Serving shoppers a little better every day.

8 April 2020

Dave Lewis – CEO

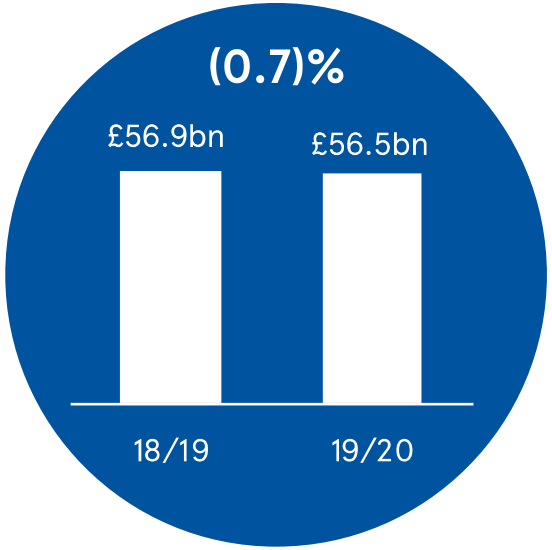
Alan Stewart – CFO

Agenda

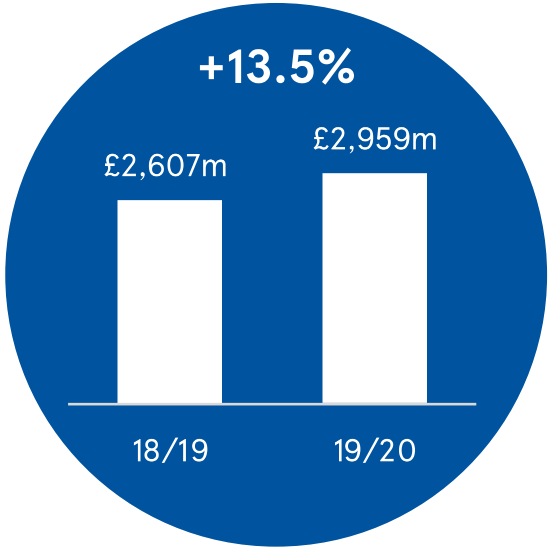
- Full year results
- COVID-19 update
- Q&A

FY results.

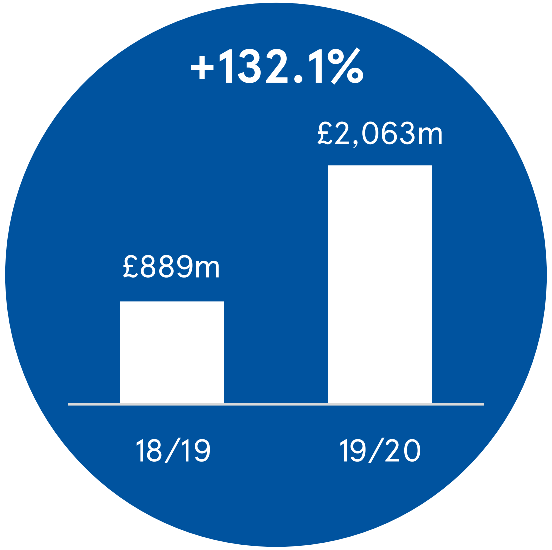
Group performance



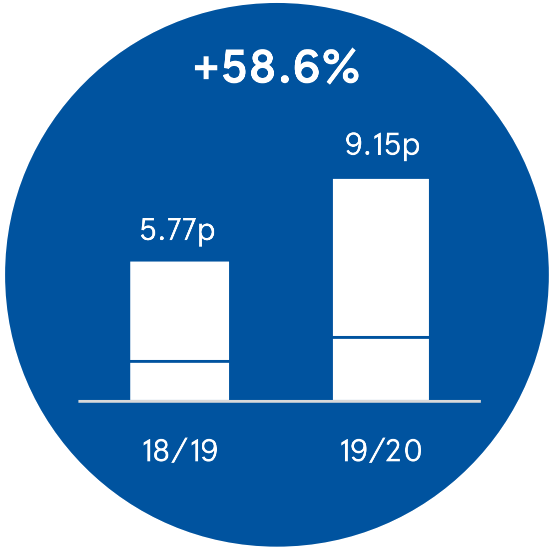
Sales[1]



Profit[2]



Retail free cash flow[3]



Dividend

Note: For UK & ROI our reported statutory performance is for the 53 weeks ended 29 February 2020. For all other operations, these results are for the calendar year ended 29 February 2020. To aid comparability, headline results are shown on a 52 week basis.

1. Sales exclude VAT and fuel. Sales change shown at actual rates on a comparable days basis for Central Europe and Asia.
2. Operating profit before exceptional items and amortisation of acquired intangibles; change shown at actual rates.
3. Retail free cash flow excludes the impact of Tesco Bank.

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Segmental performance

	UK & ROI	Central Europe	Asia	Total Retail	Tesco Bank
Sales[1]	£44,909m	£5,332m	£5,218m	£55,459m	£1,068m
change at constant exchange rates %	0.2%	(10.1)%	0.1%	(0.9)%	(2.6)%
Operating profit[2]	£2,184m	£156m	£426m	£2,766m	£193m
change at constant exchange rates %	16.9%	(27.6)%	24.8%	13.9%	(3.0)%
Margin (%)	4.2%	2.8%	8.2%	4.4%	18.1%

1. Sales exclude VAT and fuel. Sales change shown on a comparable days basis for Central Europe and Asia.
2. Operating profit before exceptional items and amortisation of acquired intangibles.

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Retail performance

UK & ROI	Central Europe	Asia
Sales: +0.2%	Sales: (10.1)%	Sales: +0.1%
Operating profit: +16.9%	Operating profit: (27.6)%	Operating profit: +24.8%

Sales exclude VAT and fuel; change shown at constant rates on a comparable days basis for Central Europe and Asia. Operating profit before exceptional items and amortisation of acquired intangibles, change shown at constant rates.

