Debt Investor Update 2021/22.

Imran Nawaz, Chief Financial Officer
Lynda Heywood, Group Treasurer

13 April 2022

Ukraine - Supporting those affected by the crisis.


An extraordinary year.



Supporting customers & colleagues through the pandemic	Navigating significant industry disruption	Improved competitive position despite inflationary pressures
Prioritised safety and well-being throughout	Leveraged supplier partnerships & supply chain capability	Consistent, compelling value proposition; perception strengthening vs rest of big 4
Supported absent & isolating colleagues	960 HGV drivers added via recruitment, conversion courses and apprenticeships	Quality perception +11bps vs market (32)bps[1]
Online capacity maintained at 1.2m orders per week; app users +71%	Significantly increased rail freight, including new UK refrigerated service	Accelerating Brand NPS outperformance
Donated 53m meals via food redistribution; 3m through 'Buy One to Help a Child'	Maintained industry-leading availability	Value and volume market share growth

1. YouGov Quality perception on a 12 week rolling basis to 27 February 2022. 'Market' consists of Sainsbury's, Morrisons, Asda, Aldi, Lidl, Waitrose, M&S, Co-op & Iceland.

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Group performance.

Sales[1]	Group profit[2]	Retail free cash flow[3]
+3.0%	£2,825m	£2,277m
+10.2% vs. 19/20	+58.9% vs. last year	+£0.9bn vs. last year

Net debt	EPS[4]	Dividend
down £1.4bn	21.86p	10.90p
	+88.8% vs. last year	+19.1% vs. last year

1. Sales exclude VAT and fuel. Sales change shown at constant rates.
2. Operating profit before adjusting items. Change shown at constant rates.
3. Our Retail free cash flow APM is consistent with the amendment made in the Interim results, to provide a more consistent and predictable view of free cash flow generated by the core retail operation.
4. The share base used in Adjusted diluted EPS in the prior year is adjusted to capture the full impact of the share consolidation which followed the sale of our businesses in Thailand and Malaysia, as if it took place at the start of the 2020/21 financial year. As such, Adjusted diluted EPS (adjusted for share consolidation) is presented on a basis other than in accordance with IAS 33.

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Segmental performance.

	Sales	Change at constant rates	1-year LFL	2-year LFL[1]
UK & ROI	£49,984m	2.6%	2.2%	8.8%
Central Europe	£3,862m	3.7%	2.9%	2.5%
Total Retail	**£53,846m**	**2.7%**	**2.3%**	**8.3%**
Bank	£922m	25.4%	-	-
Group	**£54,768m**	**3.0%**	**2.3%**	**8.3%**

	Adjusted operating profit[2]	Change at constant rates	Margin
UK & ROI	£2,481m	35.4%	4.4%
Central Europe	£168m	41.1%	4.2%
Total Retail	**£2,649m**	**35.8%**	**4.4%**
Bank	£176m	n/m	19.1%
Group	**£2,825m**	**58.9%**	**4.6%**

1. 2-year LFL sales growth is calculated by comparing current year sales to sales in 2019/20 and includes sales from those stores which were trading in both years.
2. Operating profit before adjusting items.

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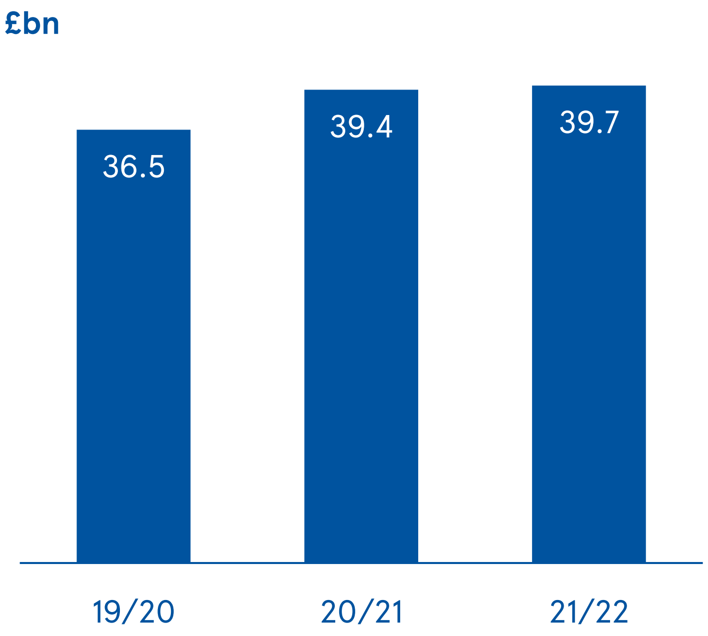
UK & ROI sales.

