Debt Investor Call.

2 Oct 2019

Alan Stewart – CFO
Lynda Heywood – Group Treasurer

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Operating profit[1]

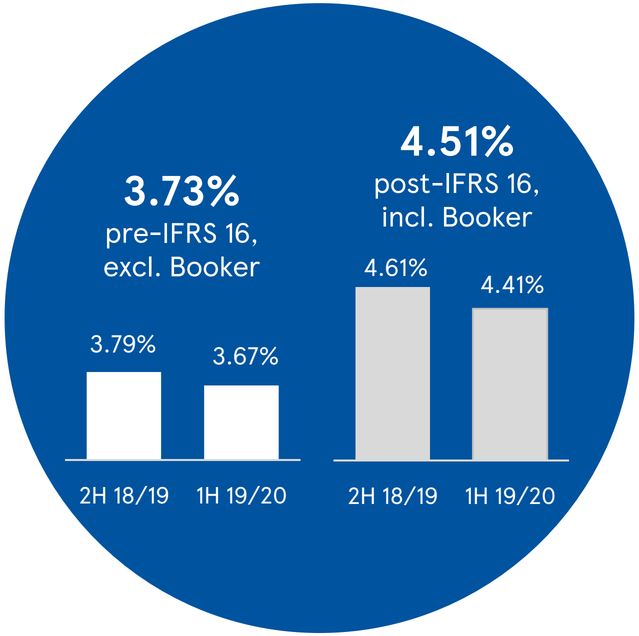
£1,085m +28.4%	£63m +1.3%[2]	£171m +54.1%	£87m (3.3)%
UK & ROI	CE	Asia	Tesco Bank

Group operating profit[1] £1,406m, up 25.4%

1. Operating profit before exceptional items and amortisation of acquired intangibles; change shown at actual exchange rates.
2. Growth is shown excluding a £13m provision in respect of potential historic VAT liabilities.

Group income statement

	1H 19/20	% change[1]
Group sales	**£28,296m**	**0.1%**
Operating profit[2]	**£1,406m**	**25.4%**
Margin (%)	4.41%	87bps
JVs and associates[2]	£10m	(44.4)%
Net finance costs[3]	£(377)m	13.1%
Profit before tax[3]	**£1,039m**	**47.4%**
Taxation	£(240)m	(39.5)%
Profit after tax[3]	**£799m**	**50.1%**
Diluted EPS[3]	**8.17p**	**49.8%**



Margin ambition met

1. Change shown at actual exchange rates.
2. Before exceptional items and amortisation of acquired intangibles.
3. Before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments.