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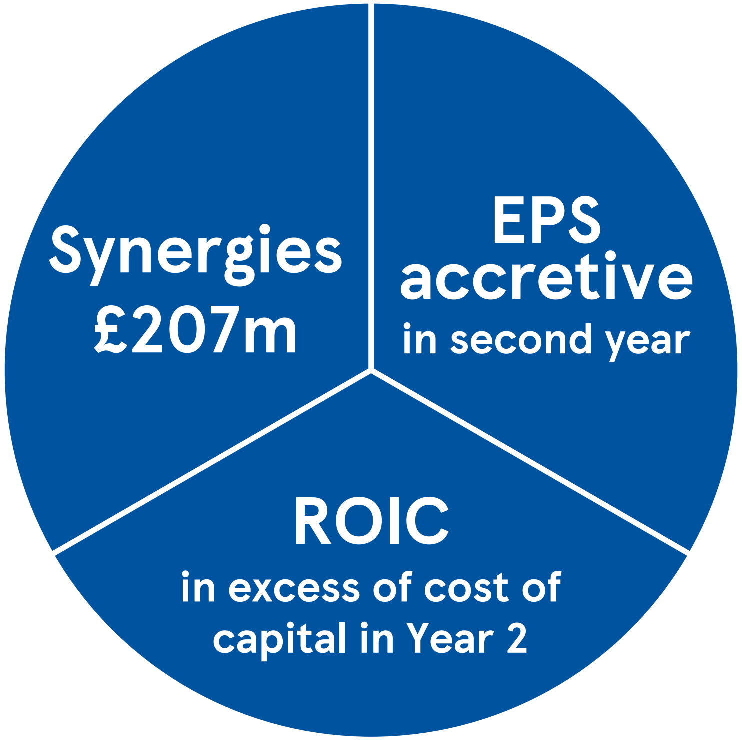
Booker



Merger benefits delivered

Best Food Logistics acquisition completed

Further opportunities

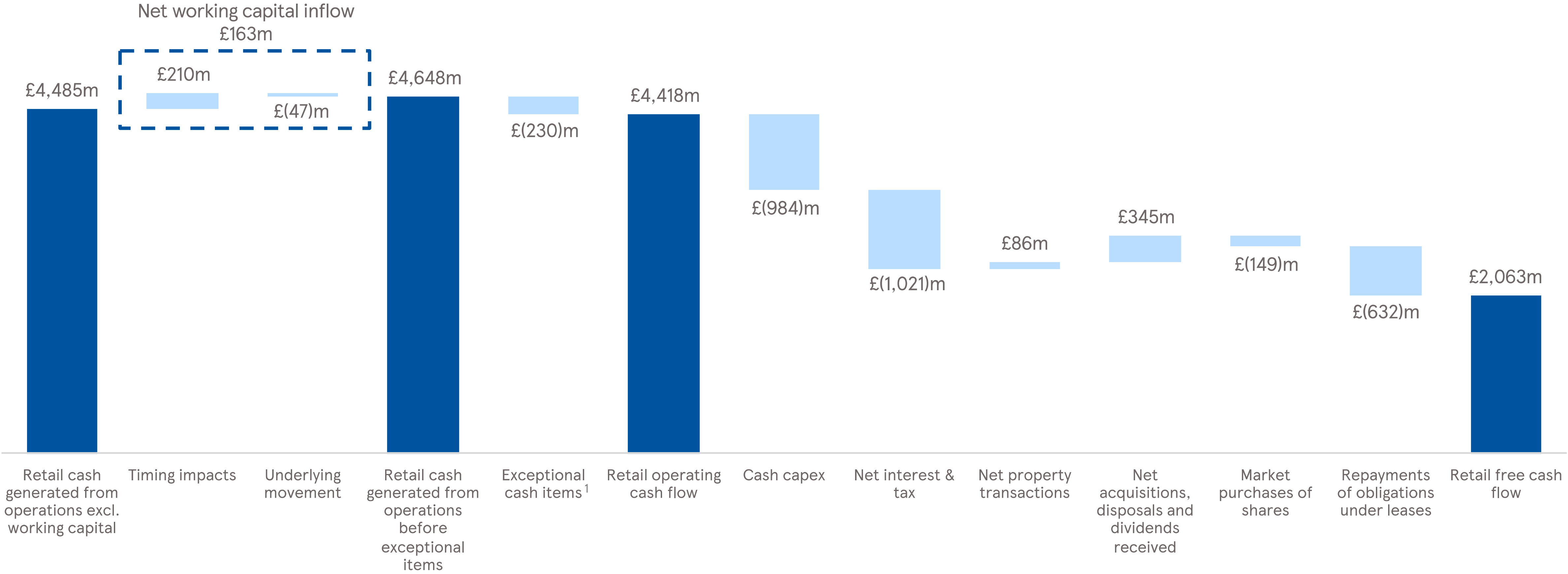
Tesco Bank

- Focus on simple banking and insurance products for Tesco customers
  - Sale of mortgage portfolio completed
  - Current accounts closed to new customers
- Strong balance sheet, with a total capital ratio of 23.1%
  - Capital adequacy under stress scenarios regularly assessed
- Material impact from COVID-19
  - Reduction in income from all activities
  - Provisions for potential bad debts
  - Likely to result in a loss in 2020/21

	FY 19/20	Change
Lending to customers	**£8,451m**	**(32.0)%**
Secured lending	Nil	(100)%
Unsecured lending	£8,451m	(2.6)%
Bad debt: asset ratio	1.6%	(0.3)%
Operating profit pre exceptional items	**£193m**	**(3.0)%**
Cost: income ratio	53.7%	1.9% improvement
Net interest margin	4.1%	0.3%
Tier 1 capital ratio	20.6%	4.4%
Total capital ratio	23.1%	4.8%

TESCO Bank

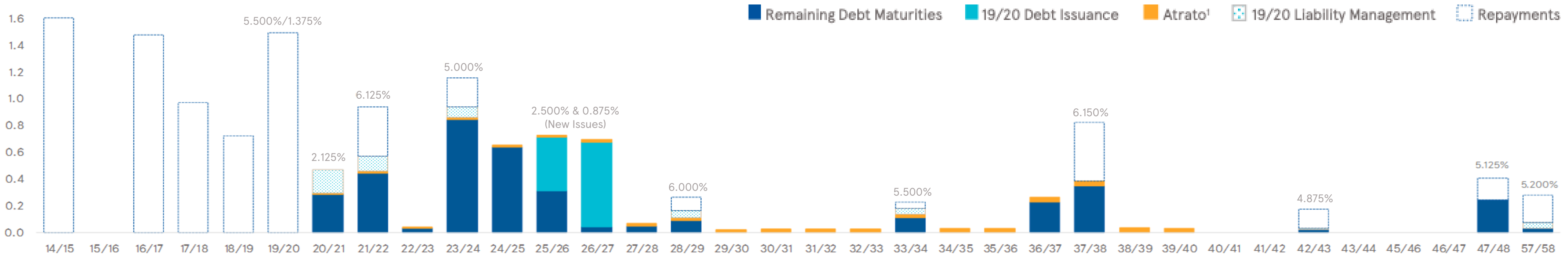
Sources and uses of cash



1. Exceptional cash items comprise £(197)m of restructuring activity (of which £(133)m relate to prior year activity), £(23)m integration costs and £(10)m corporate costs.