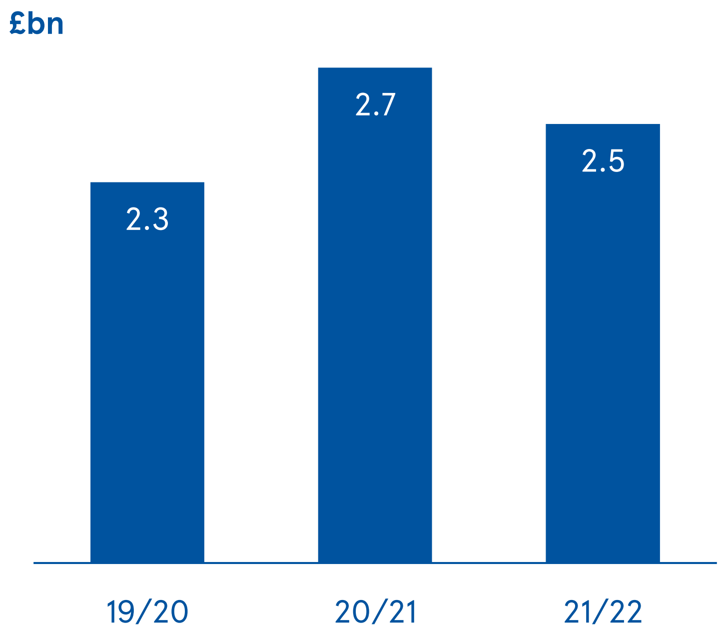
UK[1]

FY LFL:
1-yr 0.4.%
2-yr 8.2%



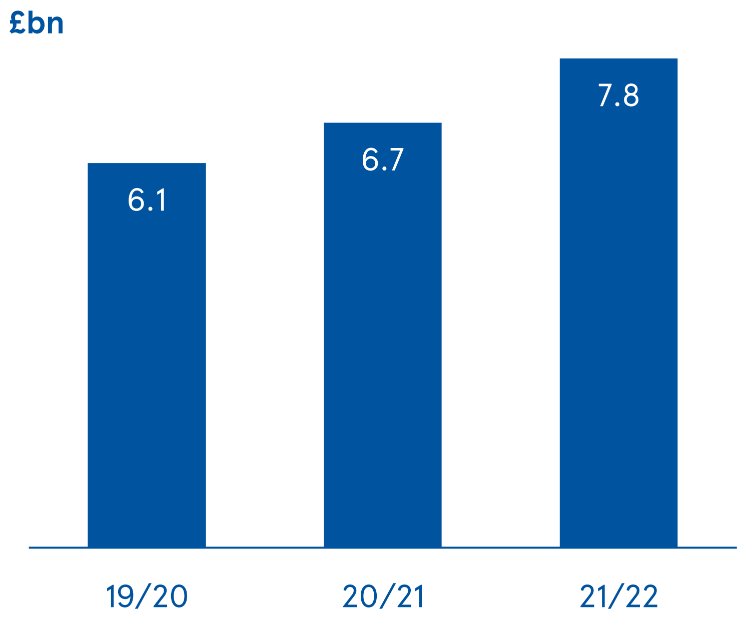
ROI

FY LFL:
1-yr (2.9)%
2-yr 10.6%



Booker

FY LFL:
1-yr 15.3%
2-yr 11.9%



1. UK includes Tesco UK retail business, One Stop and dunnhumby.

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Central Europe.