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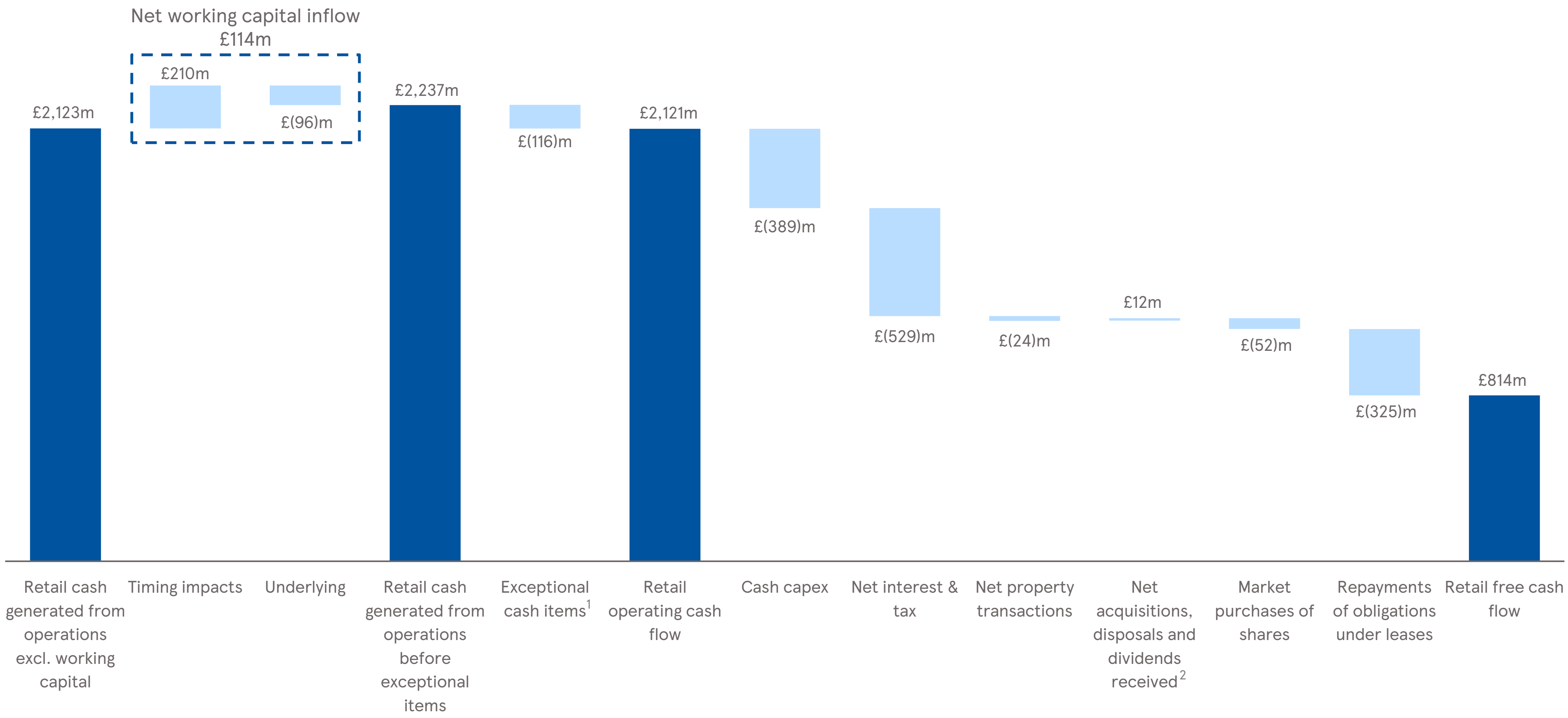
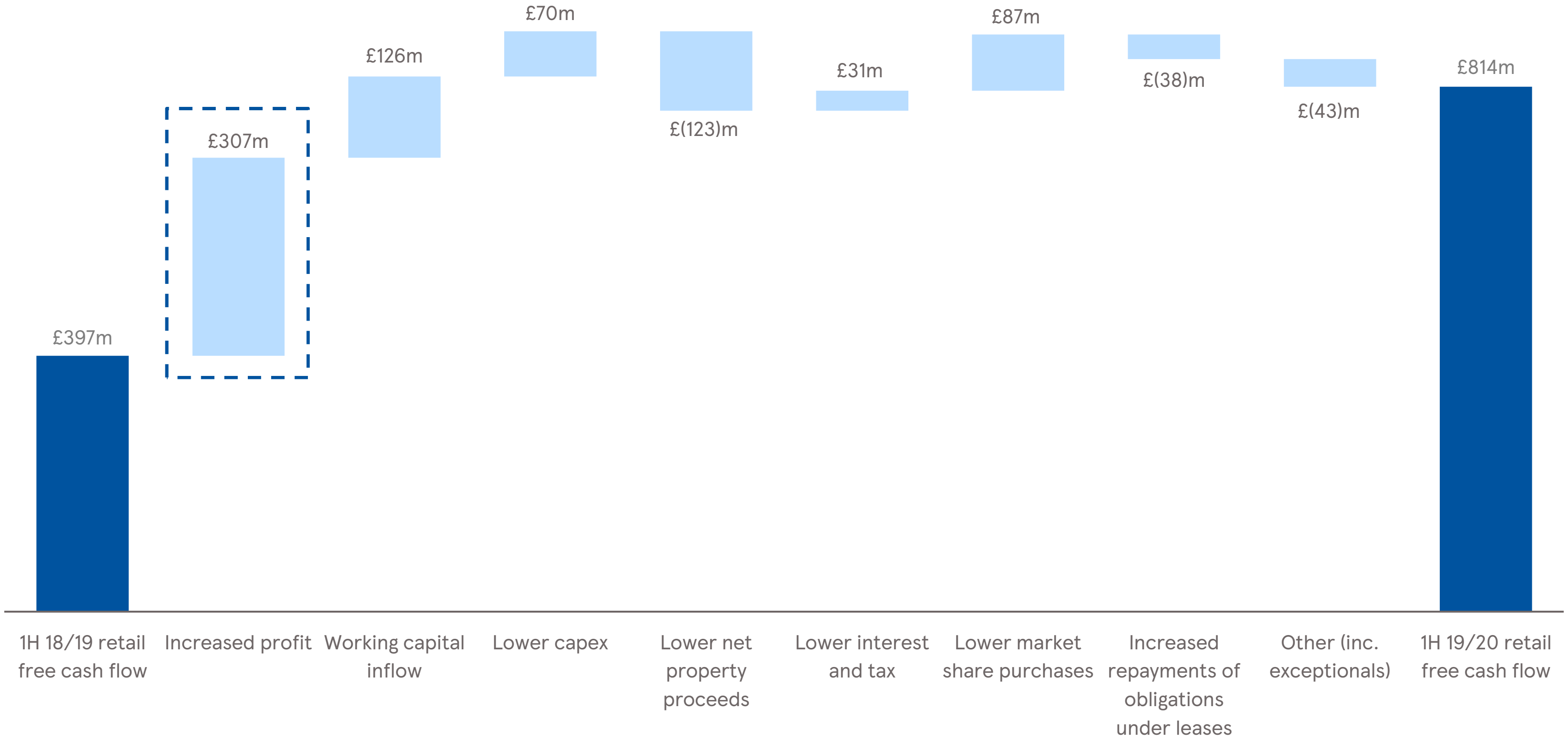
Sources and uses of cash



