

Debt Investor Call.

14 April
2021

Alan Stewart, CFO

Lynda Heywood, Group Treasurer



Introduction.

Truly exceptional year – significant impact from COVID-19

Demonstrated the strength and agility of our business

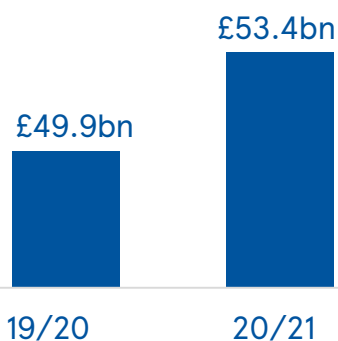
Incredible team effort to serve customers in challenging conditions

Our focus on customers is building a stronger business for all stakeholders

Group performance.

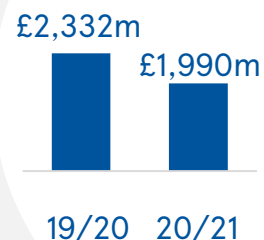
Sales¹

+7.1%

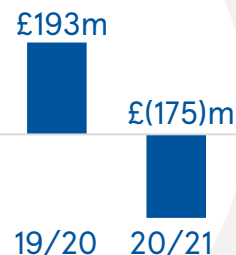


Profit²

Retail
(14.7)%

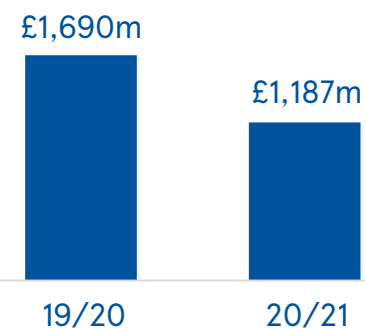


Bank
n/m



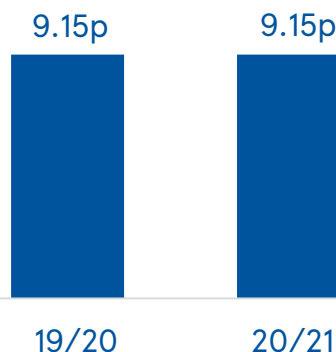
Retail free cash flow³

(29.8)%



Full-year Dividend

Level



1. Sales exclude VAT and fuel. Sales change shown at actual rates.

2. Operating profit/(loss) before exceptional items and amortisation of acquired intangibles; change shown at actual rates.

3. Retail free cash flow excludes the impact of Tesco Bank.

4. FY 2019/20 figures are stated on a 52-week basis.

UK & ROI.

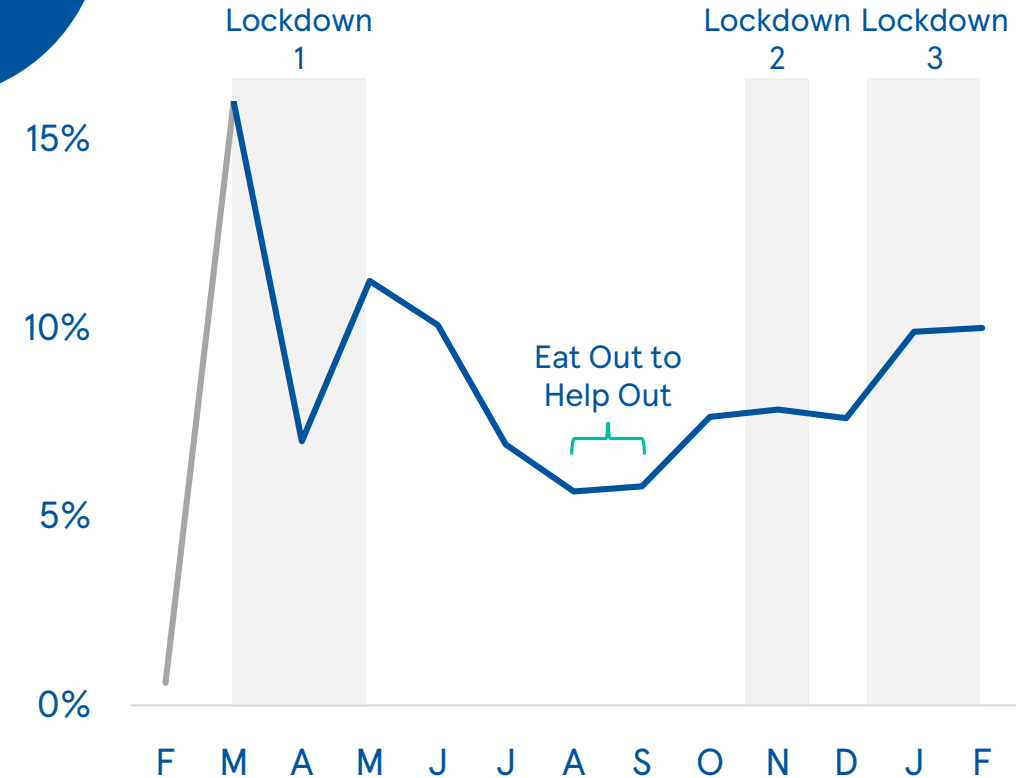
Strong top-line growth

– LFL: +6.8% (H1 +7.2%, H2 +6.5%)