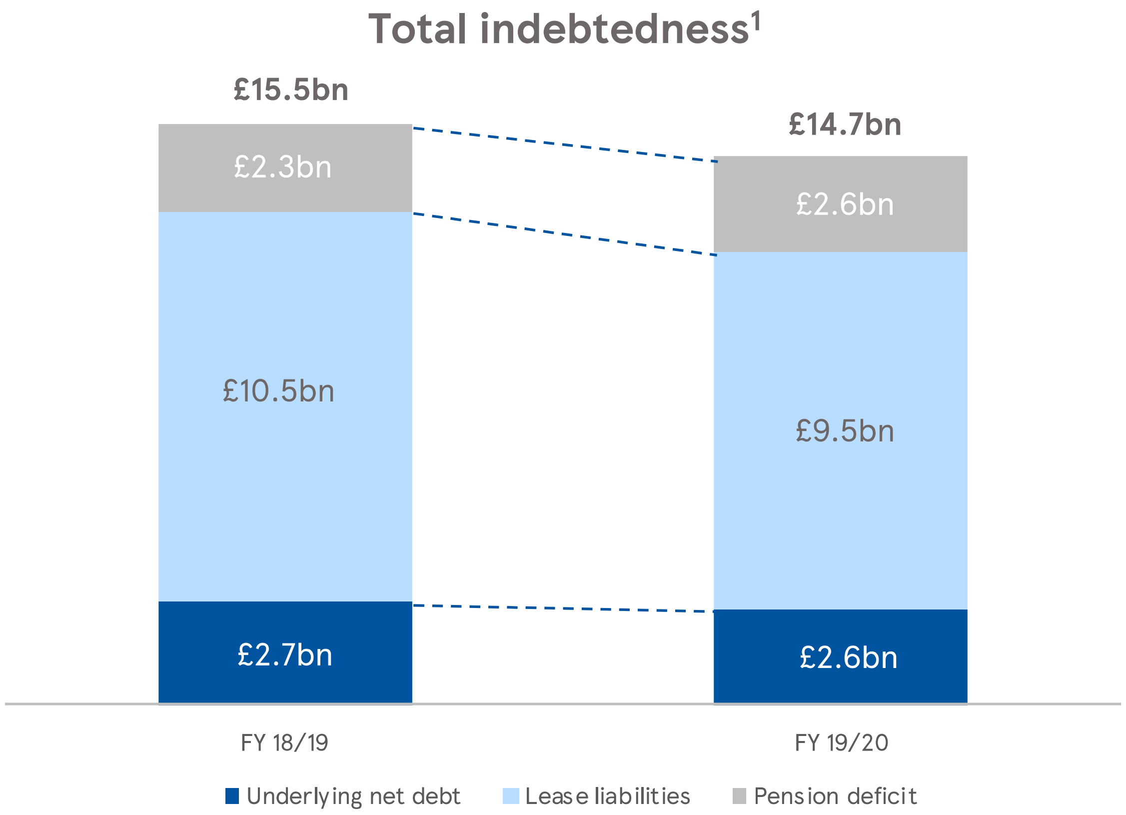
Liquidity and debt profile

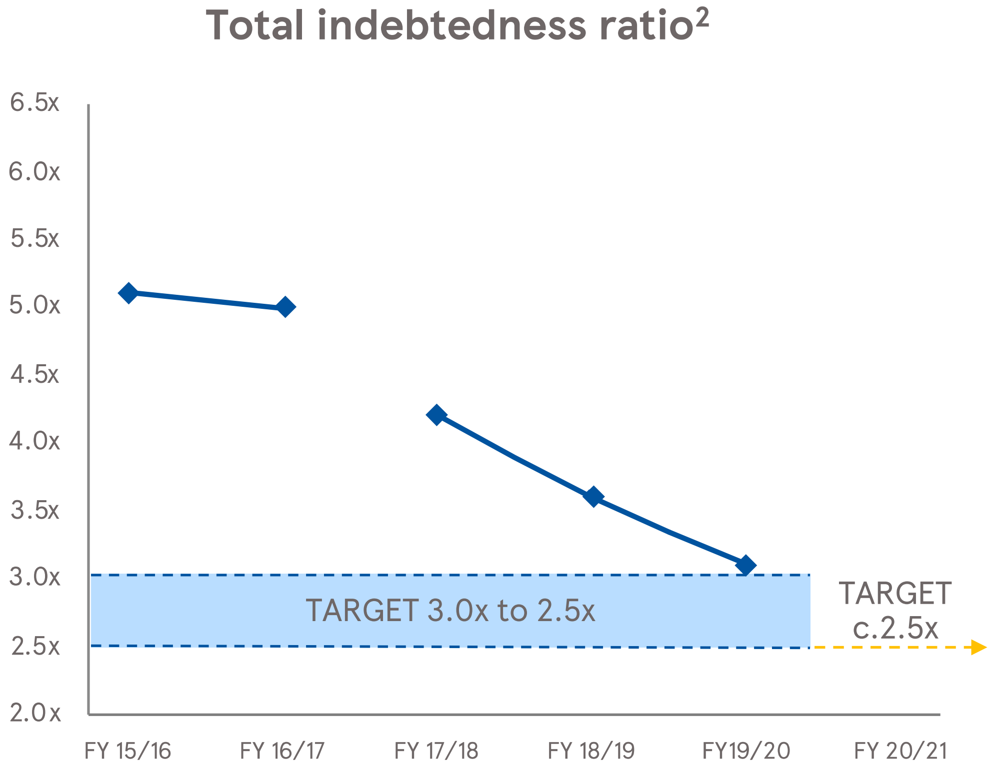
- Significant cash liquidity available
- £3.0bn of committed facilities undrawn
- Investment grade credit ratings with all three agencies
- Re-paid £1.3bn of outstanding debt during FY19/20, including £0.5bn bonds repaid early
- Issued 6 year GBP £0.4bn (2.5%) and 6.5 year EUR €0.75bn (0.875%)



1. Amortising debt relating to purchase of Atrato Property JV now on balance sheet after obtaining full control in September 2019.

Total indebtedness





1. Total indebtedness post-IFRS 16 comprises Net debt (inc. lease liabilities) plus the IAS 19 deficit in the pension schemes (net of tax).
2. 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) / EBITDA. Periods FY 15/16 to FY 16/17 inclusive are presented on a pre-IFRS 16 basis with subsequent periods presented on a post-IFRS 16 basis.

A simpler, stronger business

£277m
proceeds

China JV disposal

Central Europe:
£167m

of £258m
proceeds

Realising value from property

Increased freehold proportion[1]

1. Represents Group freehold ownership by value for FY18/19 and FY19/20.

Proposed sale of businesses in Thailand & Malaysia

- Proposed sale to CP Group:
  - $10.6bn enterprise value, hedged on announcement
  - Implies 12.5x EV/EBITDA multiple
- Effective use of proceeds:
  - £2.5bn to eliminate pension funding deficit
  - c.£5bn special dividend
  - c.£0.5bn for general corporate purposes
- Broadly cash flow neutral:
  - Loss of operating cash flow from businesses in Thailand and Malaysia
  - Offset by £260m benefit as pension deficit contributions cease

Guidance

Capex	£0.9bn-£1.2bn per annum
Net finance costs[1]	Less than 4% of long-term debt per annum
Tax	Effective tax rate c.24% for 2020/21; c.21% over medium term
	Not taken option to defer VAT payments
Dividend	Full year dividend pay-out ratio of 50%
	Interim dividend 35% of prior year full year dividend
Debt metrics	Targeting leverage of c.2.5x Total indebtedness/EBITDA
Pension deficit contribution	Payments cease following lump sum payment from Asia disposal
Asia segment	Treated as a discontinued operation for FY 2020/21

Note: All guidance assumes completion of disposal of Thailand and Malaysia businesses during 2H 2020, which is subject to shareholder and regulatory approval.