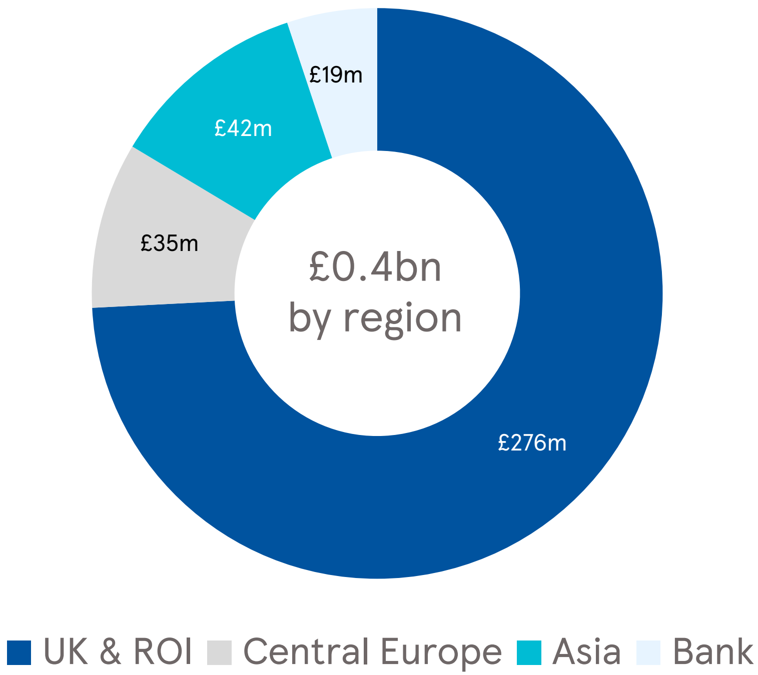
1. Exceptional cash items comprise £(112)m of restructuring payments and £(4)m integration costs.
2. The cost of major acquisitions and disposals are removed from the Group's free cash flow.