Ongoing, sustained benefit of shift from ‘out-of-home’ consumption in food

Major shifts in buying patterns, including strong online growth

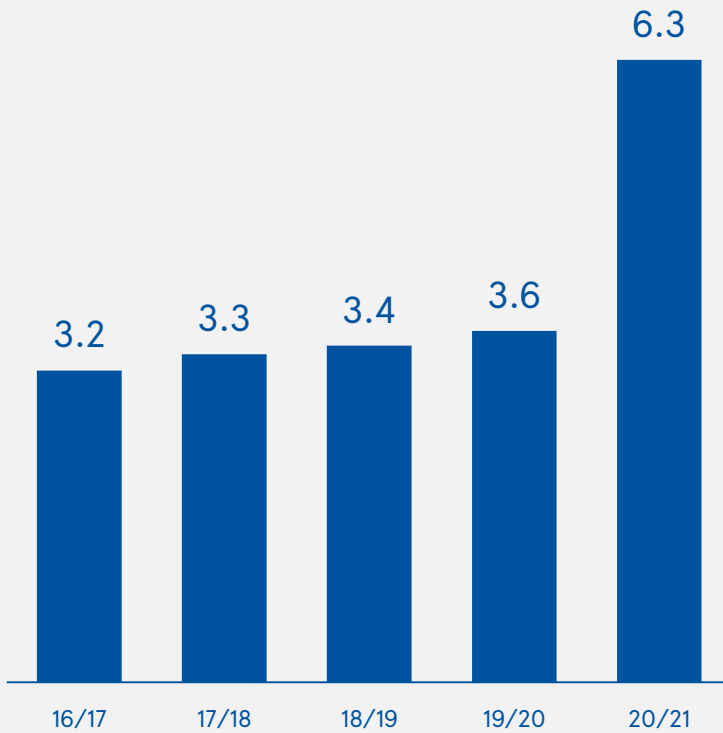
UK Food sales growth¹



1. UK retail business only.

Online growth.

Sales up 77%



Significant increase in scale

£6.3bn

Total online sales¹

+£2.8bn

Online sales YoY

Largest quantum growth²

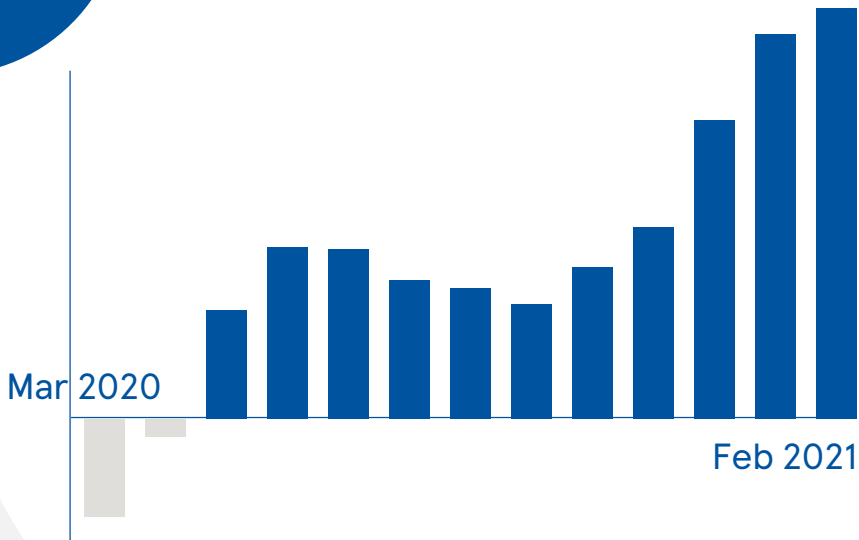


1. Online sales shown inc. VAT.

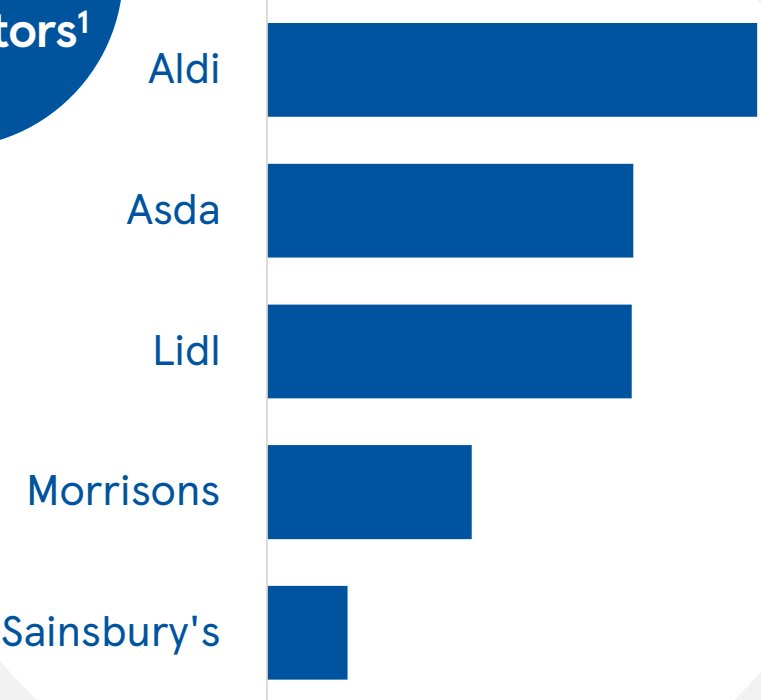
2. Source: Kantar - share of market growth for 12 weeks ending 21 Feb 2021.