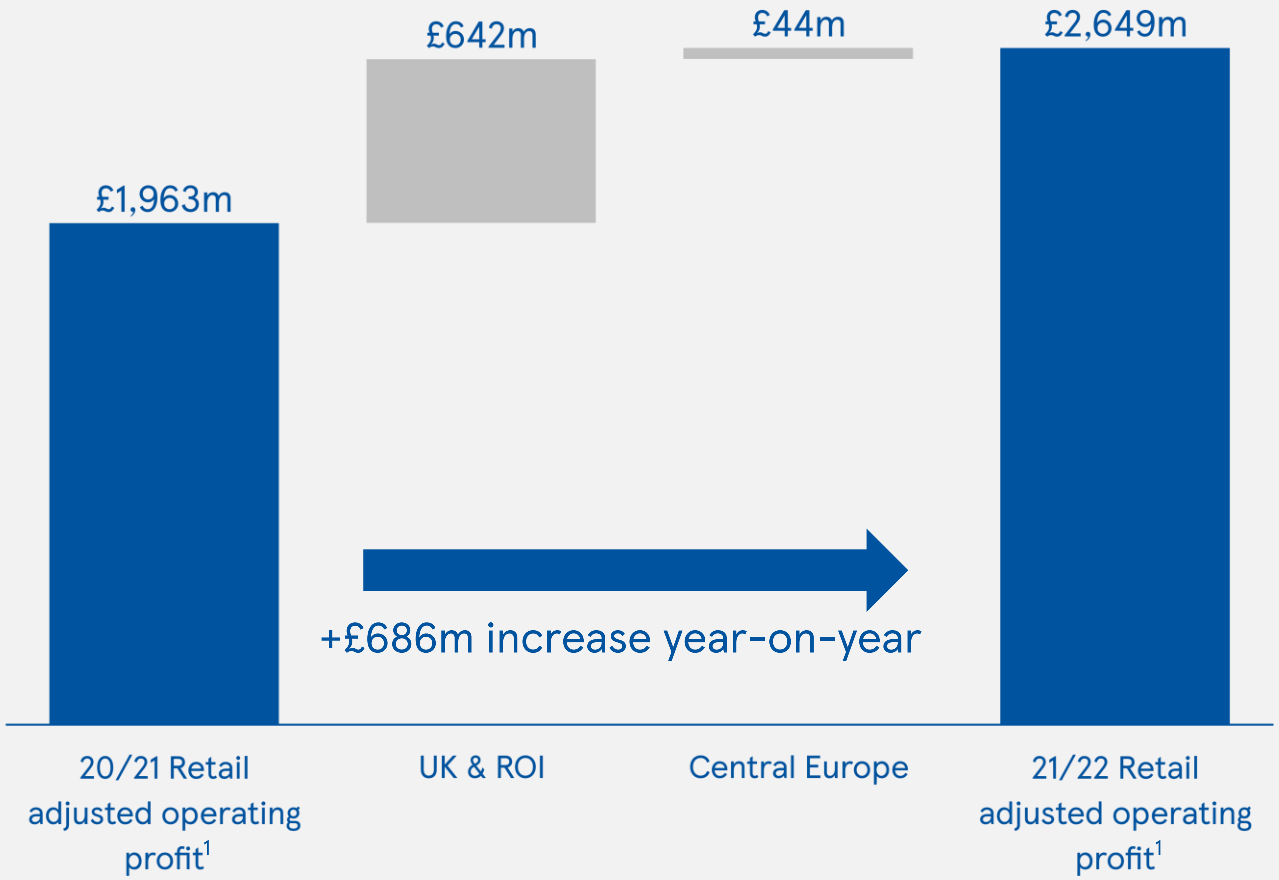
Growth in all channels and categories on a one-year and two-year basis

Non-food trading restrictions and reduced store opening hours last year

Strong contribution from non-food as customers returned to Large stores

		1-year LFL	2-year LFL
	Total	**2.9%**	**2.5%**
Channel	Stores	2.9%	1.1%
Channel	Online	5.4%	100.2%
Category	Food	1.0%	1.4%
Category	GM	9.8%	12.1%
Category	Clothing	19.5%	10.6%

Retail operating profit.



	UK & ROI	CE	Retail
Adjusted operating profit[1]	£2,481m	£168m	**£2,649m**
Year-on-year	£642m	£44m	**£686m**
Change %[2]	35.4%	41.1%	**35.8%**
Margin (%)	4.4%	4.2%	**4.4%**

1. Operating profit before adjusting items.
2. Percentage change shown at constant rates.

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Statutory profit after tax.