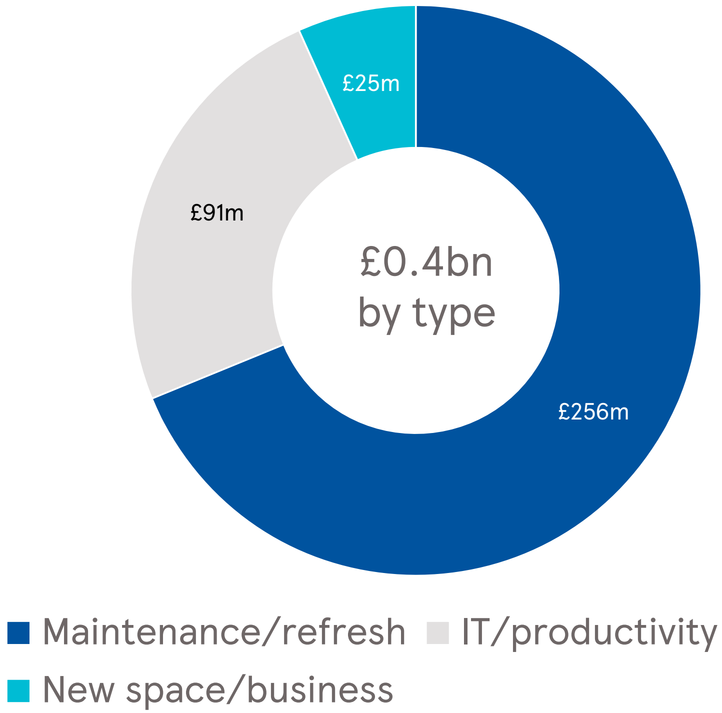
Year-on-year free cash flow



+105%
+£417m

Capital expenditure





FY 19/20 capex guidance of c.£1.1bn

Property proceeds

50 site disposals

Realising value

1H: £65m

Group cash proceeds

CE store disposals

1. Aggregate proceeds due to be received in the second half of this financial year and beyond.

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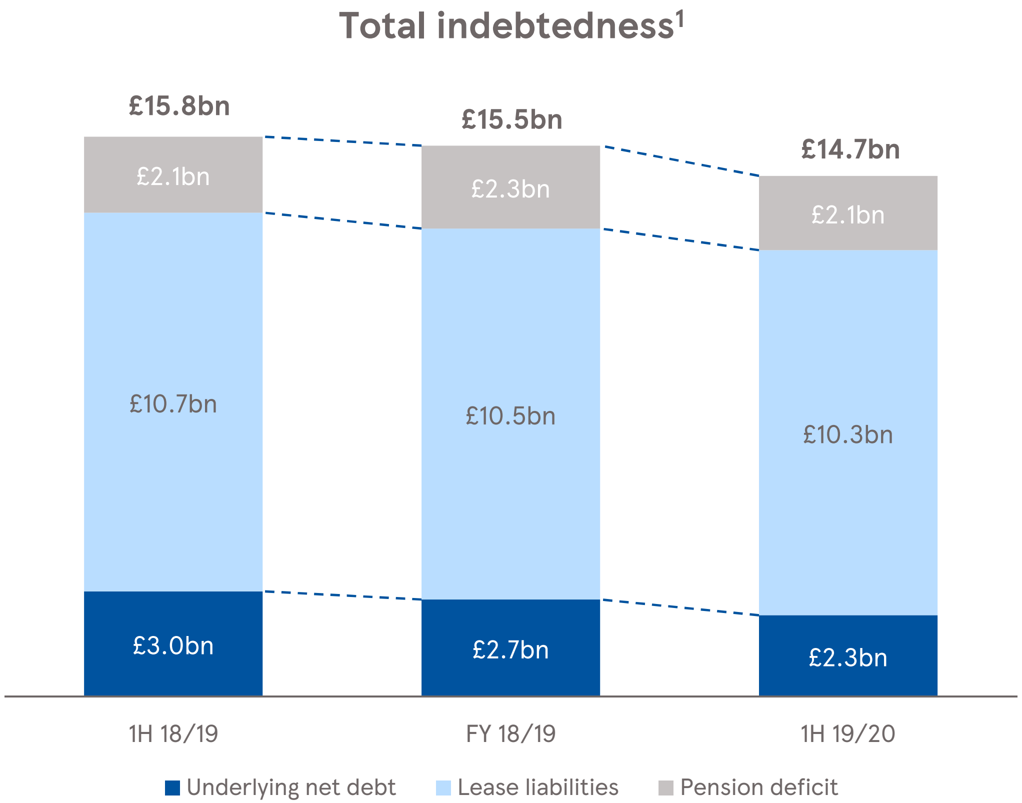
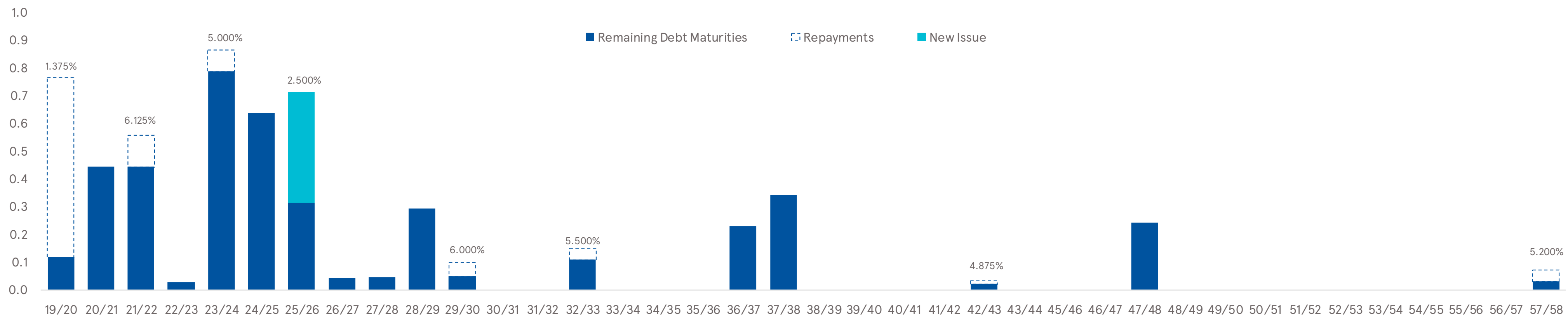
Balance sheet progress



