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Operator: Good morning and welcome to the Tesco PLC Q1 trading statement. Throughout the call all participants will be in a listen-only mode, and afterwards there will be a question and answer session. Just to remind you, the conference call is being recorded. Today I'm pleased to present Dave Lewis, CEO. Please begin your meeting.

Dave Lewis: Good morning everybody and thank you for joining Alan and myself on the call. We believe today's results represent another step in the right direction for Tesco. As you will have seen, our like for like sales performance in the UK has improved again; moving from a decline of 1.7% in the fourth quarter to a decline 1.3% in Q1. Our international business has also delivered an improved performance in what are still quite challenging conditions. Continued positive like for like growth in Central Europe and Turkey, and similarly signs of modest improvement in Asia. More broadly, we continue to focus our efforts around the three priorities we set out in October; we're gaining competitiveness in the UK, protecting and strengthening the balance sheet, and rebuilding trust and transparency in our brands and our business.

To regain competitiveness in the UK we've continued to work to fix the fundamentals of the shopping trip, focusing on the crucial areas of service, availability and price, and I'm pleased to say that customers are noticing the difference. On service, we streamlined our store management teams and significantly simplified our KPIs, ensuring that there are more of our colleagues spending more of their time serving customers.

On price, we've now completed four waves of price reductions, starting with those we made on branded products in January. We've rolled out similar reductions on more than 300 additional products across the quarter, from meat, fish, poultry and eggs, to butter, and sugar and bread. Our range reviews are progressing well, enabling us to simplify our offer, further reduce prices and increase availability. We've now completed initial range reviews in 15 categories, reducing the number of lines by up to 20.0%, while still retaining a market-leading level of choice. The steps we've taken so far have resulted in record high levels of availability in store and online, and we're seeing continued improvement in customer ratings for service and colleague helpfulness. In addition, I was pleased to see that customers recognised the improvements we are making by voting Tesco 'Britain's Favourite Supermarket' at the Grocer Gold Awards two weeks ago. This is the first time we've won the award in five years and it's a great testament to the hard work of colleagues across the UK.

When we spoke at the full year, I talked about the positive sign that volumes were growing again in our business for the first time in years; in other words, more people were buying more things at Tesco, an important first step in our recovery. I'm pleased to say that the momentum we saw in the fourth quarter has continued into the first; on a like-for-like basis volumes are up 1.4% and we've seen 180,000 more customers shopping with us, with transactions up 1.3%. A particular note and area of focus for us is the fact that our fresh food volumes are outperforming the market by some 3.0%. I've spoken before about how this would be a volume-led recovery but we needed to get the engine running again to realise the benefits of our operating model, so these are positive early signs.

On our second priority, protecting and strengthening the balance sheet, I know there has been a lot of speculation. We are focused on improving trading, improving cash generation and being very disciplined with capital. We are clear about what it is we want to do and we're happy with the progress that we're making. When we have something more to share we'll share it, but we're not going to get drawn into speculation.

On our third priority, rebuilding trust and transparency, we've continued to take important steps. We've a new team in place delivering our new commercial approach. Following prelims in April, Jason, Robin, their teams and I spoke at the IGD trade briefing, where we talked with over 1500 suppliers about the way we want to work together, with a clear, simple focus on customers. The number of mechanisms we use for generating commercial income will fall from 24 to five, and then three. The changes to our approach will take time, actually around 18 months to flow through all categories as we conduct the range review process. But in my meetings with more than 100 suppliers so far, I've been clear that the focus and the term will be different and they should expect us to see Tesco representing customers again. Also, as you may have also seen this morning, we've taken further steps to simplify our disclosure, aligning the way we report our results to the way we run the business.

So to sum up, we have maintained our momentum for customers whilst reducing costs significantly and changing virtually every aspect of our organisation. There has been no let up in the intensity and the pace of change. We've continued to focus on putting customers at the centre of everything we do, and my colleagues have worked hard to make that happen with incredible energy and determination. The improvements we're making across the shopping experience are helping us to service Britain's shoppers a little better every day, and the volume growth we've seen in Q1 in a positive sign that customers are responding to what it is we're doing.

As I look ahead, the market is still challenging and we expect to see deflation for the foreseeable future. In addition, we will have a certain amount of volatility for at least the next year as we continue to make significant changes to our trading approach. As I said before, we're not expecting a straight line, but I'm pleased that our first quarter results represent another step in the right direction. Thank you. And with that, I'll open it up for questions.

Operator: Thank you. Ladies and gentlemen, if you do wish to ask a question please press the 01 on your telephone keypad. If you wish to withdraw that question you may do so by pressing the 02 to cancel. There will be a brief pause while questions are being registered. And our first question comes from Edouard Aubin from Morgan Stanley, please go ahead.

Edouard Aubin: Yeah, good morning guys. Just two questions from me, one on the industry and one on Tesco. So, just Dave you mentioned that you expect some deflation in the foreseeable future, but some have said that they're seeing in inflection point as a full deflation around April/May, and they expect inflation to come back early 2016. So that inflation back in early 2016 is not the scenario you envisage. And my second question is on Tesco. You mentioned that the product availability has been improving, healthy[?] against like-for-likes. However, some other metrics, some of the KPIs, at least in our own survey, showed some deterioration; for example, private-label quality or customer service. Could you just elaborate on what KPIs you think are improving and where you think you could do, maybe, a bit better?