Market outperformance.

Switching gains¹



Gaining from all key competitors¹



1. Source: Kantar. Net switching gains from competitors refers to 12 w/e data to 21 February 2021.

Strong retail sales growth



Catering performance correlated to COVID-19 restrictions



Additional sales contribution from Best Food Logistics

£0.7bn
Sales

UK & ROI.

Repayment of £(535)m business rates relief included in operating profit before exceptional items

Operating profit growth significantly impacted by the COVID-19 pandemic:

- £(892)m direct UK COVID-19 costs
- Increased contribution from retail sales
- Decline in Booker catering sales

	FY 20/21
Operating profit¹	£1,866m
change at actual rates %	(13.5)%
change at constant rates %	(13.7)%
Margin (%)	3.5%

1. Operating profit before exceptional items and amortisation of acquired intangibles.

Central Europe.

LFL (0.4)%; Food LFL +0.3%

Changes to customer shopping behaviour different to UK & ROI:

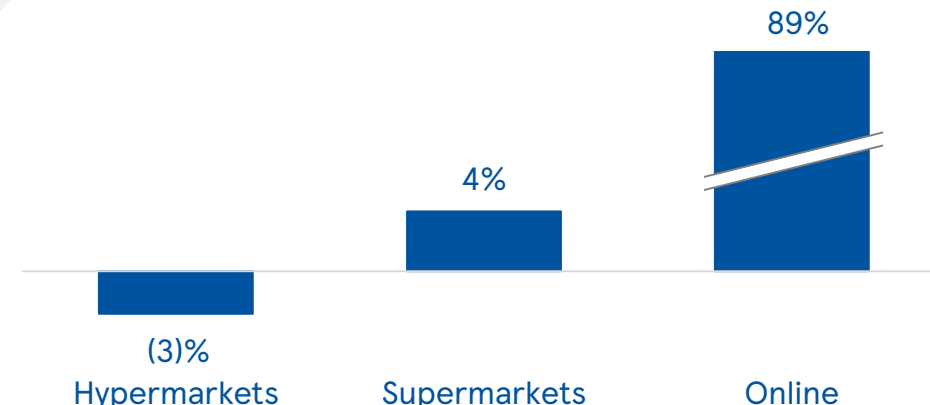
- Hypermarkets and non-food trading restrictions
- Smaller 'out of home' market

Trading regulations continue to be challenging

Profit performance held back by:

- COVID-19 costs
- Hungarian sales tax

Year-on-year sales performance¹



Operating profit²

	FY 20/21
Operating profit ²	£124m
change at actual rates %	(29.5)%
change at constant rates %	(29.0)%
Margin (%)	3.1%

1. Sales exclude VAT and fuel. Sales change shown on a comparable days basis.

2. Operating profit before exceptional items and amortisation of acquired intangibles.



Asia.