1. Total indebtedness post-IFRS 16 comprises Net debt (inc. lease liabilities) plus the IAS 19 deficit in the pension schemes (net of associated deferred tax).

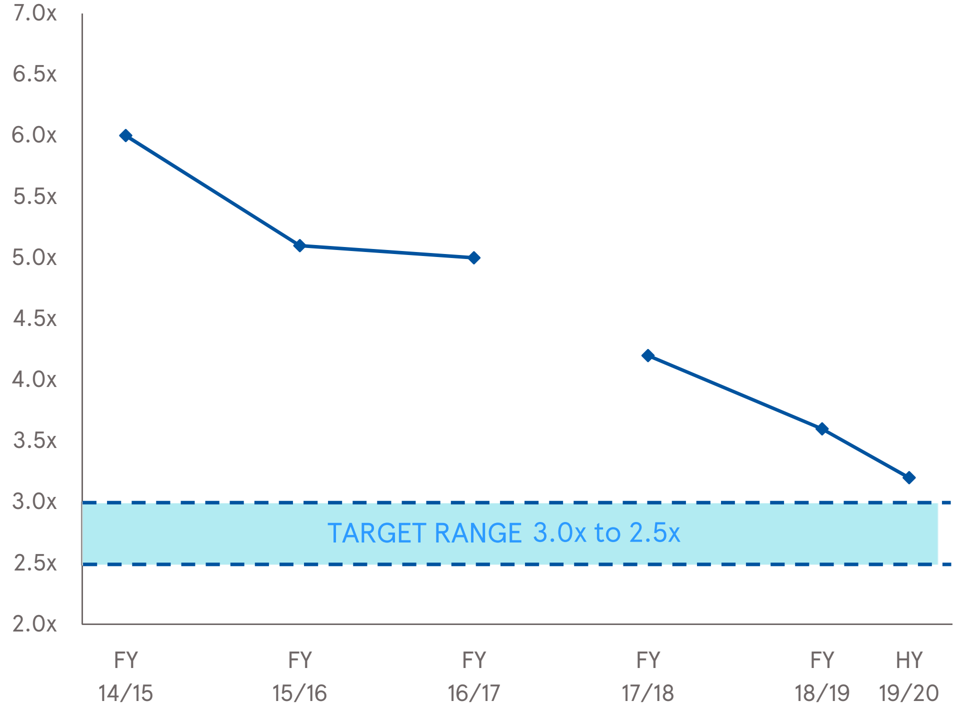
Debt Capital Markets Activity

- Reduced interest cost
- Reduced gross debt via bond tenders and repayments
- Re-entered Sterling Bond Market in May-19 with £0.4bn new issue
- Well balanced debt maturity profile: WAM 8 years