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

Turnaround: customers

	14/15	19/20	Change
Customer NPS[1]	10	29	+19 pts
Brand perception[2]	6.8	26.1	+19.3 pts
Quality perception[3]	12.2	27.4	+15.2 pts
Value perception[3]	6.1	21.0	+14.9 pts

1. Reflects % of fans minus critics answering the question "Based on your most recent experience, how likely is it that you would recommend this store to a friend or colleague?"
2. Based on YouGov Brand Index which is a score based upon 6 component questions covering quality, value, reputation and satisfaction; 12 week rolling data.
3. Reflects YouGov Brand perception measures of quality and value on a 12 week rolling basis.

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Turnaround: colleagues

	14/15[1]	19/20[1]	Change
Great place to work[2]	70%	82%	+12% pts
Great place to shop[3]	23	44	+21 pts
Inclusive culture[4]	73%	81%	+8% pts
Engagement in purpose[5]	64%	86%	+22% pts

1. 14/15 data based on our 2014 “What Matters to You” survey and 19/20 data based on our 2020 “Every Voice Matters” survey.
2. % of colleagues recommending Tesco as a great place to work.
3. The net promoter score for colleagues recommending Tesco as a great place to shop.
4. % of colleagues agreeing that “Treat people how we like to be treated is practiced at Tesco” (2014) and “I feel I can be myself at Tesco without fear of judgement” (2020).
5. % of colleagues agreeing that “I can see a clear link between my work and the Tesco vision” (2014) and “The link between my team’s work and Tesco’s purpose is clear” (2020).

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Turnaround: suppliers

	14/15	19/20	Change
Overall satisfaction[1]	55%	80%	+25% pts
Simple, transparent and easy to deal with[1]	36%	71%	+35% pts
Treats me fairly[1]	55%	82%	+27% pts

1. Reflects % of suppliers responding positively to the statements, “Overall satisfaction of working with Tesco”, “Tesco is simple, transparent and easy to deal with”, “Tesco treats me fairly”, as part of the Supplier Viewpoint survey.

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Turnaround: shareholders

	14/15[1]	19/20[1]	Change
Operating profit[2]	£940m	£2,959m	+£2,019m
Free cash flow[3]	£(1,340)m	£2,063m	+£3,403m
Total indebtedness[3]	£(21.7)bn	£(14.7)bn	down 32%
Dividend	1.16p	9.15p	+689%
Market capitalisation[4]	£13.7bn	£23.2bn	+£9.5bn

1. These figures reflect Tesco's performance based on accounting standards applicable at the time of publication. Korea was first classified as a discontinued operation during FY15/16 and Turkey during FY16/17. Booker was consolidated from FY18/19.
2. Group operating profit before exceptional items and amortisation of acquired intangibles.
3. Free cash flow and total indebtedness exclude the impact of Tesco Bank.
4. Market capitalisation as at the end of 1H 2014/15 and end of 1H 2019/20.

Looking ahead

- Strong operational and financial position to deal with COVID-19 challenges
- Initial plan:
  - 2020/21 to be a year of investment
  - Profit shape to be more weighted to 2H
- Current view:
  - Increased level of uncertainty due to COVID-19
  - Range of scenarios and potential outcomes

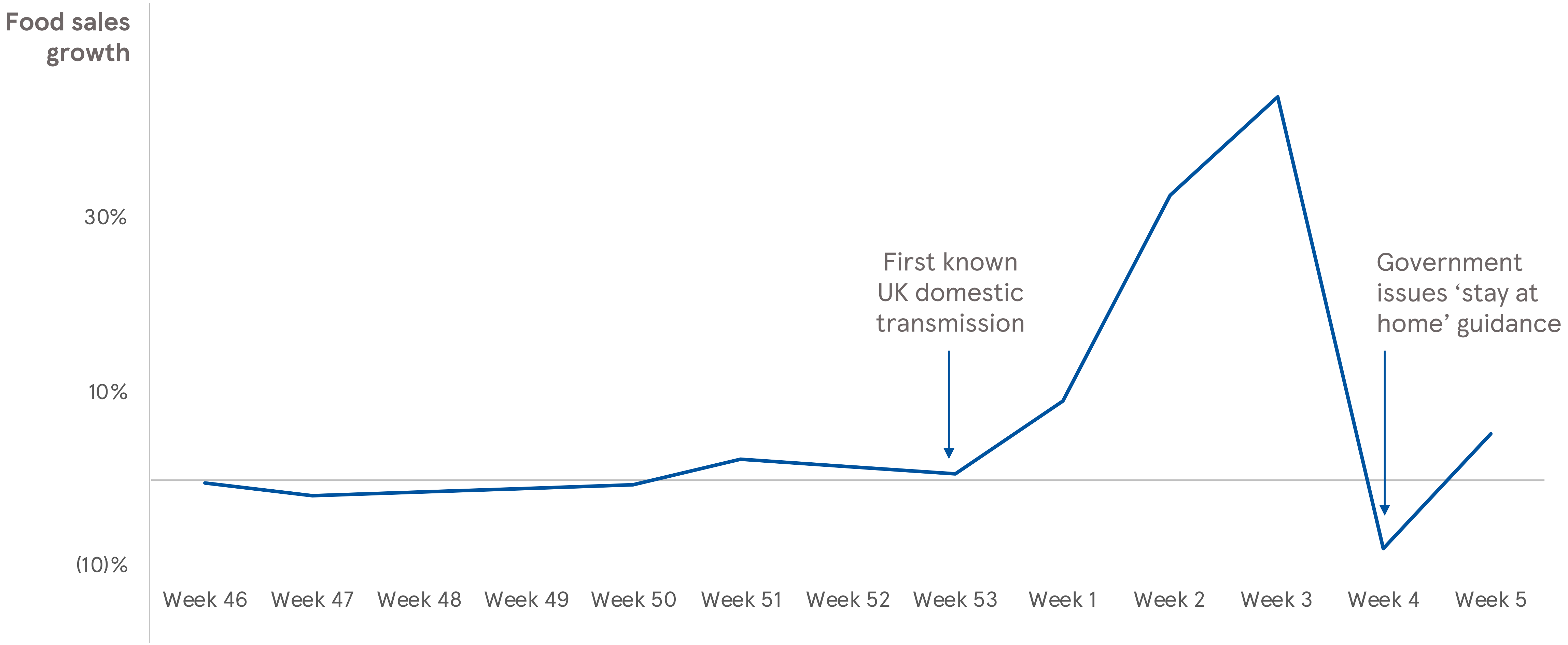
Summary

- Strong financial performance in FY 19/20
- Robust liquidity and funding position
- Continuing to operate within capital allocation framework
- Proposed sale of businesses in Thailand and Malaysia[1]
- Well-placed in the short-term to support colleagues and customers, and in the long-term, to reinvest into the customer offer