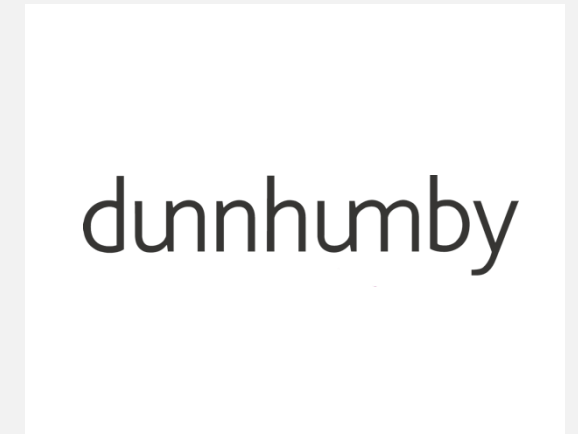
£8.2bn sale completed in December 2020

£5.0bn returned to shareholders in February

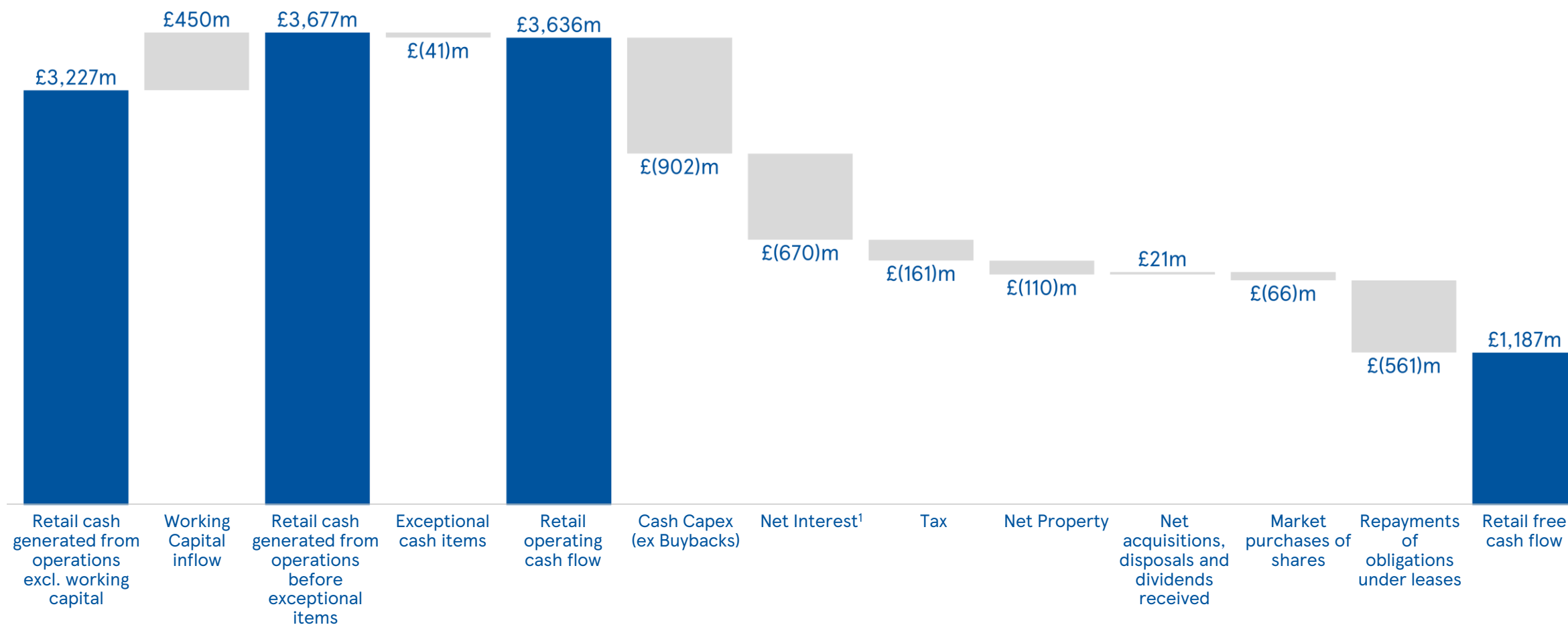
£2.5bn payment to pension scheme, freeing up c.£260m future annual cashflows

Value created through efforts of 50,000 colleagues over two decades

The Tesco Group.

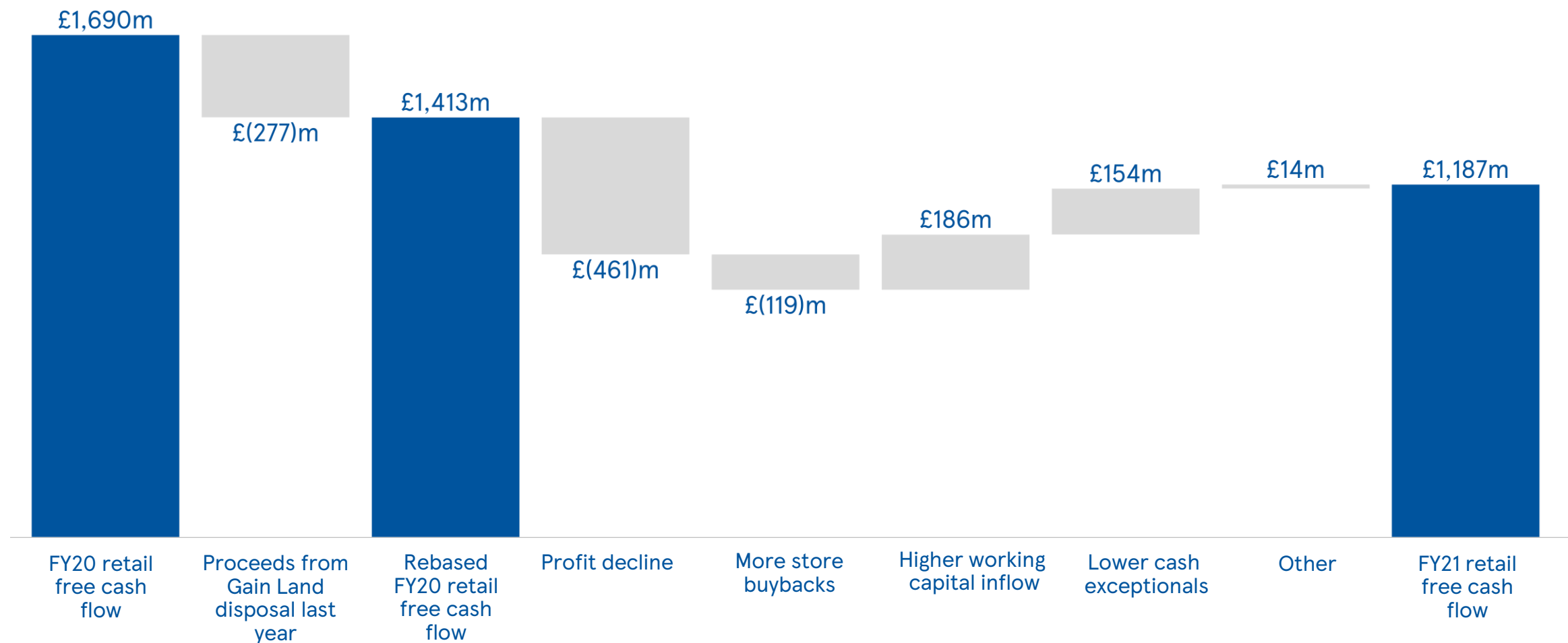


Sources and uses of cash.