Dave Lewis: Okay, Edouard good morning. I think on deflation – let's start there – I think, look, the deflation that we see at the moment, depending on which measure you take, is around 2.0% for the market, and in addition to that we've got about a point, point and a half of deflation, which is about us investing in our relative price position. We see that deflation, certainly the element which we will be investing in ourselves, continuing past the period that you've mentioned. And I'm aware that there are different views on what might happen with commodities more broadly, but as we see, and in the vision that we have and where we have some certainly, we continue to have an assumption that there will be deflation in that period, so that's the assumption that we're working to.

When it comes to availability, we talked on analyst calls before about the two measures of availability, be it the .com availability or the sales based evening measure that we put in place at the end of last year. Both of those have improving significantly over the last six months, and we've seen that both in our sales rate, but we've also seen it in the feedback that we're getting in terms of customer response.

And to your point at KPIs, certainly the ones that I'm looking, and we have a very extensive customer viewpoint that we run in stores every day and every week, and we've shared in previous presentations, is that we see, as I said in the call, an improvement in customer service, an improvement in helpfulness of staff, an improvement in price perception. So actually I haven't seen the deterioration in KPIs that you've mentioned, but I will go back and have a look; if you've got something you want to share with me, I'd happily take it.

But in terms in things that I'd like to improve, I've been really clear. You know, we're on a journey as far as price is concerned. I want to get the basics right in terms of availability and service, and then selectively on price. I think we've done that in a very disciplined way; we've done it in four waves through the course of this year. But we're clear that there are other places and other things that we'd like to do, but we're trying to do that in a commercially responsible way and in a way which is sustainable. So still more to do there.

Edouard Aubin: Okay, very clear. Thank you.

Operator: Thank you. Our next question comes from the line of Andrew Gwynn from UBS, please go ahead.

Dave Lewis: Hi Andrew.

Andrew Gwynn: Morning, how are we doing? Yeah, just very quickly, just coming back to your question – oh sorry, your comment before about supplier engagement, I was wondering how you – how long you think it may take for the suppliers to trust you again almost? To what extent can we expect to see that, I suppose, particularly feed through into the margin? And then on the margin, you mentioned at the full year results you expect to recover back to an industry-leading margin. I'm just wondering if you've seen anything over the last quarter – and I appreciate it's obviously a short period of time – that would change your views on that?

Dave Lewis: Okay, I think, look, as I – great questions – as I think I've said a couple of times before, I think it's our behaviour that will build trust. I think if you talk to our suppliers, I think I'm quite confident that they would talk to you about a different mood and a different energy, and a different ethos in terms of how it is they engage with Tesco. But we – you know, that takes a long time to build and we will just continue to invest in ourselves in the way that we engage and behave in those relationships. I've been really pleased; really, really, really pleased with the way that some of our supplier partners have reacted to the invitation to work differently with us, and that's allowed us to get off, in some categories, to a very good start. So I think trust is something you build on behaviour and that takes some time, and we're quite happy to invest our time and build that, because they're long term important relationships for us.

What I said about the margin – what Alan and I have said about the margin, is, you know, it wasn't about this year but it was saying that if you – you know, everyone asked me what they think the industry margin is going to be in two years' time and, you know, unfortunately I don't have a crystal ball to say what it might be; it's open to many, many, many, many factors. I think what we've said is that in the medium term, we see absolutely no reason, once we turn our business around, why Tesco wouldn't be at the top end of industry margins again in the way that we were in the past.

And no, I haven't seen anything that's fundamentally different in the first quarter to change anything that I would be saying about, you know, our margins, our profit expectations for Tesco this year.

Andrew Gwynn: And just, finally, a sort of broader question perhaps, obviously you've got slightly less disclosure around the countries, are there any sort of particular high or lowlights that you would flag? And maybe, actually, I think currency has gone against you a little bit in Asia.

Dave Lewis: Yeah.

Andrew Gwynn: Is that one of the reasons for – I think you've got a comment on the wires about the 1.4, it's a stretch ambition; you talked about that at the full year. But there's maybe that's something to pull out of a result to be aware of.

Dave Lewis: Well if we took – I'll split the two things. I think what we tried to do, you know, Alan and I are on a journey to try and make the reporting externally and internally aligned. So you know we've changed the organisation, so we just want to simplify the reporting at a country level to the way we run the business. If there's something significant at a country level we'll continue to disclose it in the way that we have in the notes of the trading update today. So it's all about simplification rather than anything else.

I think the – you know, you mentioned currency and a total group level, there's an impact. It's not so significant but you get a benefit in one part of the world and a negative in another in terms of how Central Europe is tracking versus how Asia is tracking. But again, we'll share that with you openly.

And to your final point, you know, we said we had an aspiration to get to a level of profit of 1.4 billion for this year, and that needs to be seen in the light of what was the UK profitability in the second half of last year, so that comes from a, you know, base of zero. So we'll build it in a different way, it's still our aspiration, it's by no means easy to think about where we started from in the second half of last year, but if we were to get ourselves in the position where we felt that was – you know, that was to be – we could achieve more, then that would just give me more opportunity to address the further investment in the customer offer that I can see. So, that's where we would want to be.

Andrew Gwynn: Okay, well thanks very much and good luck today.

