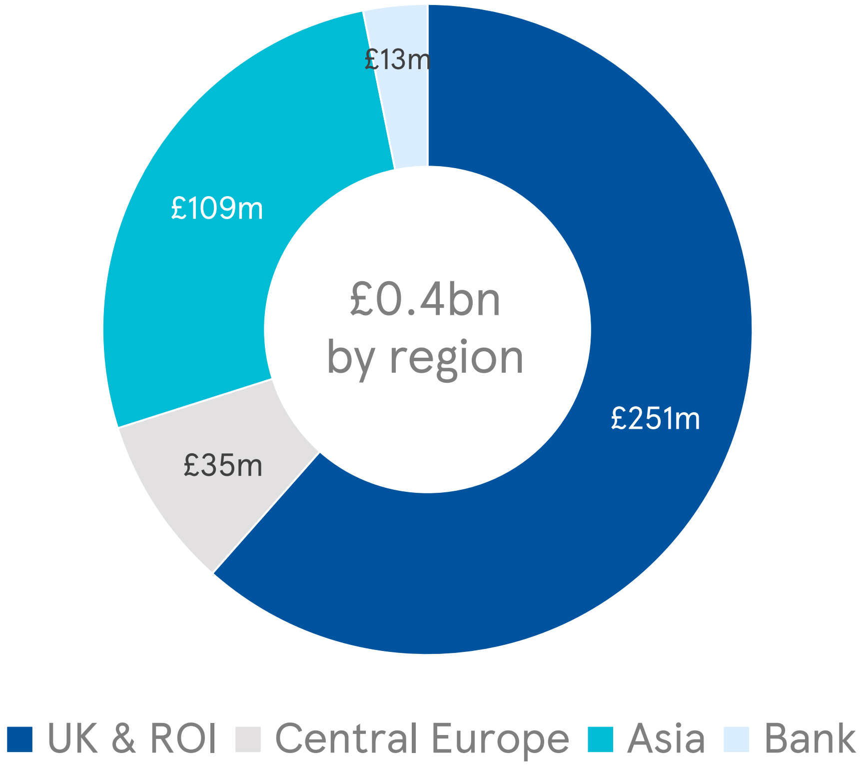
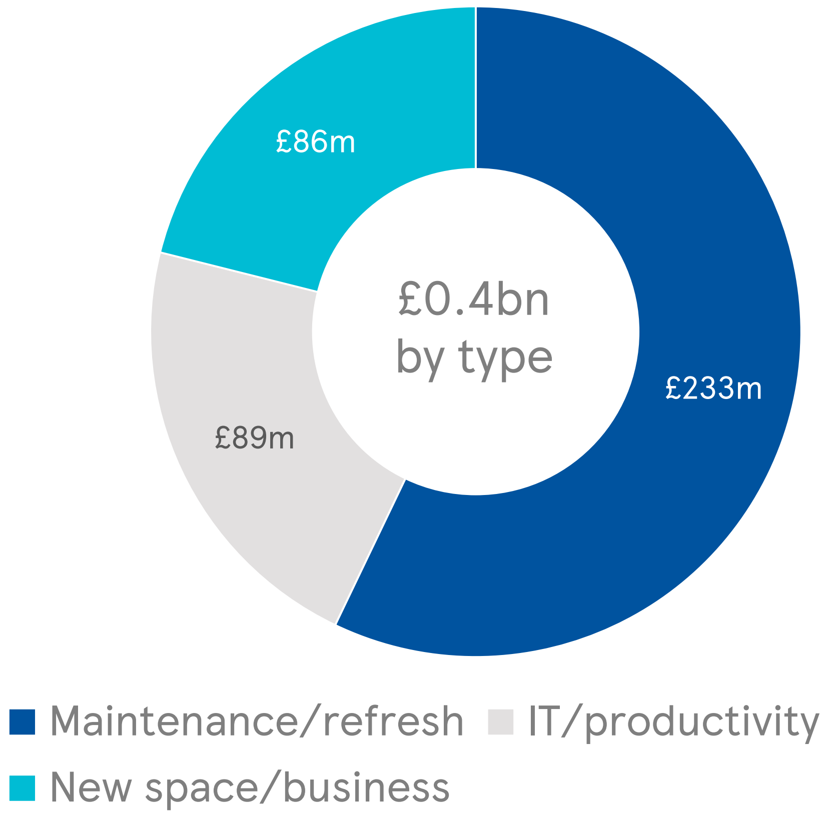
Capital expenditure