1. Net interest paid of £(670)m includes £(444)m of interest related to finance lease obligations.

Retail free cash flow year-on-year.



Total indebtedness.

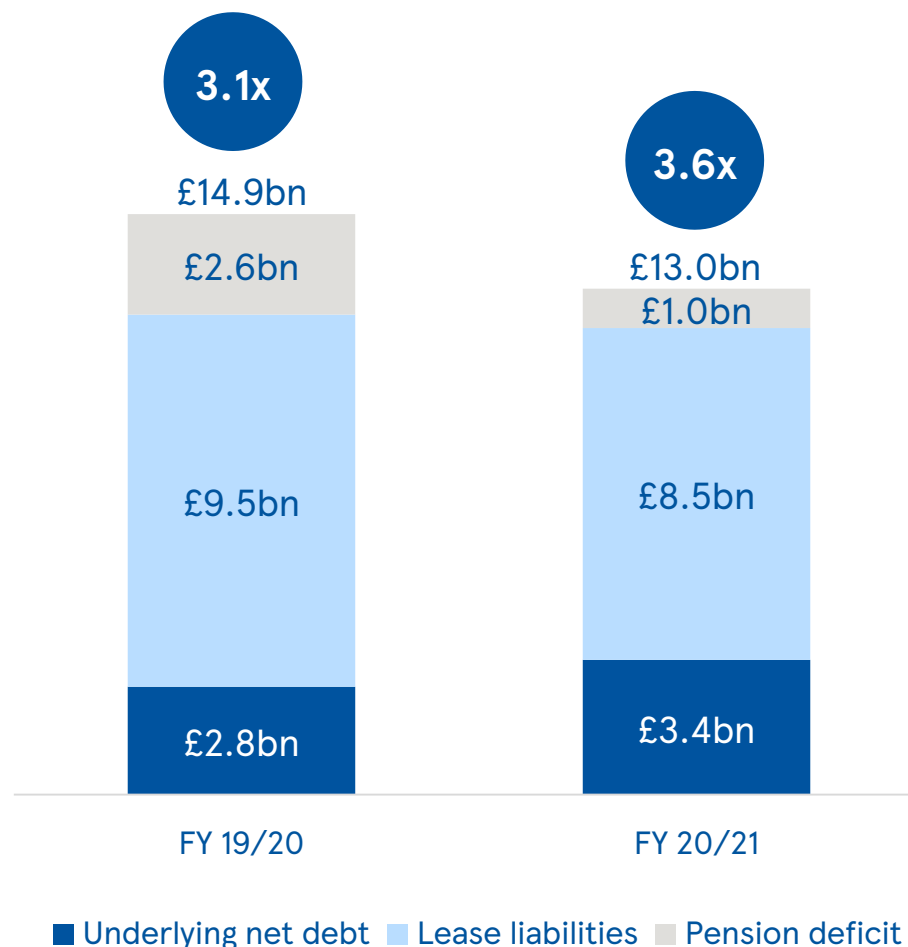
Total indebtedness £13.0bn, down £1.9bn

- Driven by £2.5bn one-off pension contribution

Total indebtedness ratio 3.6x from 3.1x last year due to:

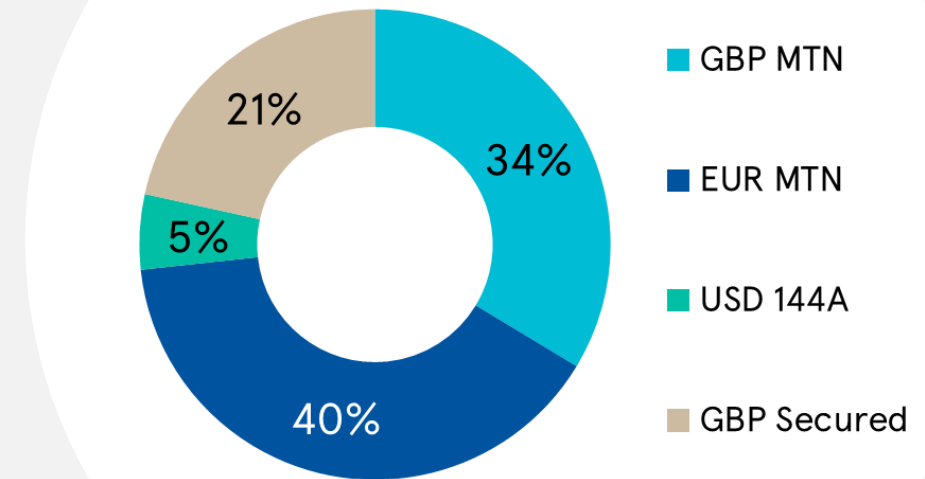
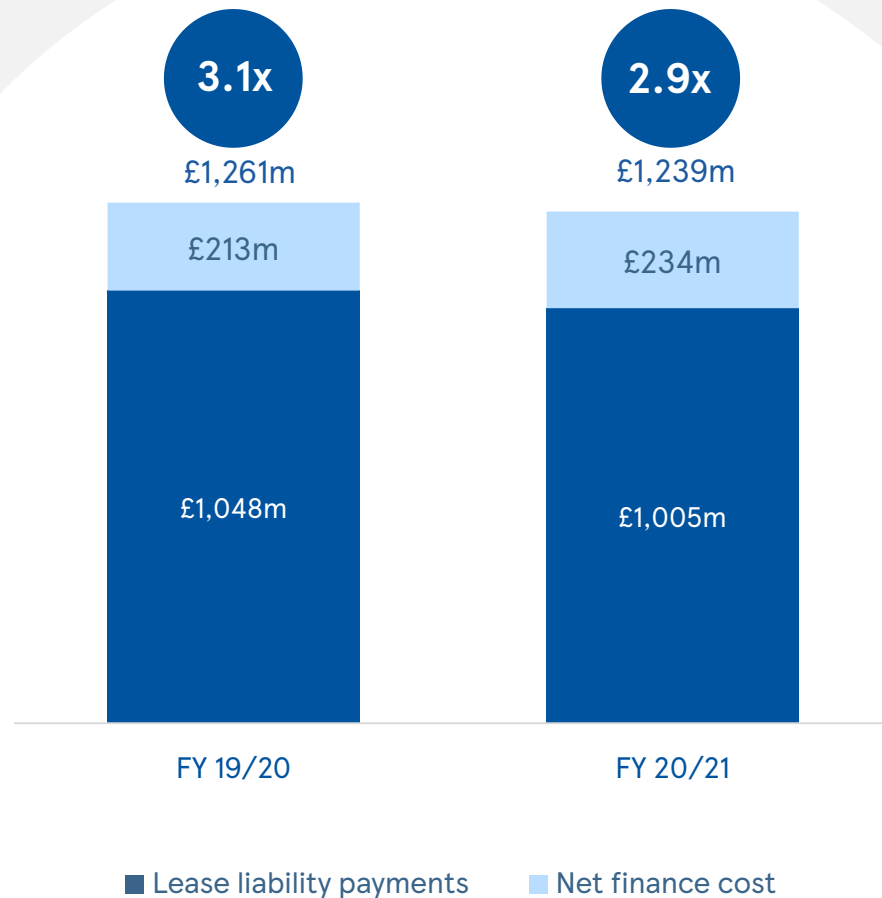
- COVID-19 impact on retail EBITDA
- Increase in underlying IAS19 pension deficit, no cash impact

Remain committed to maintaining a strong balance sheet



1. Total indebtedness post-IFRS 16 comprises net debt (inc. lease liabilities) plus the IAS 19 deficit in the pension schemes (net of tax) for both continuing and discontinuing operations.
2. FY21 total indebtedness includes £141m relating to Poland; £7m underlying net debt and £134m lease liabilities.
3. Underlying net debt increase is driven by acquisition of The Tesco Property (No.2) Limited Partnership.

Fixed Charge Cover & Debt Mix.



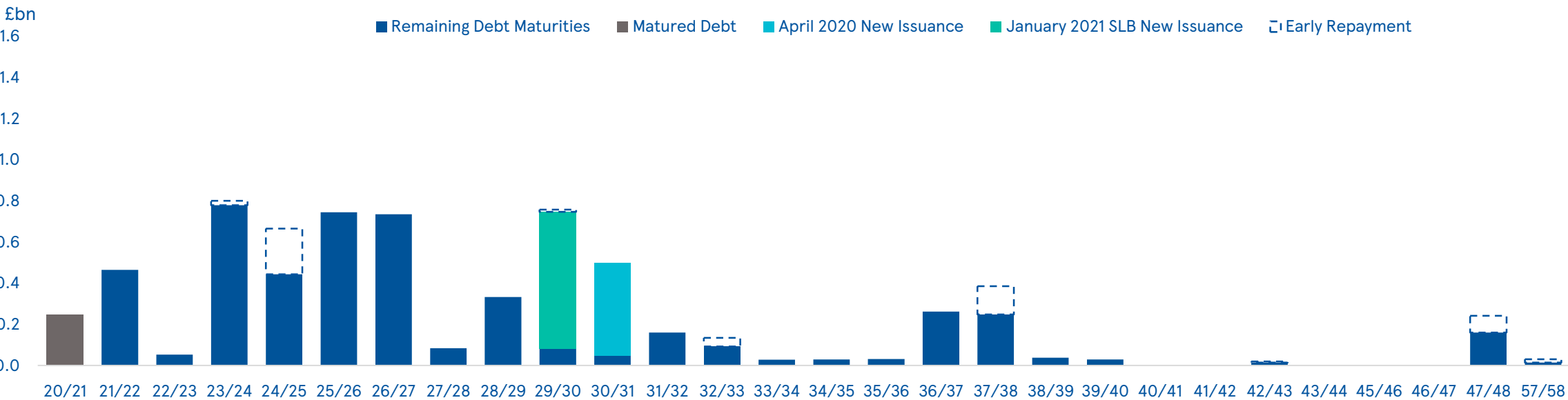
1. Fixed Charge comprises net finance cost excluding net pension finance cost, exceptional items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities plus retail total lease liability payments. FY 19/20 and FY 20/21 Fixed Charge is reported on a continuing operations basis.