Dave Lewis: Thank you.

Operator: Thank you. Our next question comes from the line of John Kershaw from Exane BNP Paribas. Please go ahead.

John Kershaw: Yeah, good morning guys.

Dave Lewis: Good morning John.

John Kershaw: Just for me I'd – help us understand a little bit more on the 15 categories that you have repositioned and reviewed. You talked to taking lines down by up to 20%, but can you give us a sense on the volumes you're seeing there and perhaps without being too commercial a sense of what's a net benefit in terms of terms or profitability, because ultimately that's how – the main way[?] with top-line volume, but ultimately that's how you get your profitability back.

Dave Lewis: Yes, indeed. Thank you John. Look, the – first of all, let's talk about the 15 categories where we've done some range reviews. And I know I'm saying this to you, but you just understand it. We've done some range reviews which for us are the more low hanging fruit, there are some category[?] resets that will come later in the year which are a bit more fundamental. But in the ones we've done so far, you know, we've done everything from soft drinks, toys, frozen food, meat, fish, poultry, a lot in fresh, but really they're quite broad ranging. So people have asked me 'is it in just a particular area?' No it's not, it's been about where we've been able to do range reviews as we've done them.

I think the last time we spoke I said that in 11 of those range reviews we were happy with the volume performance in 10 of them. As I now talk about 15, I think we're happy with the volume performance in 13 of them and we're getting the returns that we would want. It depends very much, John, on how it is we've been able to gain with our partners around changing their approach to the category as well so that we can invest some of that money back.

But I suppose what I would say to you because you know it is commercial sensitive, I'm pretty happy – in fact, I'm pretty happy with the way the simplification of range has helped us with availability, has helped us with price, has simplified it and we've had the response with the volume and we've done it in a way which is economically sensible and in lines with the plans that we've set for ourselves.

John Kershaw: And just perhaps expanding a little bit more on that trust and relationship with suppliers, presumably you're not getting all the benefit in year one anyway with these category reviews because you've got to win back that trust and you've got to prove you can earn that front margin. So how much do you think you can compound better?

Dave Lewis: John, you're absolutely right, a) for the reasons that you say, but b) also, you know, we inherited a situation where there are some multiyear deals and things that are already on the table, so we'll take this time to unwind. And that's why I've talked before about it taking 18 to 20 months – 24 months form when we started to be able to change all of the trading position of the business. So we'll work it through, category by category, supplier by supplier, in order to get that right. And we need – as you say, we need to earn that trust, they need to see that we will run our business differently in a way which can give them confidence about the way that we invest.

And I think, look, to your point about compounding, I remain convinced that the economy of scale that we have when we run our business properly and the operational which leverage which is there will allow us to return to business leading margins once we get our business back in that shape. So whether it's 18 or 24 months, that's the model we're trying to pursuit.

John Kershaw: Do you think the competitors that you face will look the same in three years?

Dave Lewis: Ah, John, like everyone, there's – you know, one could speculate for a long time. At the moment, that's really not where my energy is. As a team we're really clear; you know, we look at our business today and we say there are – you know, we've made some progress and we're pleased with that, but there's so much more that we can do. So the focus of myself, Alan, the whole of the team, is all about how we make Tesco much better tomorrow than it is today. We see a lot of things that we can do to do that. Will it make us more competitive in the future? Yes, we think it is. What the makeup of the competition will be, you know, let's wait and see. But all I'm going to focus on is making Tesco the most competitive it can possibly be.

John Kershaw: Very clear. Thank you very much.

Dave Lewis: Cheers.

Operator: Thank you. Our next question comes from the line of Sreedhar Mahamkali from Macquarie.

Sreedhar Mahamkali: Yes, morning all. Three short questions from me, please. The first one, you've made a comment about looking at opportunities around property portfolio on the wires. If one of you could elaborate on that that would be very helpful.

And second, sticking to the thing of suppliers a little bit here again, what are your – some of your big global suppliers saying to you in terms of restoring this front margin/back margin balance. And what's the push and pull here? How are these debates going on?

And finally, a slightly cheeky one, do you say you're probably trading a little ahead of your own expectations in the UK?

Dave Lewis: Okay. So three quite different questions. In terms of property portfolio, again Alan and I have been clear, you know, we've made some decisions that we won't be building out at sites that were designated for Extras and therefore we have some property that we will look at alternative uses for. And we're actively doing that. And as soon as we have something that we can share with you we will, but we will continue to actively look at all of the property portfolios as it's a key part of our business model.

The second in terms of suppliers, actually, you know, the reaction overall has been really quite positive. I think, you know, I've been very encouraged by suppliers wanting to work with Tesco in a different way.

So I've had very little push back with to the principle, that is – and how we say we want to run our business. I completely understand where suppliers would want to see us consistently with the words; I see no problem with that. So the speed with which our supply partners have been able to come with us on that journey, there is some variation in it, it's understandable variation, but by and large I'm really pleased and I've not encountered huge resistance to an invitation for us to work differently. And as I say, this is an invitation, this is how we would want to run our business going forward, we're clear we want to be much negotiating form giving customers the best value that we can, and ultimately I think suppliers see that as being beneficial for their business as well. When Tesco volume is growing as a supplier it obviously has a scale which is helpful. So I'm pleased with the focus we're making, but it will take us that 12 to 24 months it talked about to walk through all of the changes. Because the best way to do this is through the category resets and the range reviews. But honestly, I've been really very pleased with the way that suppliers have engaged on the new journey that we've set.