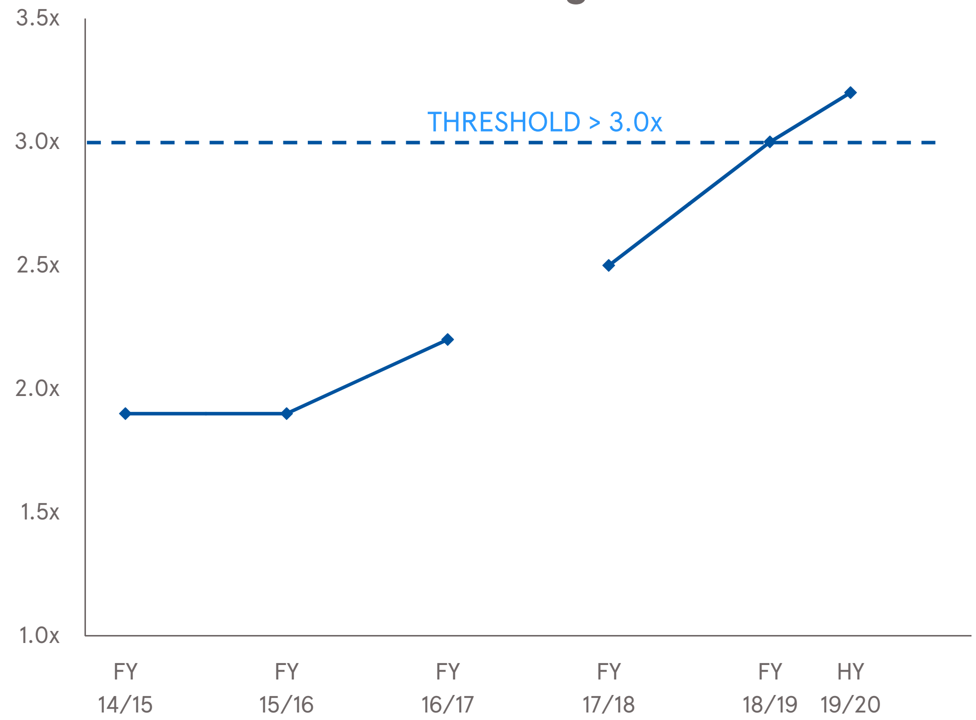


Improving debt metrics

Total indebtedness ratio[1]



Fixed Charge Cover[2]



1. Total indebtedness ratio pre-IFRS 16: Net Debt + defined pension deficit (net of tax) + discounted operating lease commitments / EBITDAR. Post-IFRS 16: Net Debt + defined pension deficit (net of tax) / EBITDAR.
2. Fixed charge cover pre-IFRS 16: EBITDAR / (Net finance costs (before exceptional charges, net pension finance costs and fair value re-measurements) + Retail operating lease expense). Post-IFRS 16: EBITDAR/(Net finance costs (before exceptional charges, net pension finance costs, fair value re-measurements) and adjusted to remove IFRS 16 interest expense) + cash rent.
3. Periods FY 14/15 to FY 16/17 inclusive are presented on a pre-IFRS 16 basis with subsequent periods presented on a post-IFRS 16 basis.

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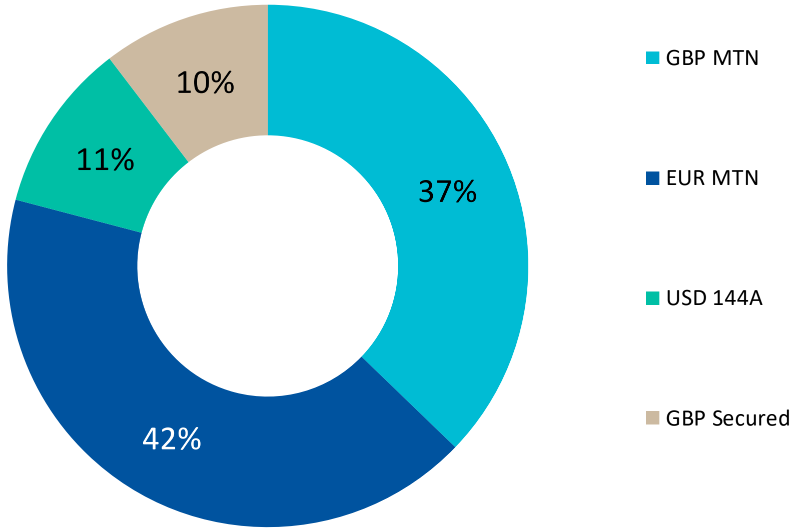
Liquidity Position and Debt Mix

- Strong liquidity
  - £1.7bn cash and short term investments[1]
  - £3.0bn in committed facilities

- Proven access to Capital Markets
  - £15bn EMTN programme
  - €0.75bn Issuance Oct-18
  - £0.4bn Issuance May-19



80% of outstanding debt is hedged back to GBP (remainder is in EUR)

[1]Cash and cash equivalents less reported overdraft (figure excludes Tesco Bank)

Credit ratings

Agency	Long Term Rating	Short Term Rating	Outlook
Fitch	BBB-	F3	Stable
Moody's	Baa3	P-3	Stable
S&P	BB+	B	Positive

Investment grade rating from Moody’s (June 2019)

“Following changes to Management and a renewed strategic focus on competitiveness, Tesco’s operating metrics and profitability have improved sequentially, such that its reported operating profit in the fiscal year 2019, ended 23 February 2019, was more than double the low point of fiscal 2015. The recent return to an investment-grade rating is supported by our expectations of continued profit growth and funded debt reduction, which will together drive further deleveraging.”