Liquidity and debt profile.

Actions taken in the year:

- New issuance of GBP 450m 10-year Bond (2.750%) & EUR 750m 8.5 year Sustainability Linked Bond (0.375%)
- Early repayment of £0.5bn of outstanding debt through tender offers
- Committed facilities refinanced at £2.5bn for three years including a sustainability link

Significant cash liquidity of £2.1bn¹



1. Cash and cash equivalents plus short term investments less reported overdraft (figure excludes Tesco Bank and discontinued operations).



Integrating sustainability.

Sustainability-linked committed facility

Interest linked to:

- 1 Carbon emissions
- 2 Renewable energy
- 3 Food waste

Sustainability-linked bond

First for a retailer

€750m

Coupon of 0.375%

8.5 year maturity

Enhanced TCFD

Embedded in strategic business decision making

New quantitative assessment

Expanded reporting

Sustainability – integral to commercial strategy.



Healthier foods

50bn calories removed since 2018

New commitment to increase sales of healthy¹ products to 65% by 2025

Working together

TESCO



Plant-based ranges

Now over 350 plant-based meat alternatives

Commitment to increase sales by 300% by 2025



WWF

Long term goal of halving environmental impact of average shopping basket

11% of the way towards target

1. Tesco tracks the healthiness of its products and ranges using the Tesco Health Score, which is a measure based on the UK Government's nutrient profiling model.

TESCO

Sustainability – Net zero.



Leading
reduction of
food waste



Packaging:
4 R's strategy



Home delivery
fleet fully
electric by 2028



Energy efficiency
– continuous
improvement



Summary.

Well positioned to build on momentum

Expect strong recovery in profit and free cash flow in 2021/22

Significant economic and consumer uncertainties remain

We are a highly cash generative business

Remain committed to a strong balance sheet

Integrated approach to sustainability

Imran Nawaz to start on 1 May 2021

Q&A.



Appendix.



Credit Ratings.

Agency	Long Term Rating	Short Term Rating	Outlook
Fitch	BBB-	F3	Stable
Moody's	Baa3	P-3	Stable
S&P	BBB-	A-3	Stable

Moody's (March 2021)

“Tesco’s Baa3 rating reflects the company scale, in particular as the market leader in the UK, with the number one position in the online grocery and convenience store segments.”

UK COVID-19 costs.

	1H	2H	Full Year
12 weeks pay for vulnerable colleagues incl. pregnancy	£(60)m	£(19)m	£(79)m
Colleague absence / backfill / additional colleagues	£(153)m	£(137)m	£(290)m
Front line colleague bonuses	£(78)m	£(95)m	£(173)m
Safety consumables ¹	£(35)m	£(23)m	£(58)m
Additional distribution costs	£(23)m	£(7)m	£(30)m
Property	£(57)m	£(37)m	£(94)m
Other costs	£(127)m	£(41)m	£(168)m
Total UK incremental costs	£(533)m	£(359)m	£(892)m

1. Safety consumables includes costs for masks, hand sanitiser, wipes and additional use of carrier bags in online operations.

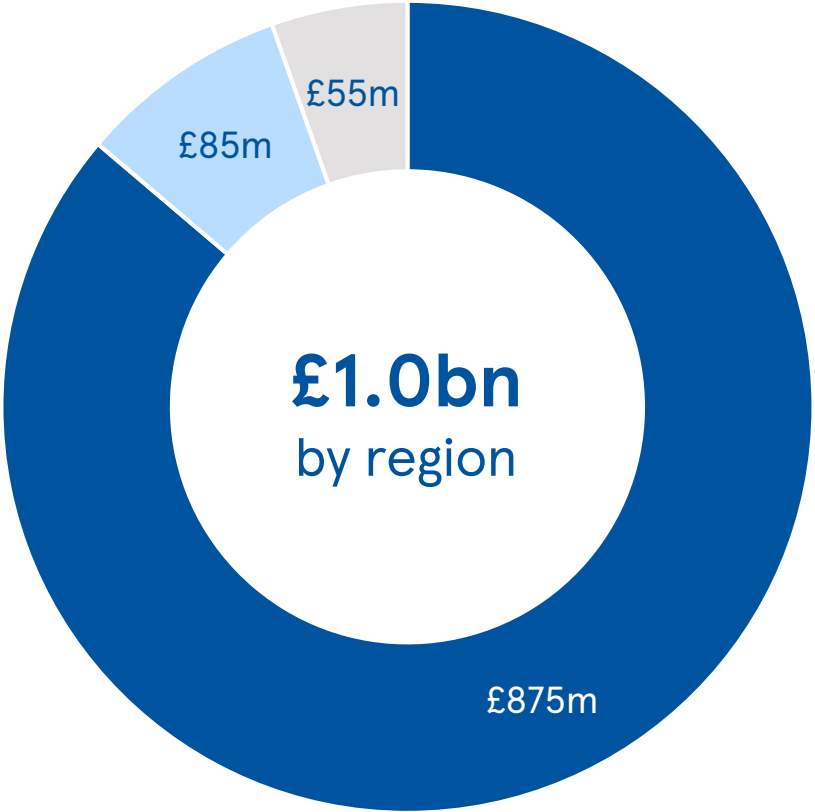
Segmental performance.