And to the expectation, to your question on expectation: look, what can I tell you, we set ourselves two staging posts for how it is we would want to progress the business through the course of this year, and I would just say the first quarter is broadly in line with the expectations that we set for ourselves. So it's a step in the right direction but it's, you know, only a step in the right direction.

Sreedhar Mahamkali: In terms of the promotional participation plans related to the supplier point: are you able to give an idea how much it's moved, quarter on quarter?

Dave Lewis: Yeah, happily. So, I think there are two aspects of promotional participation. We've got the – the market is still promotionally active, and you know, we're still very active ourselves. We changed the nature. And then overall participation level, year on year – as measured, again externally, so not measured by ourselves – our promotional participation is down a little bit more than 2%.

More specifically, and probably more impactful, and probably what makes it more difficult to read what our performance has been versus external measures is: we've not repeated – in Q1 of last year there were three corporate events, around 5 off 40 that we didn't repeat this year, and those are the ones that perhaps put the biggest distortion in term of reading the underlying – but yeah, there's been a slight reduction in our promotional participation in total, but the other thing that's most significant in the first quarter is we didn't repeat the 5 off 40s, and I think we gave you the 0.5 impact of that in the trading statement.

Sreedhar Mahamkali: It's very helpful, thank you Dave.

Operator: Thank you. Our next question comes from the line of David McCarthy from HSBC. Please go ahead.

David McCarthy: Yeah, good morning guys.

Dave Lewis: Hi David.

David McCarthy: Hi. Just two quick questions. The first is: you talked about the voucher headwind in the first quarter; are there any other, kind of, headwinds like that we should be aware of for the rest of this financial year? We know at the end there isn't, but just give us some help on that.

And then second question, or second topic is: you say you've done 15 categories, reduced by 20%; how many more categories are there to do? How many lines have you actually cut out, i.e. what does 20% mean in numbers of lines? And, very much related to this – and you can then probably see where I'm coming from – is: how many suppliers have you actually dropped? You know, because where I'm getting at is, I'm thinking your volume – average volume per supplier must be going up quite sharply, particularly if you've dropped some, and certainly volume per line must be going up. And you, Dave, know more than anybody on this call about the operational gearing of manufacturing, and it's higher than retailing. So, you've got a great negotiating tool there, haven't you?

Dave Lewis: So if I start with your vouchering point, David. So, the 5 off 40s; we're now through that comparison. I think that there's no other 5 off 40 until we get to November. So, in that sense, those big corporate peaks are now behind us.

David McCarthy: Yep.

Dave Lewis: Having said that, there were a number of things in this – in the second and the third quarter, in terms of different sorts of activity, that quite frankly I wouldn't want to repeat. And, you know, as I've said in a number of analysts' meetings, you know: at the moment, as we improve the base – a little bit like as we raise the base, the foundations, in terms of service availability and price, relearning what it is we need to do in terms of the promotional effort is very much one of the things that we're –we're testing and trialling and changing. You know, more things that we've tried have worked than have not, but I'm sure that that won't always be the case. But David, we just want to change our promotional offering, through Q3 and Q4 as we basically keep stepping forward to a position of, you know, lower, more stable, more simple prices. And that's something we're going to, you know, steadily do across Q2 and Q3, but we don't have the same 5 off 40 comparisons until we get back to November.

David McCarthy: Okay, that's [inaudible].

Dave Lewis: Against your – against the 15 categories: you know, in total the ones that we've got in mind – we've got something approaching 33 that we would want to review in this way. A number of them, we can do what we called 'range reviews', which are the, you know, the more front-end parts of it, and that's what we've got on with.

We've got some more fundamental category resets that'll come later in the year, and they're the ones that are more fundamental in terms of their impact back in the supply chain. Which brings me to your – your third point, which is: you know, as we change range, it obviously has an impact on our supply base. We're not – in the range reviews that we've done now, the impact on suppliers completely leaving our business has been really very small, David. I think it's more likely that, when we have bigger calls on category resets, that that becomes more significant, because that's when we do take all of the supply chain and the supply partnership into account. So, nothing now of note, but as we reset categories and as we rethink about more long-term commitments to our supply partners, then you know, clearly there can be an impact.

And I missed out one part of your question, which is: if we talk about the number of ranges; we talking about – well, I'm looking down here, I'm looking at the 15 categories so maybe we can – I can get Chris to give you some more detail if you want, but in some, you know, frozen food, you know, we've taken, you know, more than 200, you know, we've taken – net it's about 100 lines out of that one category alone, [inaudible] for you here, but it's a significant number of lines, David[?], that we've come out. We've given more – you know, it's a start. What we're trying to do is we're trying to give the right breadth of range rather than just duplication in depth, but that's a concept that I know you're familiar with.

David McCarthy: Okay, yeah. And just for clarification, you say the 33 you want to do, does that include that 15 that you've done, or is it –

Dave Lewis: Sorry David, that's the total number, yeah.

David McCarthy: Yeah, yeah. I thought that that –

Dave Lewis: [Inaudible] 18 still to do, yeah.

David McCarthy: Yeah. Yeah. Great. Thanks very much. Well done.