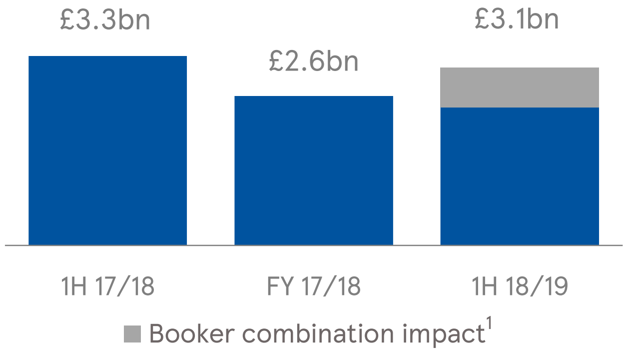




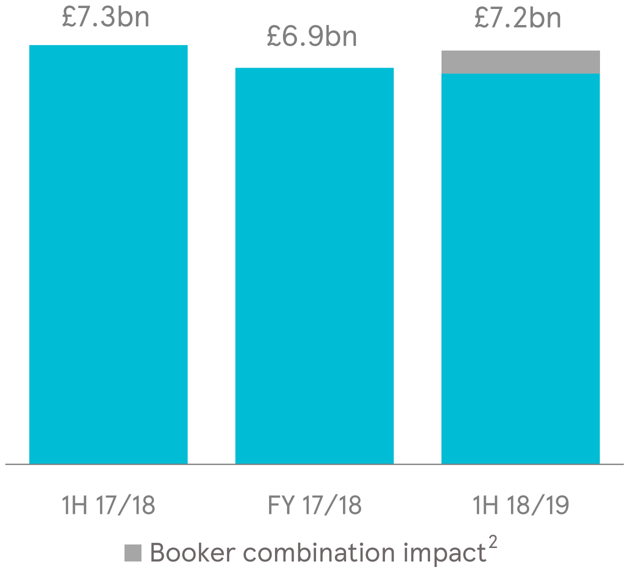
FY 18/19 capex guidance: no more than £1.2bn
FY 19/20 onwards capex guidance: between £1.1bn and £1.4bn