	FY 21/22	FY 20/21	Change %	
Adjusted operating profit	**£2,825m**	**£1,788m**	**58.9%**	
Adjusting items	£(265)m	£(241)m		This year's number includes £(193)m of historical shareholder litigation claims
Net finance costs	£(542)m	£(937)m		
Net finance costs before FV remeasurements	*£(665)m*	*£(723)m*		Lower net pension finance costs and lower interest charge on lease liabilities
FV remeasurements	*£123m*	*£(214)m*		Fair value remeasurement gains related to the mark-to-market movement on inflation linked swaps
Joint ventures and associates	£15m	£26m		YoY change driven by acquisition of partner's stake in Tesco Underwriting in May 2021
Group tax	£(510)m	£(104)m		Reflects higher levels of retail operating profit as well as a return to profit at Tesco Bank
Statutory profit after tax	**£1,523m**	**£532m**	**186.3%**	

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Retail free cash flow.

	FY 21/22	FY 20/21	YoY	
Retail cash generated from operations exc. working capital	**£4,268m**	**£3,227m**	**£1,041m**	Increase driven by higher sales, lower COVID-19 costs & benefit from one-off pension contribution in prior year
Decrease in working capital	£501m	£450m	£51m	Sharp recovery in fuel volumes & Booker's catering business in 1H
Retail operating cash flow	**£4,769m**	**£3,677m**	**£1,092m**	
Cash capex (exc. buybacks)	£(1,050)m	£(902)m	£(148)m	Increase due to more store openings and online expansion
Net interest	£(641)m	£(670)m	£29m	
Tax paid	£(195)m	£(161)m	£(34)m	Ongoing benefit from one-off pension contribution LY, super-deduction on capital investments & utilisation of prior year losses
Dividends	£109m	£23m	£86m	
Own shares purchased for share schemes	£(144)m	£(66)m	£(78)m	
Repayments of obligations under leases	£(571)m	£(561)m	£(10)m	
Retail free cash flow	**£2,277m**	**£1,340m**	**£937m**	

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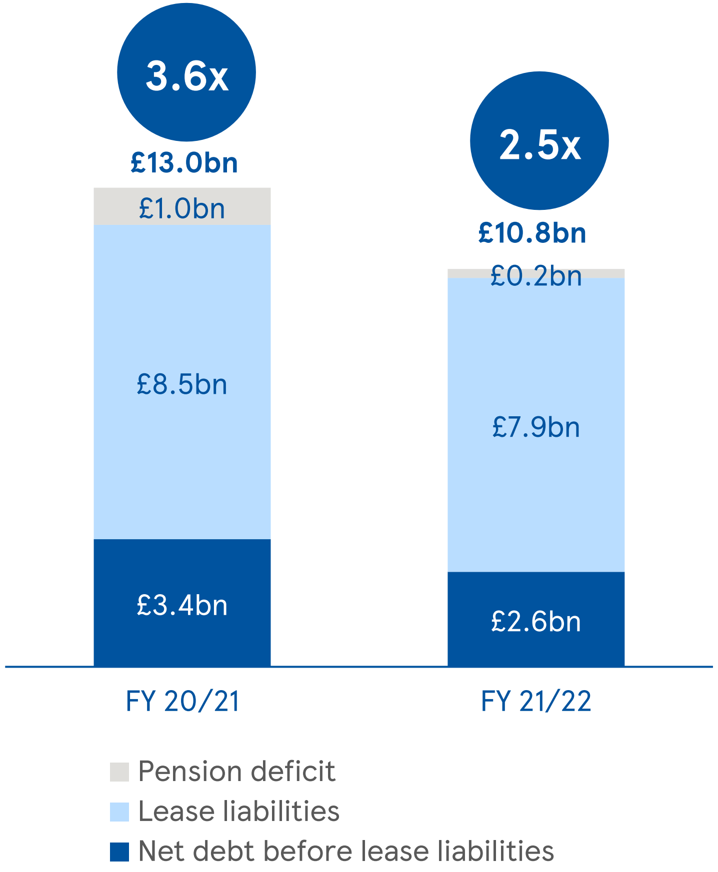
Other cash items.