Operator: Thank you. Our next question comes from the line of Clive Black from Shore Capital. Please go ahead.

Clive Black: Yeah. Good morning to you gentlemen.

Dave Lewis: Morning.

Clive Black: A couple of questions, if I may. Firstly, I totally respect and understand the comments, Dave, you make about not talking about speculation. In terms of the configuration of the Group, though, in due course, when do you expect to actually tell the market how you think Tesco will be structured on an ongoing basis? I mean, I understand you came into a situation that needed to be remedied and needed remedial action, but when do we understand what parts of this business you actually expect to keep as opposed to not keep?

Dave Lewis: Clive, I think I get it, and I do understand the interest and the question. I think – Clive, there'll be, you know, at the moment there's something definitive to say, Alan and I will say it, we'll share it completely and at that point, you know, if it were necessary to give, sort of, clarity about what the shape of the Group is, then clearly we would. As I've said many times, we've got a plan, we've got a clear view about what it is we would like it to be, and so when we've got ourselves to a place where we're confident that we can implement that plan then, you know, for sure we'll share it.

I think the point is, I know and I suspect you do as well, I don't help myself in terms of being able to implement that plan, if I get myself involved in all sorts of speculation that might be out there.

Clive Black: [Inaudible].

Alan Stewart: [Inaudible] what we're doing and hopefully this is repeating what we've said before, is that nothing that we're doing is under any funding or liquidity pressure, and we've got a very strong funding position, we've got £5 billion of facilities which are undrawn[?], the redemptions of our bonds are well-spaced in time and small in amount, relatively, as we [inaudible] you. So from a liquidity and funding perspective, we're in a strong position and therefore we've got no pressure to make any decisions, but we are clear in what we want to do.

Clive Black: Okay. Cool, that's helpful. And can I ask just a sort of lower down question, if that's appropriate, in terms of the UK consumer economy is, you know, quite robust at the moment. Would you expect Tesco's non-food businesses to more effectively share in that rising tide of activity as we go through this year and in that respect, could you perhaps share any first impressions that Matt Davis has got of his new empire?

Dave Lewis: Well, I think I – I'll let Matt find a time to share his first impressions with you directly, at a future event. I think he's – look, he's coming – I'll say that first, he's coming to the business, made a very strong positive impact, gets on extremely well with the team, you know, he's – it's been possible for me to share with him the things that we'd been doing before he came. I think he – not only does he agree with what it is we've done, but he's got his own ideas as to how it is we might further enhance that, so he's just getting himself fully immersed in, you know, the business which is Tesco, it's obviously large as its complexity, so he's very much getting to know that. We, you know, we gave him a small introduction to 9,000 of his colleagues at the NEC last week, and so he's hit the ground running. He's got some views, obviously, in terms of, you know, general merchandise and how it is we might improve the offering, given his experience, so we'll let him play that through.

But to your economy question, Clive, we do see some benefits, we see it in some of the numbers, you know, we had growth in general merchandising, again in Q1 we also had growth in our clothing business, so we think there's an opportunity there, but as you know, we start from a base where the commercial attractiveness of that is not where I would want it to be, so I think we've got to moderate our aspirations for growth with a more sustainable commercial proposition.

Clive Black: Okay. That's very helpful guys, and best wishes.

Dave Lewis: Thanks Clive.

Operator: Thank you. Our next question comes from the line of Mike Dennis from Cantor Fitzgerald. Please go ahead.

Mike Dennis: Yes. Good morning.

Dave Lewis: Morning, Mike.

Mike Dennis: Morning. I've got several questions actually, first of all, in terms of the range reduction that you're going through, you said, I think, at the full year results that the range in Tesco had gone up by 31% in the previous years, and now you're telling us you're taking the range down by category by 20%, so does that mean relative to your competition, you've still got a significant greater range, and you're significantly disadvantaged in volume per line on the basis of say, Asda or Sainsbury's?

That's the first question. The second one, that 1.4% volume growth, does that – is that a figure that is going to give you the quantum of cash that you need to make Tesco work or should we be thinking of 3-4% volume growth that will make it work? That's the second question. And in terms of promotions, 2%, if your net net pricing, at 2% reduction in promotions, maybe you could put that in perspective, because I'm – in my opinion of Tesco, there are tens of thousands of promotions a month going through Tesco, so 2% doesn't seem a lot if you're telling suppliers to go net net pricing, so somebody's paying for all those promotions. So should we, for the next couple of quarters, expect you to say that promotional participation is down 10% or something? So I'd like a comment on that.

And one last one, Express. What were like-for-likes in that format?

Dave Lewis: Okay.

Mike Dennis: Thanks.

Dave Lewis: [Inaudible]. Okay, Mike.

Mike Dennis: Yes.

Dave Lewis: Quite a lot, so let me try and get to it, so look, we talked – range reduction, we talked about a 31% increase in range in the two years prior to Alan and I arriving, and we talked about that taking what was always, you know, one of Tesco's great – one of our great competitive advantages is an operating model to around[?] a range intensity which is about 2.5 times that of our key competitor, and do that economically very attractively. From that base, we increased by the 31% than Alan and I talked about, and that puts huge pressure on the operating model, and it messes up the shopping trip for customers. So against the 31%, if we take out 20% as a part of the range review, and we look at other opportunities that might as we do a more fundamental category reset, we get ourselves back to that market leading range offer, which is 2.5 times – around 2.5 times the range intensity of key competitors.