Balance sheet progress

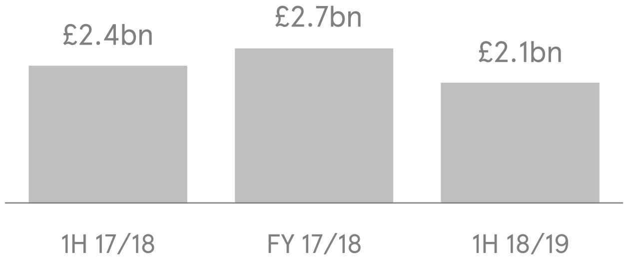
Net debt



Lease commitments

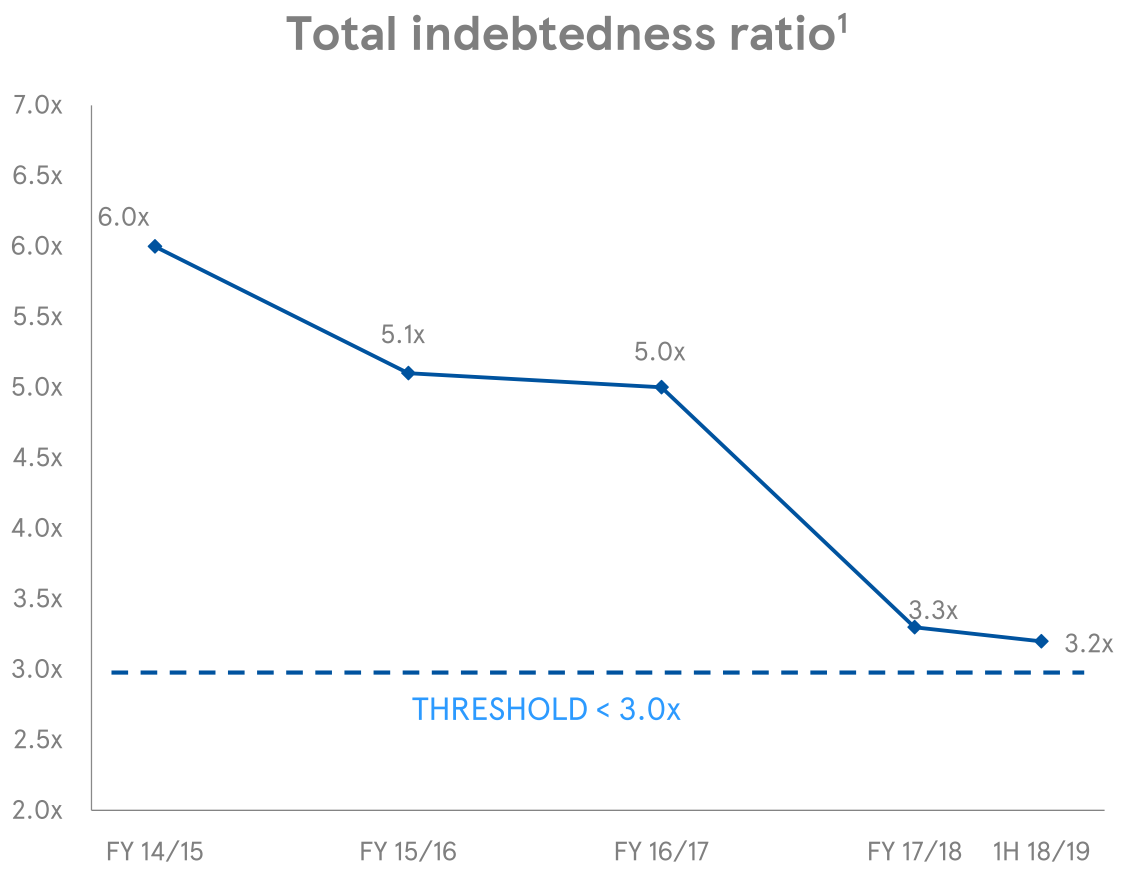


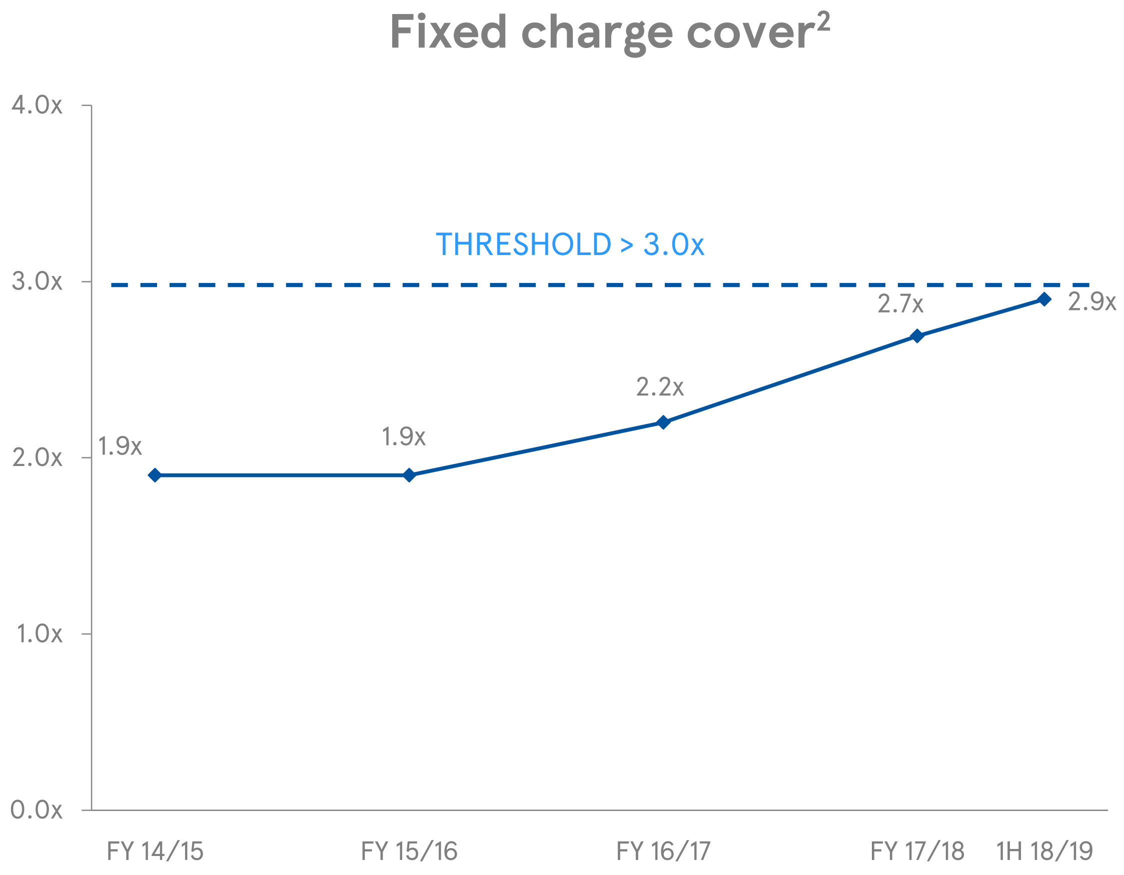
Pension deficit



1. Cash outflow of £0.7bn relating to Booker
2. Additional £0.4bn of lease commitments relating to Booker

Improving debt metrics



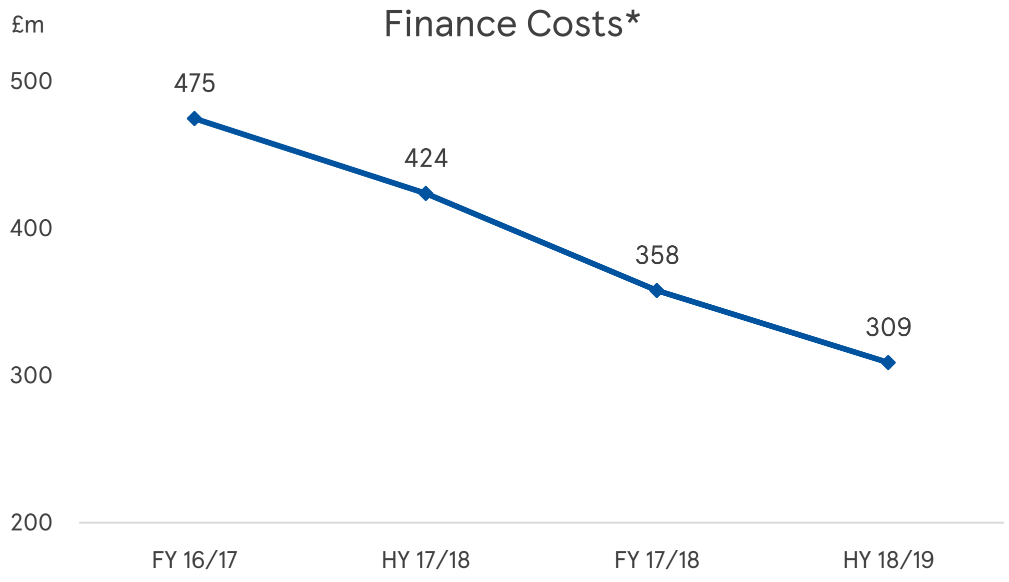


1. Net Debt + defined pension deficit (net of tax) + discounted operating lease commitments / EBITDAR
2. EBITDAR / (Net finance costs (before exceptional charges, net pension finance costs and fair value remeasurements) + Retail operating lease expense)

Liability Management

- £3.3bn repaid since FY 16/17, £1.4bn at maturity and £1.9bn tendered
- Tenders aimed at accelerating gross debt reduction and interest savings
- 35% reduction in Finance Costs* since FY 16/17