Financial summary

- More profitable sales mix
- £290m cost savings in 1H; £1.6bn savings to date
- Margin ambition achieved; 12-month margin 3.73% (pre-IFRS 16, excl. Booker)
- Operating profit[1] +£285m; driven by cost savings and an improved product mix
- Free cash flow +£417m; +105%
- Return to GBP Bond market with £0.4bn benchmark issue in May.

1. Excludes amortisation of acquired intangibles and excludes exceptional items by virtue of their size and nature in order to reflect management's view of underlying performance.
2. Headline earnings per share measure excludes exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments.

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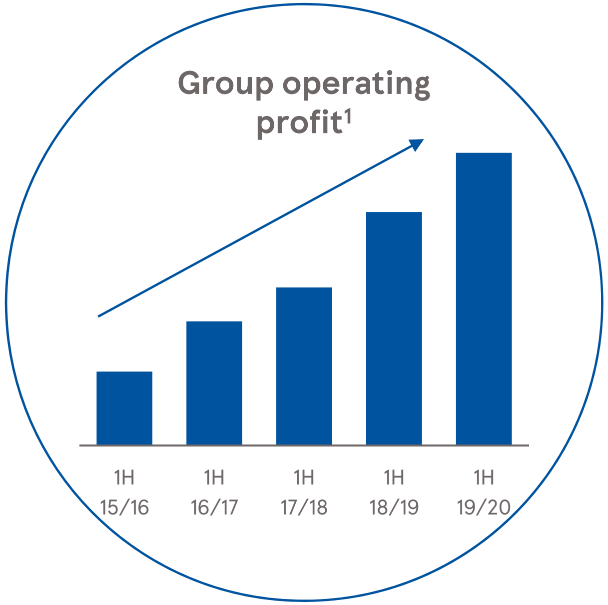
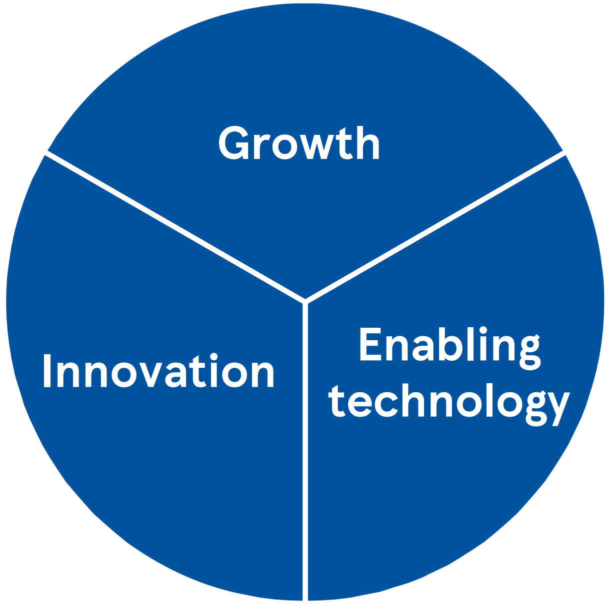
Well-positioned for sustainable, profitable growth



Strong financial position

Opportunities set out



Focus on delivery

1. Excludes amortisation of acquired intangibles and excludes exceptional items. 1H 2018/19 and 2019/20 are shown on a post-IFRS 16 basis. Periods prior to 1H 2018/19 are shown on a pre-IFRS 16 basis.

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Innovation: product

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Enabling technology: cost efficiency