When you look at it versus competitors and you look at range and you look at intensity, you've got – you've also got to take the scale points in mind, you know, given our market share you need to factor that into the scale advantages around SKUs as well. But we see ourselves as being a unique competitive advantage, the range intensity that we can run, given the quality of our operating model. In terms of – we won't quantify the 1.4 volume into a quantum of cash, it's too simplistic, dare I say, and not appropriate for us to do that. What we've done is [inaudible] that you've allowed me to say one thing though, Mike, which is, you know, we've – Alan and I deliberately have kept the volume measures and the inflation measures exactly what they've always been in the business for the last, sort of, three or four years. We've deliberately not changed that metric. I have to tell you, if I was starting from a blank sheet of paper, I would like to get to a place where you and I could look at volume, inflation and get ourselves to the sales number anyway[?], but it doesn't work like that because of a whole series of assumptions that are in there, and I can ask Chris to take you through those if you really have an appetite for it, but we deliberately, because we wanted you to see the delta, we've kept those measures of volume the same as they've been for the last five years so that you could see the change.

To your point on promotions, what I was talking about was a reduction in participation rate, not a reduction in promotions. The participation rate for most of us around the marketplace is still around 45%, so exactly as you say, there's still a high level of promotions in there, and as we change our promotional approach category by category, remember we're not saying we won't promote, it's just certain categories we're doing in a different way. So you'll see that change over time, so it's not a quantum.

And to your last, you know – and to be honest, Mike, I'll say it again, in terms of giving you a forward view about what my promotional intensity would be, you wouldn't expect me to do that, given the competitively sensitive nature of such information.

And the final thing is on Express, the Q1 growth is very similar to that which we gave in – that we saw in Q4, so it continues to perform really very well, and we'll give all the details in the half year as we always do.

Mike Dennis: Okay. Just one follow-on thing from that. I did – it's actually another question. I did notice that Tesco of the past and in this statement have put in customer numbers shopping with you, sourced from Kantar. I never quite understand why do you do that when you have your own POS data and deep insight analysis team that gives you every single bit of data. Why don't you give us the actual –

Dave Lewis: Well we do.

Mike Dennis: – POS transactions? But that could add –

Dave Lewis: Well we do, because actually –

Mike Dennis: – 180,000 more customers shopping with us than – from Kantar Worldpanel.

Dave Lewis: We give you – yeah I know. We give you both back. I think what I said in the last – in the last announcement is we give you Kantar because it's something that's public and available, and something that you can compare across. So Kantar measures footfall into the store, which is what we've given you, and what we measure is the number of transactions. And so, again, that's why we gave you the four-year trend on transaction data, and the fact that transactions are growing in the fourth quarter and the first quarter of this year for the first time in, I think, five years. So we don't give you the quantum of transactions but you get to see our till ring, and you get to see what Kantar say in terms of footfall. So we're trying to – trying to give you an insight into both, Mike.

Speaker: Right, okay.

Dave Lewis: Is that okay?

Speaker: All right. Thanks a lot.

Dave Lewis: No problem.

Operator: Thank you. And as another reminder, please press the 01 on your telephone keypad. And if you wish to withdraw that question, you may do so by pressing the 02 to cancel. There'll be a further pause while questions are being registered. Okay. Our next question comes from the line of Bruno Monteyne from Bernstein. Please go ahead.

Bruno Monteyne: Good morning Dave and Alan. Just three questions. So you're talking about the 180,000 shoppers you've heard from. Is there any kind of insight you can give us on what kind of people are coming back more? Who do you – are you having sort of most effect on? Where do they come from? What are their nature?

The second one is, in terms of the sequential improvement in volumes and in like-for-like, are you equally seeing that in the big stores? I suppose the breakdown[?] we had in the past.

And the third question is, as I said, I've looked at like-for-like [inaudible 36.47] versus compounds[?]. I'm getting to about -2.7% deflation. It seems to be about 50 basis points more than the industry. Would it be fair to say that's kind of a pride investment you're doing above and beyond what the average industry is doing? Thank you.

Dave Lewis: Okay. So the 180,000 shoppers is pretty broad-base, Bruno, to be honest. Always because – you would know this from the profile – it's always families which over-index. But it's pretty broad-base in terms of where they're coming from, where they used to shop before. And it's pretty broad-based across any sort of demographic profile, so there isn't anything particularly noteworthy if you're looking for a particular group that we've attracted. I think, in terms of deflation –

Alan Stewart: Deflation – the answer, Bruno, is pretty much yes, you're right. It's what we're putting into it. And in terms of formats, which I think was your second question, the trends across Q1 are pretty similar to what we saw in Q4.

Bruno Monteyne: So the improvements are equally big in the Extras as they are across your overall estate?

Dave Lewis: Yeah. I think what we've seen is the improvements that we gave in detail in Q4 we've maintained into Q1. So we'll give all the details again at half-year but, yeah, if you take the numbers in Q4 and looked at Q1 they wouldn't be radically different at an Extras or an Express level.

Bruno Monteyne: Okay. Thank you.

Dave Lewis: Okay?

Operator: Thank you. Our next question comes from the line of James Tracey from Redburn. Please go ahead.