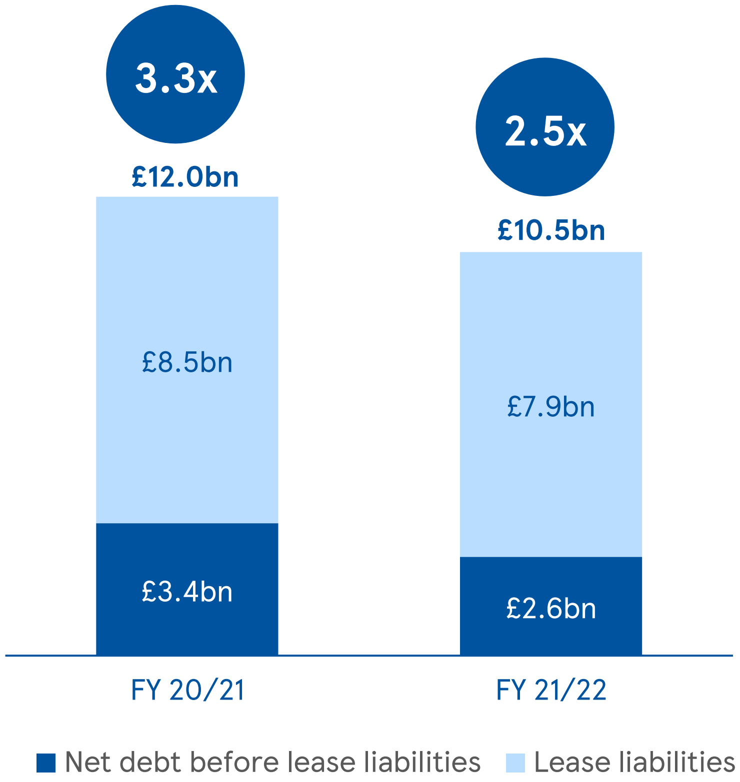
	FY 21/22	FY 20/21	
Retail free cash flow (FCF)	**£2,277m**	**£1,340m**	
Acquisitions & disposals	£122m	£(2)m	Proceeds from sale of Polish business to Salling Group A/S
Property proceeds & purchases	£228m	£(110)m	Includes disposal of Fenny Lock distribution centre in UK and retained Poland properties
Cash impact of adjusting items	£(316)m	£(41)m	Includes historical shareholder litigation settlements
Retail FCF after acquisitions, property & adjusting items	**£2,311m**	**£1,187m**	

Balance sheet metrics.

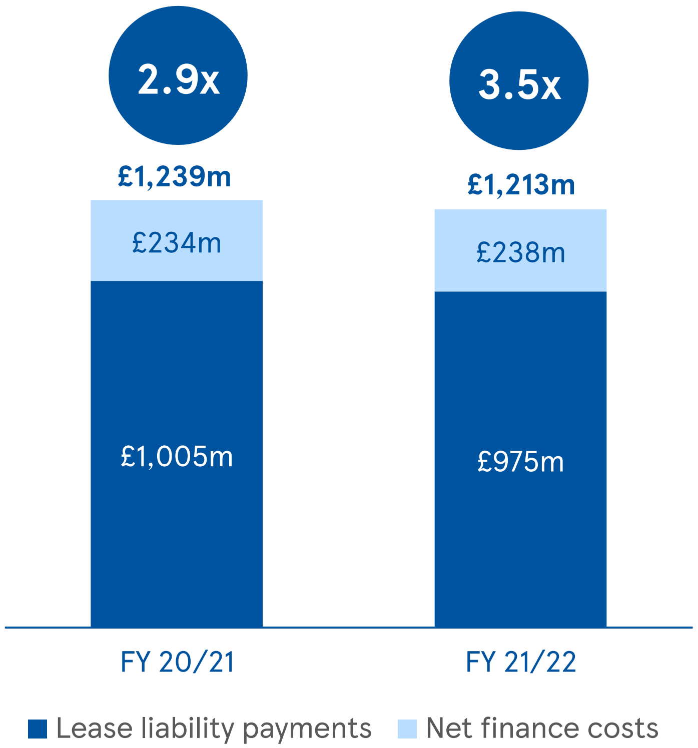
Total indebtedness[1]



Net debt[2]



Fixed charge cover[3]



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 discontinued operations.
2. Net debt is inclusive of IFRS 16 lease obligations.
3. Fixed charge comprises net finance costs excluding net pension finance cost, adjusting items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities plus retail total lease liability payments.