1. Subject to shareholder and regulatory approval.

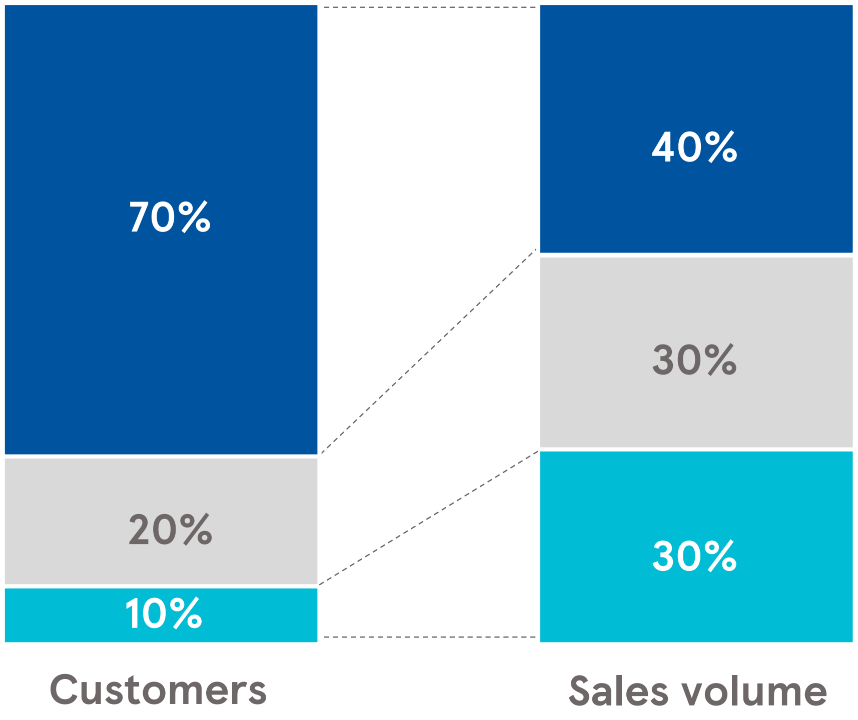
COVID-19.

Initial impact – sales shape

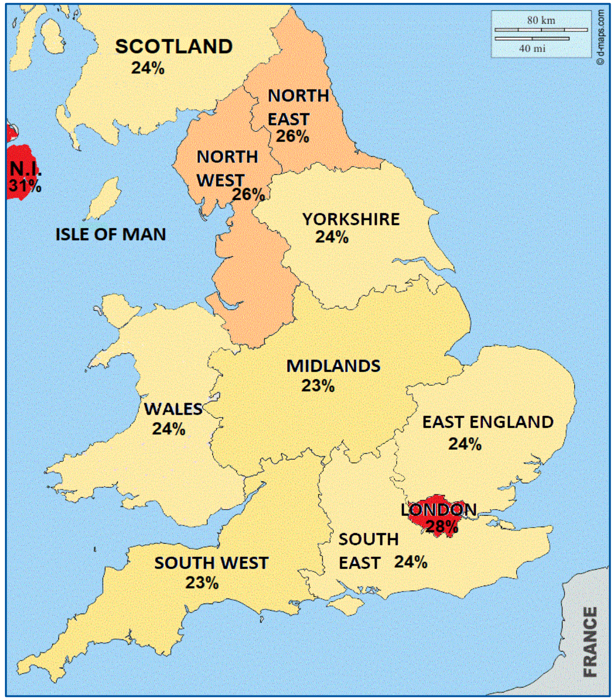


Initial impact – stockpiling

Stockpiling driven by small % of customers



Strongest sales uplift in virus epicentre



Source: dunnhumby - measuring loyal customers who bought at least 20% more per week of stockpiled sub-groups than in a typical week, over weeks 1-4; and year-on-year sales growth by region for weeks 2-3.