James Tracey: Morning Alan and Dave.

Dave Lewis: Hi James.

James Tracey: Three questions from me. The first one is you talked about simplifying the store KPIs. Could you comment on what the new KPIs are and how the emphasis has changed?

The second question is on the Czech Republic and Hungary. In the fourth quarter of last year you saw quite a substantial improvement in the like-for-like. I was wondering what is behind that?

And the third question is, could you comment on current trading in Asia, and has there been any impact from the MERS virus there? Thank you.

Dave Lewis: Yes, okay. So, to the first one, in terms of store KPIs, if you're familiar historically, we have in Tesco something we call the steering wheel. You see it in every back office of our stores, it's what is it we use as a balanced scorecard for colleagues. And over time – I think I said in October that what had happened is the business got into trouble, the number of KPIs that were being sent to stores to report on had increased and increased and increased, and we got ourselves to a place where the KPIs that the stores were tracking were more than 40. And that was leading to a huge amount of complexity in the store operation. We've simplified that a lot. We've taken out, in some cases, more than 60% of the reporting that we asking stores to do.

We've simplified and re-launched the steering wheel, and so those 40, 40-plus KPIs are now 6. We launched it to the business nearly a month ago now; we talk about it as, indeed, the 'Big Six'. The six measures are: there's one which is about customer, and the loyalty of customers; there's one about colleagues, and colleague engagement; there's one around, be it – depending where you are in the business, either a supplier engagement or a community engagement. So those are the three output measures we want, and they balance with the financial priorities in terms of sales, profitability and cash generation. So those are the – those are the six, and the cash, if you're in a store, comes down to, sort of, cost control and stock, particularly. So those are the six, that's how we're running the operation from top to bottom.

In terms of – I don't know Alan, do you want to talk about –?

Alan Stewart: Yeah, yeah. In terms of the Central and Eastern Europe: the – yeah, we've just seen in Czech, we've called out that in Q4 that we'd seen some strong performance. That's continued, it's strengthened slightly, and we've continued to see that. So, again, the focus on these markets is on fresh, and making sure that the price is right from a customer perspective, but fresh is a key focus across all of our markets, as we see that.

In terms of Hungary: we've seen, as you know, quite a lot of legislation change there. We've had some store closures which we made in Q4, and we're still working through exactly what that means from a business transfer; it's difficult to understand how it goes. But the market in Hungary is one which is in a state of some flux because of the legislation change.

In terms of your question on MERS: there's no impact of MERS in this quarter reported on, but absolutely it started at the – in the beginning of the quarter we're just in now. So the beginning of June is when MERS impacted in South Korea, and if you're plugged into the South Korean consumer market, you'll have seen an impact. That's not only us, it's across the whole market. The government responded very rapidly with a 25-basis-point cut in the prime rate, so clearly there's some concern locally. We're watching it, obviously, from a business perspective very closely, from a customer and a colleague perspective, and it's localised within the South Korean market at the moment. We'll report back, and as – when we come back at the Interims.

James Tracey: Okay, many thanks sirs.

Operator: Thank you. And as another reminder, if you do wish to ask a question, please press the 01 on your telephone keypad. And if you wish to withdraw that question, you may do so by pressing the 02 to cancel. There will be a further pause while questions are being registered.

And our next question comes from the line of James Grzinic from Jefferies. Please go ahead.

James Grzinic: Yes, good morning, thank you. I have two questions: one for Dave and one for Alan. Firstly, Dave: can you perhaps update us on how the pricing gap had developed [inaudible 42.27] to discount is on the ranges that you have reviewed and what you've seen in terms of reaction from them on that action? And the second one quickly for Alan: can you, Alan, perhaps tell us what Korea contributed to, in terms of [inaudible 42.41] EBIT last year? Thank you.

Dave Lewis; Okay, in terms of the price gap, what you saw – it changes by category, James, so, as you know in January, where there were brands which were directly comparable between ourselves and the discounters. We closed that gap completely so the price was actually cheaper in Tesco. And, you know, we continue to work in that direction. I think, more broadly, when you look at the price activity – and this is not a number to discount, as this is to the big four competitive set. You can see that we – and again I'll use an externally quoted number – that we've invested around 4%, narrowing the price gap versus the basket[?] of competitors. And that's, you know, that's a step in the right direction, but it's not the full distance, but we want to do that in a commercially sensitive way, commercially sustainable way, and that fits in with all of the range reviews and the category resets that we've got in mind. So it's a journey. I think we're doing it in a sensible, sustainable way. But our line of travel is clear: I want us to get to lower, simple, more trusted pricing for Tesco as a base from which we can build more differentiation. So, a lot of good work done and more work still to do.

James Grzinic: And, sorry Dave, can I just follow up on that? Have you seen any competitor reaction by discounters on the brand action, or for that matter, what you've done in other parts of the categories? Thank you.

Dave Lewis: I wouldn't talk about specific activities that I've seen that are a reaction to our own. I think, and again, if you will allow me James to talk about the fact that – look we're not targeting anybody in particular. We're not, we're really fundamentally focussed. We know that we can improve Tesco for everybody; tomorrow versus what it is today. And that's what it is I and we are completely focussed on and as we do that, in a year, we make our business more competitive, but it's not that we're targeting one particular set versus the other. We just know that we've been not at our competitive best over the last three years and now we're trying to improve that competitiveness for everybody.