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Debt and liquidity.

Debt maturity profile

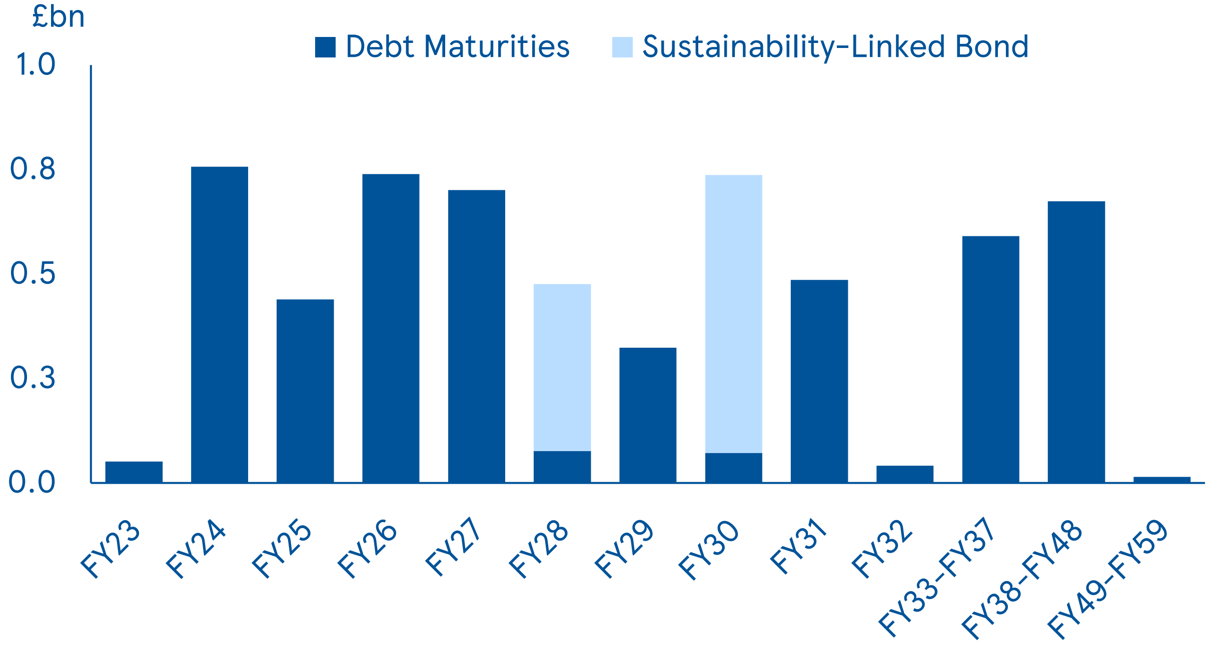
Smooth debt maturity profile

- Less than £1bn maturing in any year
- Weighted average maturity of c.7 years

Weighted average interest cost of 3.3%

Strong liquidity position

- £3.0bn cash[1]
- £2.5bn of undrawn committed facilities



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

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Sustainability Linked Financing.

Revolving Credit Facility

September 2020

Sustainability Linked Bonds

January 2021 & November 2021

Supply Chain Finance

April 2021

Our strategic priorities.

Magnetic value for customers

Re-defining value to become the customer's favourite

I love my Tesco Clubcard

Creating a competitive advantage through powerful digital capability

Easily the most convenient

Serving customers wherever, whenever and however they want to be served

Save to invest

Simplify, become more productive & reduce costs

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Market environment.