	UK & ROI	Central Europe	Total Retail	Tesco Bank	Group
Sales¹	£48,848m	£3,862m	£52,710m	£735m	£53,445m
<i>change at constant exchange rates %</i>	8.6%	(0.6)%	7.9%	(31.2)%	7.0%
Operating profit²	£1,866m	£124m	£1,990m	£(175)m	£1,815m
<i>change at constant exchange rates %</i>	(13.7)%	(29.0)%	(14.8)%	n/m	(28.3)%
Margin (%)	3.5%	3.1%	3.5%	n/m	3.1%

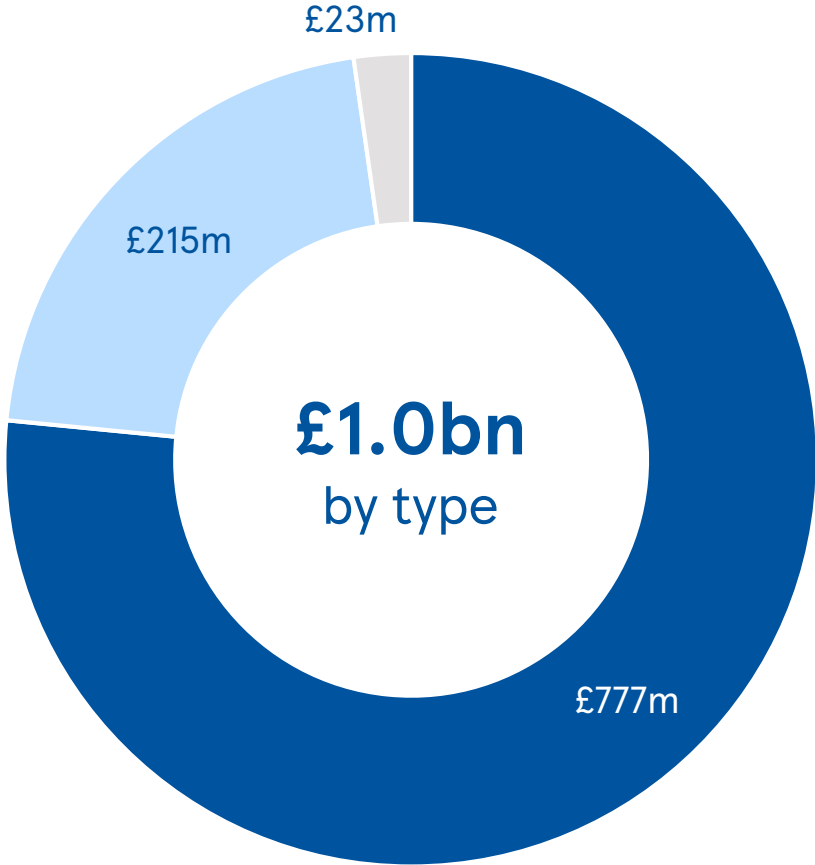
1. Sales exclude VAT and fuel. Sales change shown on a comparable days basis for Central Europe.

2. Operating profit before exceptional items and amortisation of acquired intangibles.

Capital expenditure – FY21.



■ UK & ROI ■ CE ■ Bank



■ Maintenance/ refresh ■ IT/ productivity ■ New space/ business

Exceptional items – FY21.

On a continuing operations basis

	FY 20/21	FY 19/20 ¹
Impairment charge on Tesco Bank goodwill	£(295)m	-
Net impairment reversal of non-current assets	£156m	£64m
Acquisition of property joint venture	£134m	£(136)m
UK – ATM business rates	£105m	-
Litigation costs	£(93)m	-
Property transactions	£26m	£22m
Booker integration costs	£(25)m	£(23)m
GMP Equalisation	£(7)m	-
Employee share scheme	£(4)m	-
Net restructuring and redundancy costs	-	£(64)m
Closure of Tesco Bank current accounts to new customers	-	£(56)m
Impairment of investment in India joint venture	-	£(47)m
Provision for customer redress	-	£(45)m
Disposal of Gain Land associate	-	£37m
Tesco Bank mortgage book disposal	-	£(5)m
Total exceptional items in statutory operating profit	£(3)m	£(253)m

1. 19/20 is presented on a 52 week basis

Disclaimer.

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