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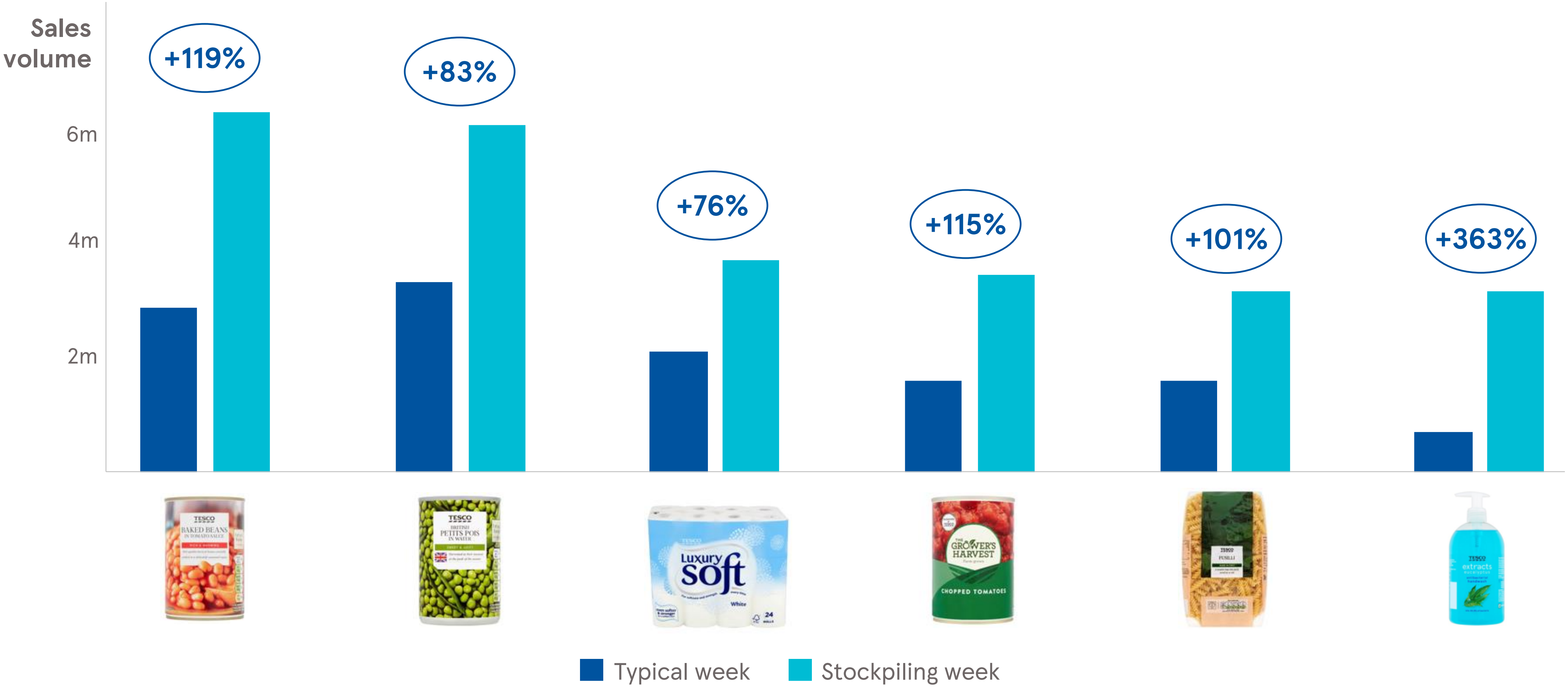
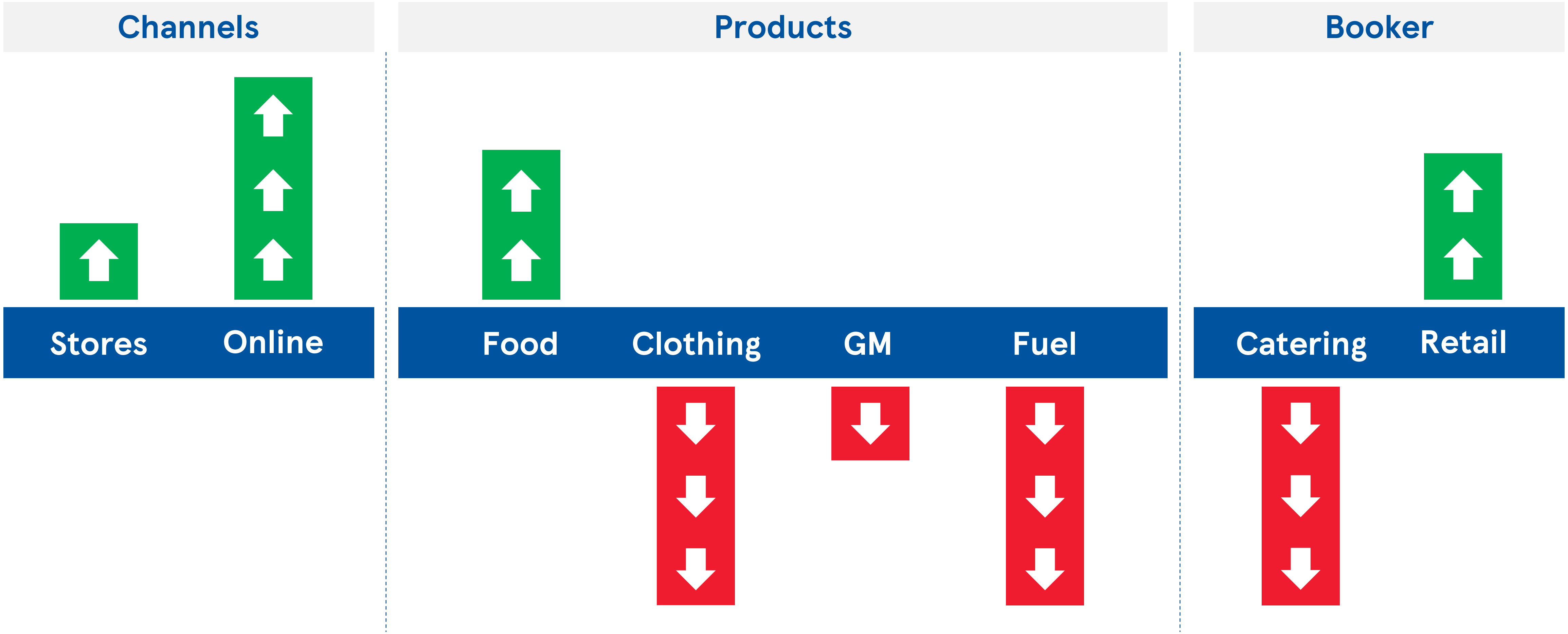
Initial impact – stockpiling



Initial impact – sales mix



Scenarios – sales drivers

	Base case	Further restrictions	Longer-term restrictions
Stockpiling	+		
Shift from eating out of home	+	+	+
Holiday cancellations	+	+	+
GM/Clothing	–	–	–
Fuel	–	–	–

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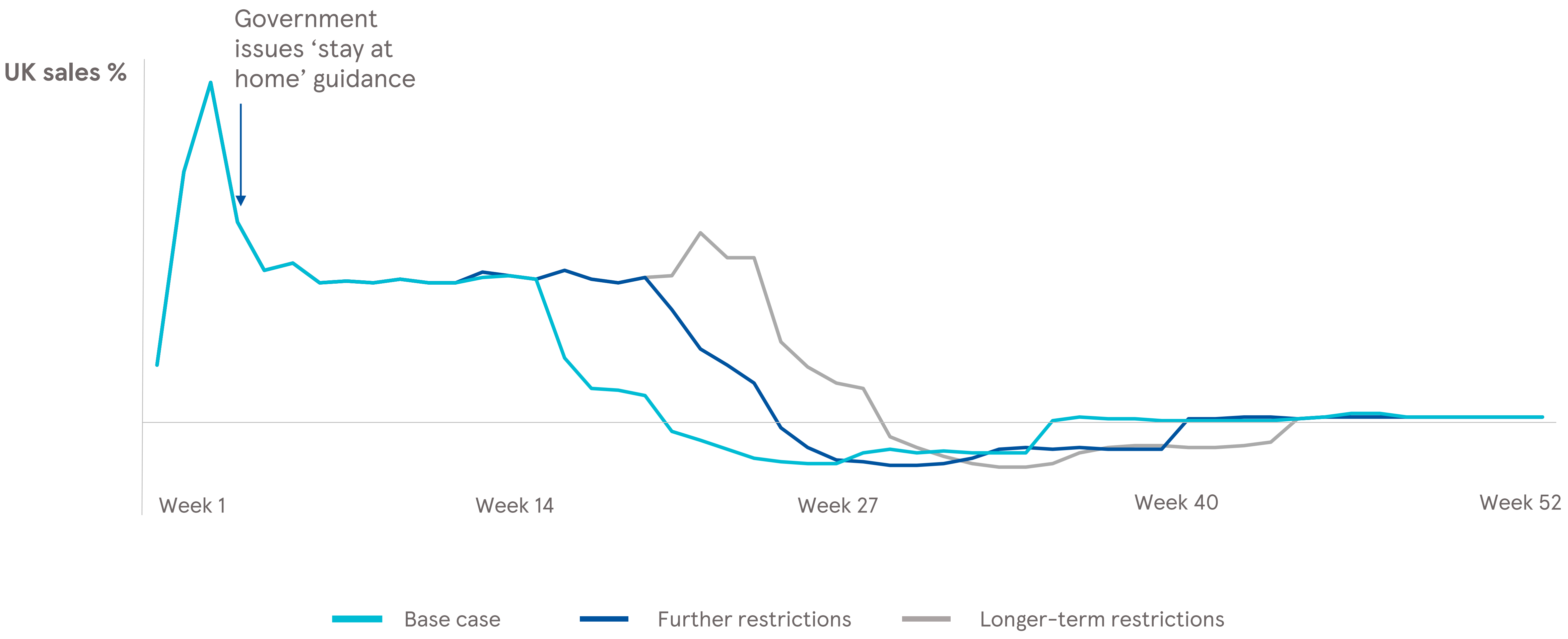
Scenarios – sales shape