Alan Stewart: James in terms of your second question, and if you'll allow me just to set[?] part[?] of it before and coming back, the way that we're looking at the business and reporting it, as Dave said at the start is the way is – the way we're running it. And we're trying to ensure that we simplify that internal view and the external view. So for us the important – we've got Matt running the UK and Republic of Ireland, and we've got Trevor running the international businesses. We think it's important that, given the focus on the UK that we, we split those out, and that's what we've done in the sales lines today.

Equally, international, in this quarter, we've spoken about the currency – there are some quite big potential movements partly driven by currency, also they're different markets between the Asian business and the Central Europe and Turkish business and again, we've split those out in terms of the sales lines.

But that's what we're trying to do. We're trying get it to a level that's – if there's important in-country information[?], then we will talk about it and we'll talk about trends within that.

Specifically to your question, I think the last time that we disclosed EBIT for[?] – and a country level and for Korea was in 2010. Since then, of course, there's been a lot of change in the business. We've had growth in the business, we've had convenience as a sector which has seen growth and we've seen growth there. And of course, we've had the quite significant impact of – dare I say it, I wasn't expecting to be caught talking about it again on this call, on DIDA, but that's had a pretty big impact on the business and on the market as a whole.

So there's been a lot of moving parts since then. I'm sure you've got your own view but we don't talk about EBIT at a country level.

James: Okay, thank you.

Operator: Thank you, our next question comes from the line of Rickin Thakrar from Espirito Santo. Please go ahead.

Rickin Thakrar: Yeah, hi guys. A couple of questions; first: Dave can you comment on just – I missed the first part of the call, so apologies if this has been asked. You comment about the volatility in short-term performance, that you expect that to continue. Is that any change in tone from what you said a couple of months ago, in terms of profitability? Secondly, can you comment – I don't know if you can comment on this, but – do you – in terms of reducing your leverage are any of the tactics you have in place not going to be EPS dilutive for your earnings? If that's possible?

Dave Lewis: All right. I think you know the answer to the second, second question, but – look, Rickin, to the first one – and what I was saying on the call, it is a similar continuation of what Alan and I were saying last time we spoke.

Volatility – everybody knows about the macro volatility; the deflation that's there from commodities and the general competitive pressure that's there so, that remains, but that's not unique to us, that's something which is there for all in the sector to deal with. The volatility that we want to call out is the changes that we're making. The investment in price that we're making in addition to, to the deflation that's there at a macro level. But also the change in the way that we're trading our business. You know, we talked earlier on the call about taking out and not repeating some elements of promotional activity. We talked about that in the trading statement as well. We didn't want to repeat that. We didn't repeat it. It did have an impact in the first quarter. There are other things that are going to happen that happened last year that I won't want to repeat. So it's all about that volatility which is very hard – I fully appreciate – very hard for you to see, and it's also extremely hard for us to predict. As we change some of our promotional offerings[?], we make the fundamentals better. It allows us the rethink: what is the right promotional mix and mechanics for our business.

Now so far, most of the things that we've there have been fortunately successful. I'm sure that that won't continue because we'll try some things and they won't work. So the volatility is, is we step away from one way of supporting and trading the business and introducing a new way of doing that, as we change categories, as we reset categories, so it's that volatility, Rickin that we're talking about. There's not volatility there around profit [inaudible 48.54] particularly. What we said is we were clear about what our aspiration for this year would be: the 1.4. But we're also very clear that, that is an aspiration because if you start from then end of the second half of last year, that's with the UK delivering nothing. And so that's quite a steep hill for us to climb. It also means that [inaudible 49.12] to deliver our profit if we're successful through this year in a way which is different to last year, but you guys would be, I think very alive to that already. And, you know, I've also been clear that there are more things that I would like to invest in the business if I had the financial [inaudible 49.28] to do so. So, if in the – you know, if my dreams comes true and it were better than that then I would – I think I'd be looking invest it, because I can see good places for me to invest it. So, you know, that's where we are on those two, two things. And look, when it comes to deleverage – I'm looking at Alan if he wants to say more – but we're not going to speculate about things that we may or may not do and what the impact may or may not be on EPS at this point. You know, when we know definitively that we can do something and that we've got a plan to do it, we'll share it then and then we'll share with you on those details when we get there.

Rickin Thakrar: Okay, thanks guys.

Dave Lewis: Okay.

Operator: Thank you. As there appear to be no further questions, I return the conference to you.

Dave Lewis: Okay, thank you very much indeed. Thanks again for joining us this morning. I suppose, in summing up, what I would say is, you know, we consider our Q1 results another step in the right direction. We continue to stay completely focussed on doing better things for customers. He or she is the magnetic north of our organisation and everything we'll do is about serving them better – a little bit better every day. We're pleased to see that the changes that we're making are appreciated by customers and we're pleased to see the impact in customer count, the transaction and the volume that's being driven through the business. There's more for us to do. We're busy doing that. There's an awful lot of change going on in our business at the moment and that will continue to be so. We see an improving picture but we don't also see a straight line in the delivery of our final or the recovery of our business but we are recognising that the first quarter is a step in the right direction.

So thank you very much for your attention and we'll see you soon.

Operator: Thank you, this now concludes our conference call. Thank you all for attending, you may now disconnect your lines.