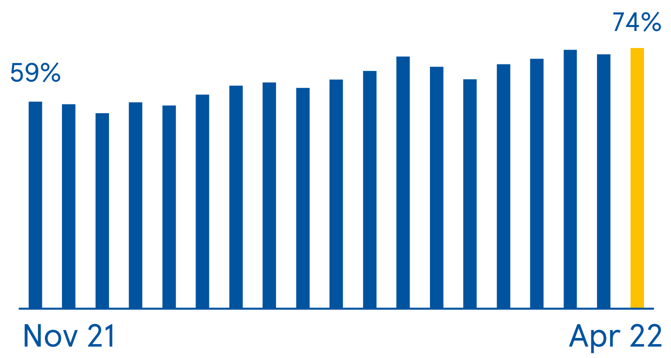
Biggest cost of living increases in 30 years

Significant increase in household energy costs

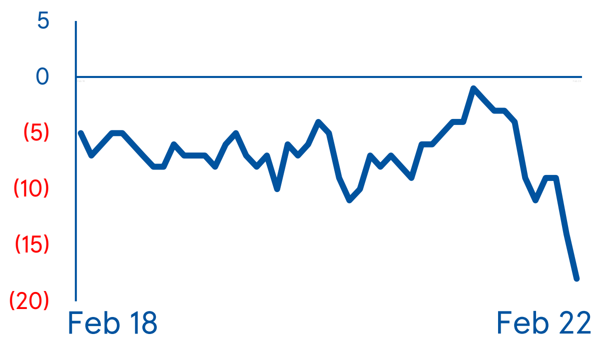
Post COVID-19 normalisation uncertainty

Impact of war in Ukraine adding to sourcing pressures for suppliers

Concerns about inflation[1]



IGD Shopper Confidence Index[2]



1. Kokoro: The Score Survey and Qualitative Interviews from 26 Nov 2021 to 1 April 2022, 2,025 respondents.
2. IGD Shopper Vista data to 1 February 2022.

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Championing great value for customers.

1. Continue to ensure price does not become a reason to shop elsewhere

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2. A brilliant offer for customers choosing to trade down from Eating out to Eating in

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3. Be there for customers as their needs change – e.g. staycations

FY 22/23 Outlook.

Retail adjusted operating profit: c.£2.4bn to £2.6bn

Bank adjusted operating profit of c.£120m to £160m

Strong retail free cash performance within our £1.4bn to £1.8bn range

Commitment to buy back £750m by no later than April 2023

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Summary.

Strong performance in an extraordinary year

Most competitive positioning for many years

Unwavering commitment to value

Creating long-term value for all of our stakeholders

Firmly committed to returning capital

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

Fitch (February 2022)

"Tesco's [rating] of 'BBB-' reflects its position as a leading European food retailer, characterised by a strong market position in its core highly competitive UK market."

Capital allocation.

Principles		Parameters
1	Reinvest in business and customer offer	=> Capex within range of £0.9bn to £1.2bn per year
2	Maintain a solid investment grade balance sheet	=> Target/maintain leverage at c.2.8-2.3 times Net debt[1]/EBITDA
3	Pay a progressive dividend	=> Target a pay-out ratio of c.50% of earnings
4	Consider inorganic growth opportunities that may arise	=> Include property buybacks where economically viable
5	Return surplus cash to shareholders	=> Likely to be in the form of share buybacks

1. Net debt is inclusive of IFRS 16 lease obligations.

FY 22/23 Guidance.

Retail profit[1]	c.£2.4bn to £2.6bn
Bank profit[1]	c.£120m to £160m
Retail free cash flow	Within our £1.4bn to £1.8bn range
Capex	At top end of guidance range of c.£0.9bn-£1.2bn per annum
Net finance costs	c.3.5% of long-term debt p.a.
Leverage ratio	Targeting c.2.8 – 2.3 times Net debt[2]/EBITDA
Tax	Effective tax rate 21% - 22% for FY 22/23; around 26% from FY 23/24
Dividend	Progressive (broadly targeting c.50% of earnings) Interim dividend 35% of prior year full year dividend
Share buyback	Ongoing programme: £750m to be repurchased by April 2023 Cumulative £1.05bn repurchased since the start of the programme

1. Retail adjusted operating profit and Bank adjusted operating profit.
2. Net debt is inclusive of IFRS 16 lease obligations.

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Multi-year performance framework.

Drive top-line growth, underpinned by:

- Increasing customer satisfaction relative to the market
- Growing or at least maintaining our core UK market share

Grow absolute profits whilst maintaining sector-leading margins through:

- Leveraging our assets efficiently across all channels
- Accessing new revenue streams across our digital platform
- Targeting productivity initiatives to at least offset inflation

In doing so, generate between £1.4bn and £1.8bn retail free cash flow per year

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