Scenarios – UK costs

	Base case	Further restrictions	Longer-term restrictions
Payroll	£(280)m	£(335)m	£(405)m
Distribution	£(135)m	£(155)m	£(175)m
Store expenses	£(105)m	£(110)m	£(200)m
Property	£(65)m	£(75)m	£(80)m
Other (technology, communication)	£(65)m	£(65)m	£(65)m
Total incremental costs	**£(650)m**	**£(740)m**	**£(925)m**
Business Rates Relief (England & Scotland)	**c.£585m**	**c.£585m**	**c.£585m**

Together, we can do this

1. Food for all
2. Safety for everyone
3. Supporting our colleagues
4. Supporting our communities

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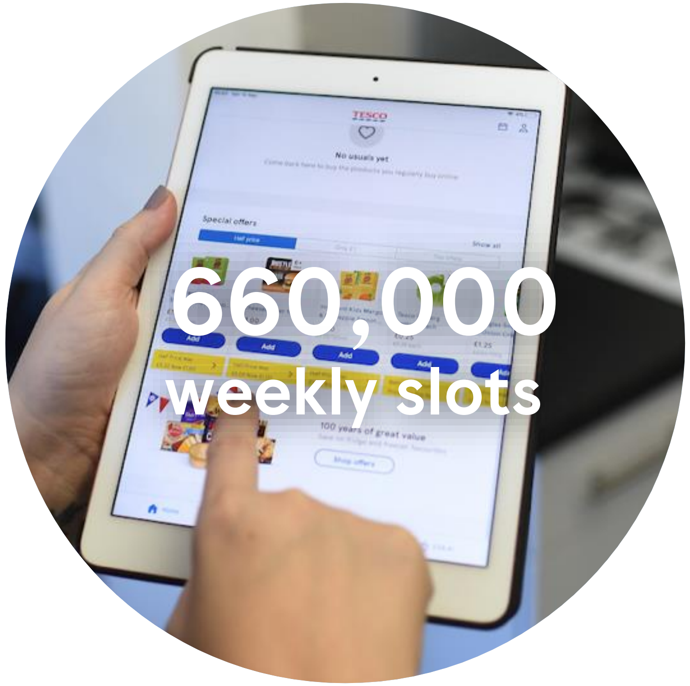
Food for all

- 3 items per customer per product; now removed on majority of products
- Removing many multi-buy promotions
- Special hours in store for both NHS workers and vulnerable and elderly customers
- Online capacity expanded by 20%, adding 145,000 delivery slots
- Working with Government to prioritise delivery slots for vulnerable people
- Temporarily closed cafes, counters and phone shops
- Maintained store opening hours
- Office colleagues working in store where possible
- Working with supplier partners to simplify our range

Grocery Home Shopping



Capacity before

Capacity now

list of
110,000
people

75,000
matched

Supporting the most vulnerable[1]

120 deliveries per minute

1. Initial list from the Government of 110,000 clinically vulnerable and isolated people, of whom we have matched 75,000 to existing customers and let them know we are making home delivery slots available to them immediately.

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Safety for everyone

- New social distancing measures, summarised in a colleague advert
- Created one-way aisles and ‘one-in, one-out’ system to help limit flow
- Using directional floor markings to help everyone keep a safe distance
- Protective screens at checkouts
- Enhanced cleaning routines and new cleaning stations
- Encouraging payment by card


One way, keep 2m apart.
One way, keep 2m apart.
One way.
2m
Let's keep a safe distance
Please follow the one-way system.
2m
Together we can do this.
Please wait here until the person in front has moved forward.

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Supporting our colleagues

- Colleagues receiving full pay from first day of absence
- 12 weeks' fully paid absence for colleagues over 70, vulnerable or pregnant
- 10% bonus to colleagues across stores, distribution and customer engagement centres
- New school closure leave policy
- >45,000 new colleagues have joined us since 20 March, including pickers and drivers
- Colleague discount increased to 15%

Supporting our communities

- £3m ongoing monthly food donations via Community Food Connection & distribution centres
- £15m food and £1m funding over the next 12 weeks for FareShare and the Trussell Trust
- Focusing £2m funding from Bags of Help to charities helping the most vulnerable
- Building on partnership with the British Red Cross, donating £2m to support those in need
- >£1m of funding for stores to support local causes
- Donating food for 1m meal parcels for NHS workers, supporting 'SaluteTheNHS.org' initiative
- Constructing our first dedicated NHS Nightingale Hospital pop-up store

Food donations

£3m
per month

Continuing with normal donation

\+

£15m

Boost over next 12 weeks

\+

£1m

FareShare
fighting hunger, tackling food waste
the trussell trust
Stop UK Hunger

Additional funding to support operational costs

Over £50m this year

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Looking ahead

- Material impacts from COVID-19
  - Incurring significant additional costs, particularly payroll
  - Precise impacts hard to predict
  - Range of scenarios considered
- Not prudent to provide profit guidance for 2020/21
- Based on scenario of return to normal customer behaviour by August, retail impacts could be broadly offset by:
  - Food volume increases
  - Twelve months' business rates relief in the UK
  - Prudent operations management

Summary

- Over the last five years we have focused on:
  - Serving customers better
  - Re-engaging with colleagues
  - Resetting supplier relationships
  - Creating value for shareholders
- We are in a strong operational and financial position to deal with COVID-19
- Significant extra costs in feeding the nation partially offset by business rates relief
- Seen an outstanding colleague contribution
- Together, we can do this