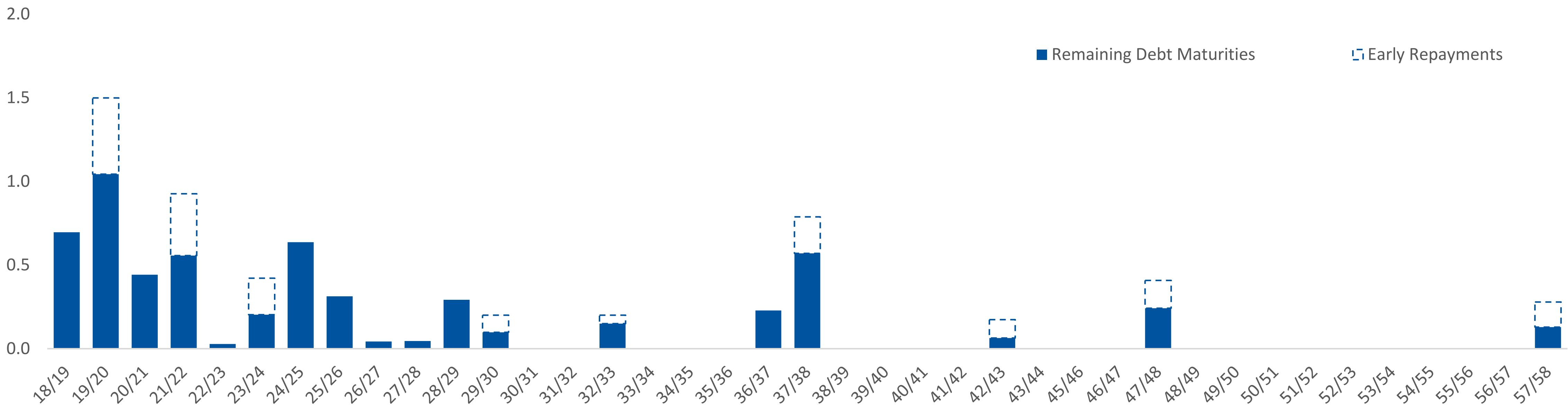
(£m)	Size	Interest Savings (p.a.)	Total Savings to Maturity**
Jul-17	500	19	512
Oct-17	800	31	311
Apr-18	600	33	285
Total	**1,900**	**83**	**1,108**



*Net Finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value re-measurements on financial instruments
**undiscounted