+6.7%
Fresh sales forecast accuracy

New algorithms

c.£40m saving

Stock control

+18%
transactions

Pay+

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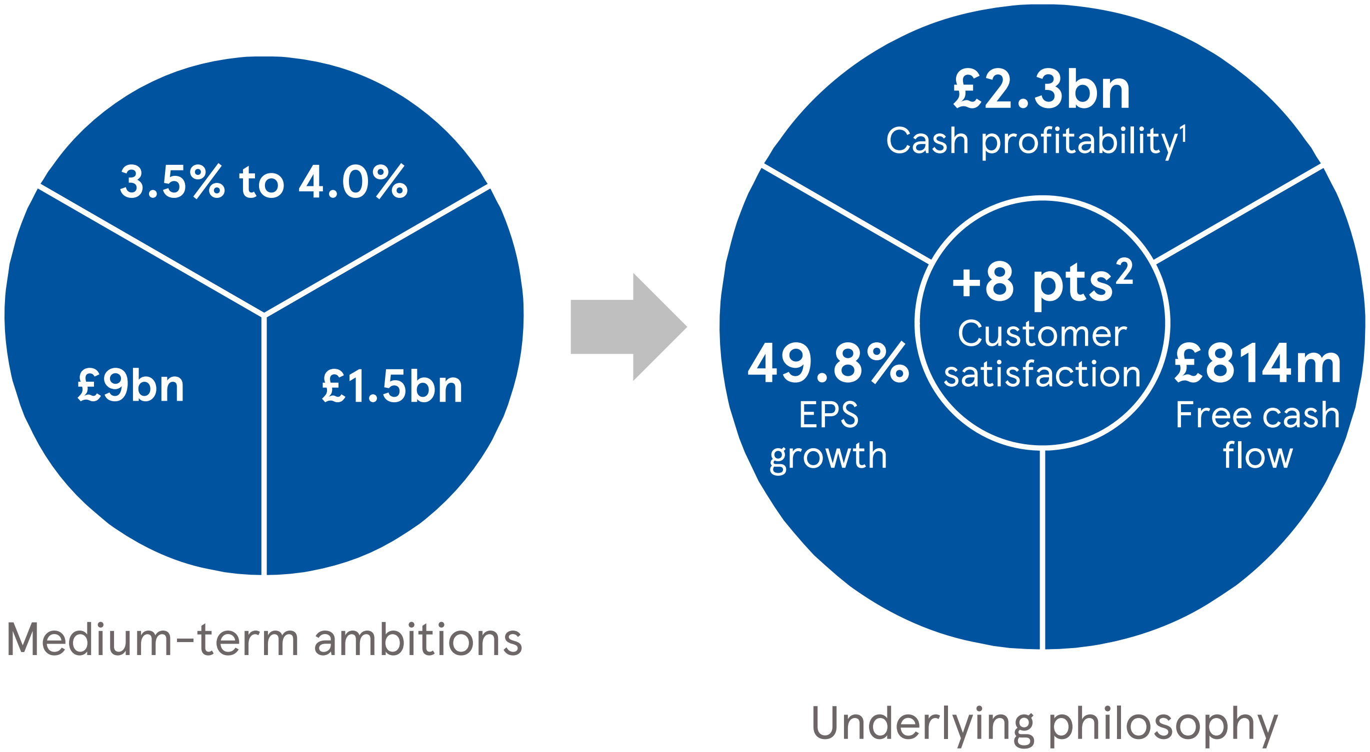
Sustainable value creation for shareholders



1. Cash profitability refers to 1H 2019/20 EBITDA.
2. UK Multichannel tracker. Based on your most recent experience, how likely is it that you would recommend this store to a friend or colleague?

Our priorities for allocating capital

1. Reinvest in business & customer offer
2. Maintain leverage at 3x to 2.5x Total indebtedness/EBITDAR[1]
3. Grow and then maintain dividend at 50% pay-out ratio[1]
4. Consideration of inorganic growth opportunities that may arise
5. Return surplus cash to shareholders

1. On a post-IFRS 16 basis.

Summary

- Delivered every element of turnaround plan
- Celebrating 100 years of great value with customers
- Customer satisfaction improving across all measures and channels
- Strong increase in profitability
- Significant improvement in cash generation
- Positioned well for profitable growth in years ahead

Q&A.

Guidance

Working capital	Underlying decrease of around £0.2bn
Pension deficit contribution	£285m per annum from April 2018
Capex	£1.1bn - £1.4bn per annum; current year c.£1.1bn
Net finance costs[1]	Less than 4% of long-term debt per annum
Effective tax rate	Decreasing to c.20% over medium term; current year c.22%
Dividend	Expect full year dividend pay-out ratio of 50% this year Broadly one-third : two-thirds split between interim and final
Debt metrics	Leverage at 3x to 2.5x Total indebtedness/EBITDAR[2]

1. Before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements.
2. On a post-IFRS 16 basis.

Exceptional items

	1H 19/20	1H 18/19
Net restructuring and redundancy costs	£(75)m	£(22)m
Impairment of assets in Poland	£(71)m	-
Impairment of investment in India joint venture	£(47)m	-
Property transactions	£24m	£13m
Booker integration costs	£(6)m	-
Provision for customer redress	£(45)m	£(7)m
Bank transformation costs	£(12)m	-
Tesco Bank FCA provision	-	£(16)m
Release of amounts provided in relation to FCA obligations	-	£15m
Tesco Direct closure costs	-	£(57)m
Total exceptional items in statutory operating profit	**£(232)m**	**£(74)m**

Disclaimer

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