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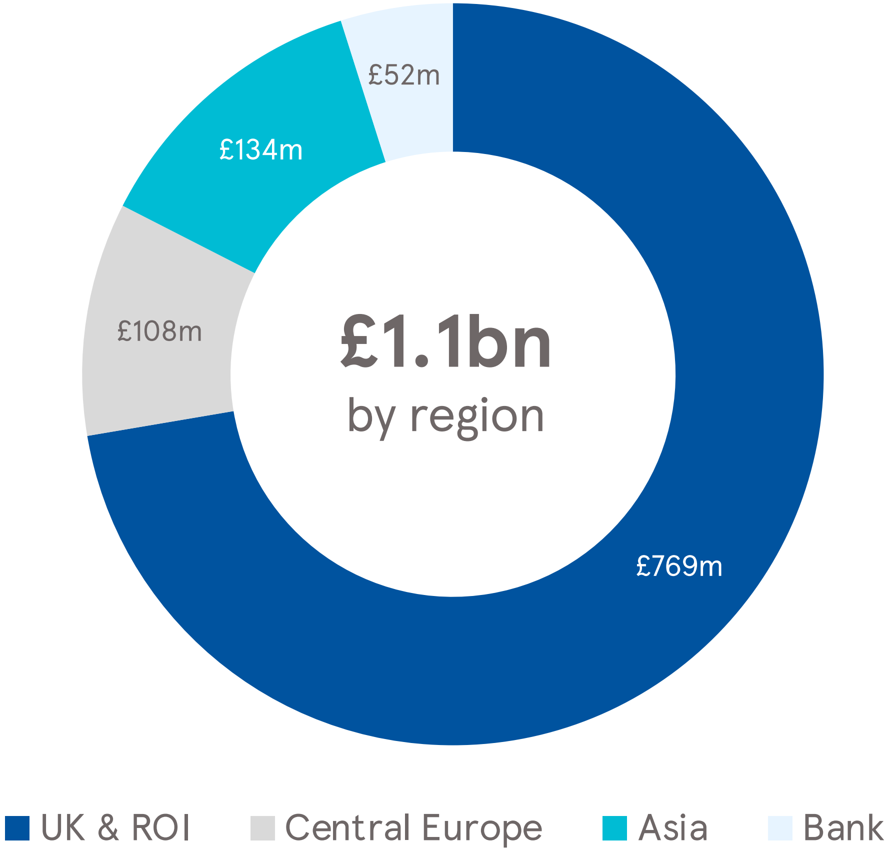
Q&A.

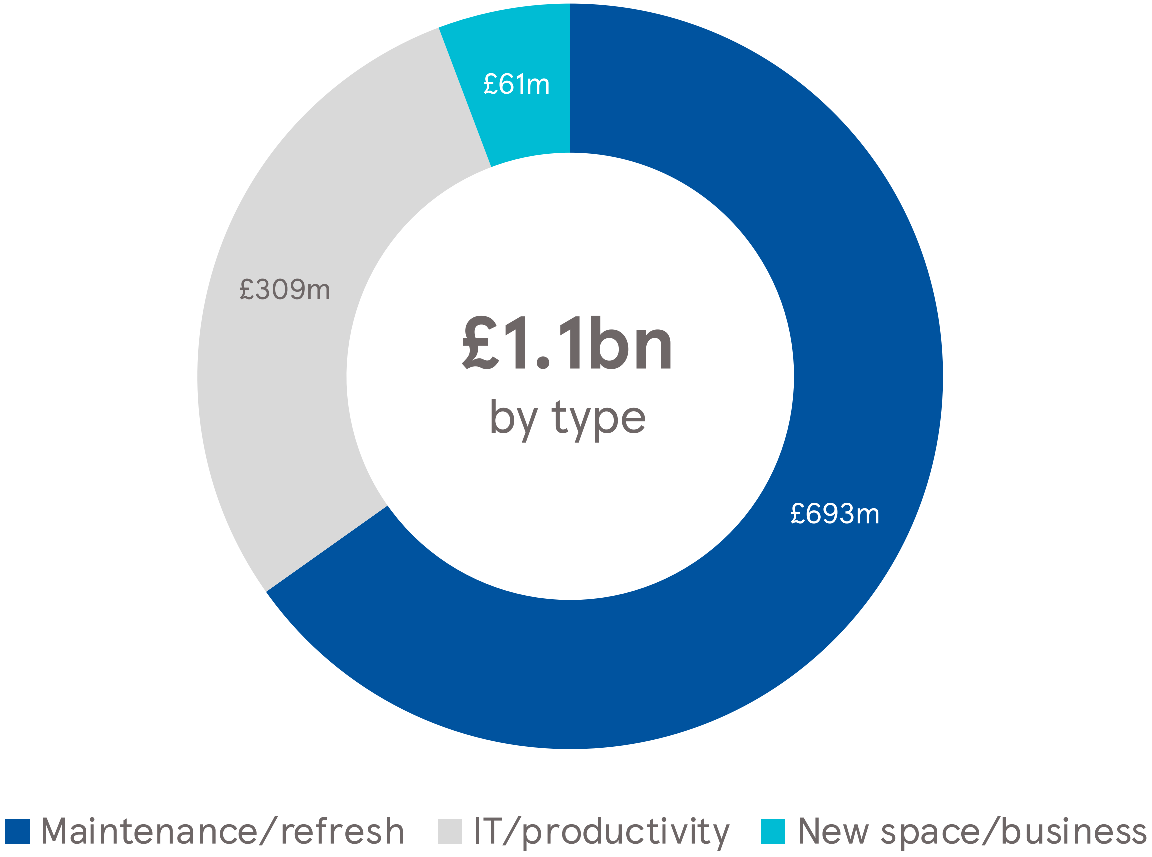
Appendix.

Proposed sale of businesses in Thailand & Malaysia

9 March 2020	Sale agreed
As soon as practicable	Circular and notice convening first general meeting
	First general meeting
	Competition approval
2H 2020	Sale completion
	Notice convening second general meeting
	Second general meeting
	Share consolidation and special dividend paid

Capital expenditure





Exceptional items

Net restructuring & redundancy costs	£(107)m
Net property disposals	£44m
Booker integration costs	£(23)m
Acquisition of property joint venture	£(136)m
Net impairment loss of non-current assets	£(15)m
Impairment of investment in India joint venture	£(47)m
Profit on disposal of Gain Land	£37m
Other corporate activity costs	£(22)m
Tesco Bank mortgage disposal	£(5)m
Closure of Tesco Bank current accounts to new customers	£(56)m
Provision for customer redress	£(45)m
Total exceptional items in statutory operating profit	**£(375)m**

Impact of week 53

	2019/20 53 week basis	Exclude: week 53	2019/20 52 week basis	YoY 53 week change (actual exchange rates)	YoY 52 week change (actual exchange rates)
Group sales (exc. VAT, exc. fuel)	£57,370m	£(843)m	£56,527m	1.1%	(0.7)%
Group operating profit before exceptional items and amortisation of acquired intangibles	£3,005m	£(46)m	£2,959m	15.3%	13.5%
Exceptional items and amortisation of acquired intangibles	£(487)m	£34m	£(453)m	n/a	n/a
Group statutory operating profit	£2,518m	-	n/a	(4.9)%	n/a
Adjusted diluted EPS	18.23p	(0.31)p	17.92p	30.1%	27.9%
Dividend per share	9.15p	-	n/a	58.6%	n/a
Capex	£1.1bn	-	n/a	n/a	n/a
Net debt	£(12.3)bn	£0.2bn	£(12.1)bn	6.9%	8.4%
Retail free cash flow	£1.9bn	£0.2bn	£2.1bn	109.9%	132.1%

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