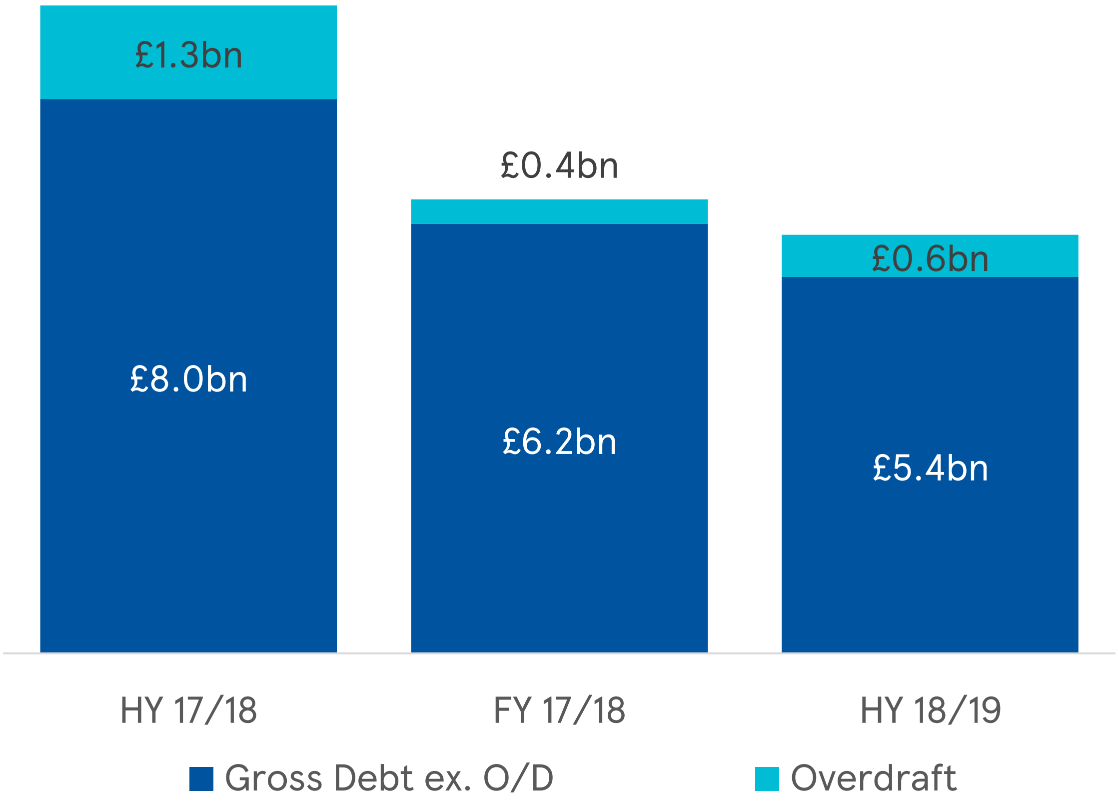
Liquidity Position

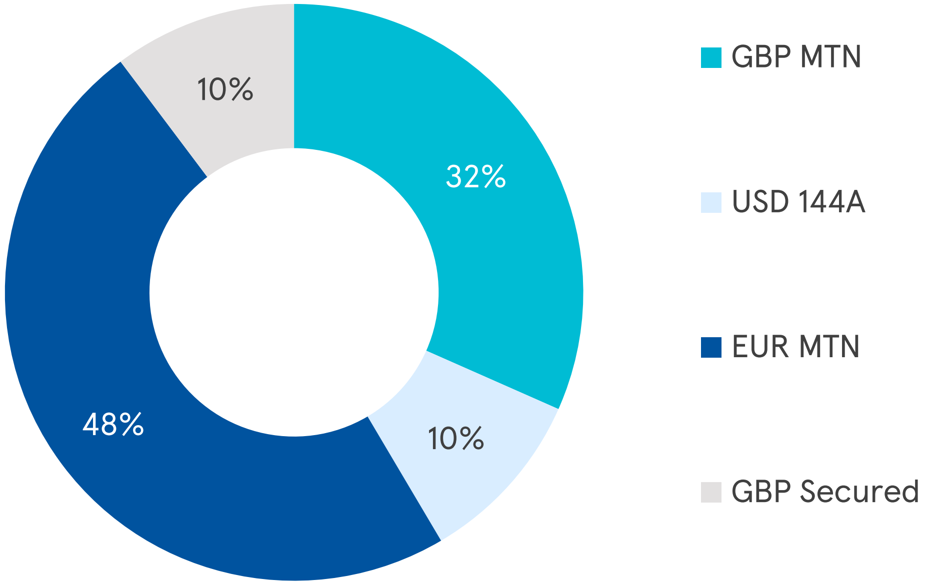
- £2.2bn cash and short term investments*
- £3bn undrawn committed facilities maturing in 2021
- Well balanced debt maturity profile: WAM 8 years



*Cash & cash equivalents less reported overdraft (figure exclude Tesco Bank)

Gross debt position and outstanding bonds by currency





72% 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

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Credit ratings

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

Positive outlook from Moody’s (June 2018)

“Positive outlook reflects the improvements in operational performance and credit metrics achieved over recent times and our belief that further improvements are possible”

Six strategic drivers.

Our six strategic drivers – a progress update

1. A differentiated brand	• Quality perception up +3.6, stable value perception
2. Reduce operating costs by £1.5bn	• Further cost savings of £241m achieved in 1H • Cumulative cost savings of £1.1bn
3. Generate £9bn cash from operations	• £7.2bn cumulative retail cash generated from operations[1]
4. Max the mix to achieve 3.5% - 4.0% Group margin	• Group margin up 29bps to 2.94% • Tesco Direct closed on 9 July
5. Maximise value from property	• Released a further £134m value from property • One further store buyback announced in September
6. Innovation	• 5,038 of 10,000 own brand products re-launched • Introduced 'Clubcard faster vouchers'

1. Cumulative retail cash generated from operations excludes pension deficit payments, cash outflows relating to SFO fine and shareholder compensation scheme payments and cash payments in lieu of colleague bonus shares.

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Summary.

- Good start to the year – growth in sales, increased profitability and strong cash flow
- Strong financial performance in UK & ROI
- Specific challenges in Poland and Thailand
- Booker ‘Joining Forces’ synergies on track with £16m in 1H
- On track to achieve 2019/20 £1.5bn cost savings target
- Continuing improvement in debt metrics
- Well set up for a strong centenary year

Q&A.

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	£285m per annum
Capex	£1.1bn - £1.4bn per annum
Net finance costs[1]	c.4% of long-term debt per annum
Effective tax rate	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
Debt metrics	Total indebtedness less than 3.0x EBITDAR Fixed charge cover greater than 3.0x

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

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