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Operator: Ladies and gentlemen, thank you for standing by. Good morning and welcome to the Tesco PLC 3Q and Christmas Management Statement 2015/16 Conference Call. Throughout the call, all participants will be in a listen-only mode, and afterwards there will be a question and answer session. To register for a question, please press 0 followed by the 1 on your telephone keypad. Just to remind you, this conference call is being recorded. Today I'm pleased to present Dave Lewis, CEO. Please begin your meeting, sir.

Dave Lewis: Thank you very much and good morning everybody. A belated happy New Year to you all. Thank you for joining Alan and myself on the call, and I'm also joined this morning by Matt Davies, who you know runs our business in the UK and Republic of Ireland. It's his first Christmas in Tesco, so I thought I'd give you the chance to ask questions of Matt as well, on any detail that you don't get from Alan or I on the UK and Irish performance.

This update is for the 19-week period to January 9th. I know most of the focus will be on Christmas, so we'll start there, but then I'll touch on the quarter and we'll take any questions you may have at the end. Overall, our Christmas performance was strong. Group like-for-like sales grew 2.1% and the UK like-for-like sales grew 1.3%. On a like-for-like basis, UK volume growth was up 3.5% and transactions grew 3.4% versus last year. What's driven this? In my mind, there are three main factors. The first is a competitively priced compelling customer offer. The second is outstanding customer service, in fact, the best we've delivered for many, many years. And the third is the outstanding commitment of Tesco colleagues.

So let me go into more detail. The first driver, our customer offer. Christmas was more affordable at Tesco this year. We invested in price. As a result, on the lines that matter the most to customers, we were around 5% cheaper than last year. Our food performance was strong. Let me give you two examples. Produce outperformed market volumes by 6%, as new supply chain processes meant we were able to get produce in store quicker, giving customers an extra two days of freshness. And of course we repeated our Festive Five vegetable line offer, this year at 39p versus last year at 49p. We saw improvements in other categories too. Clothing had like-for-like sales growth of 5%, outperforming the market by 9%, and seasonal general merchandising sales, including trees, cards and decorations were up 18%, but simply more people shopped at Tesco this Christmas. Our larger stores were strong over Christmas. Tesco Extra had positive like-for-like sales over this period. So when it really mattered, customers wanted to do their important big shops in big stores and get what they wanted at competitive prices, and of course, customers also benefitted from our Brand Guarantee.

The second driver was customer service. Since day one, we have made availability, service, range and price the fundamental areas where we wanted to improve. Our careful internal reorganisation produced an outstanding operation over the festive period. The work of our stock control distribution and store[?] colleagues has been excellent, leading to very high levels of availability and service, which customers have clearly recognised. This may not always be the most glamorous or noticeable part of our transformation, but it is perhaps one of the most important. During the peak Christmas week, our total availability was around 4% higher than last year. Our delivery on time performance from distribution to larger stores was 2.5 percentage points up on last year, and for convenience stores, our delivery on time was up 18 percentage points versus last year. Why does this matter? Well, it demonstrates the improvements that we're making under the hood, as to how our company actually works, and what it means is that whether customers are shopping in store or on – excuse me – or looking for home delivery, they've been able to get more of what they wanted when shopping with Tesco. This consistency and great value is vital for rebuilding long-term trust and demonstrates the fundamental strength of Tesco.

The third drive has been the outstanding commitment and allocation – application of my colleagues in store and right across the business. We're putting the customer at the centre of everything we do. My leadership team and I travelled the country before and after Christmas, and I have to tell you, I've never seen so many Christmas jumpers worn by my colleagues in all my life. But for me, seeing colleagues that are energised, inspired and confident was one of the highlights of the year. We introduced 4,000 temporary Here to Help colleagues and an additional nearly 4,000 office staff also took to the floor, giving us more than 86,000 extra hours of customer service. How did this work out? Well, we saw a year on year improvement of between 3 and 5 percentage points in customer satisfaction on all measures of price, availability, quality, service and range.

So to summarise, Christmas has been strong in the UK and Republic of Ireland in difficult market conditions. We put the customer at the heart of everything we did, we lowered prices on the items that mattered the most to them and we raised the level of customer service across our entire offering in a material way with colleagues who really went the extra mile. Our customers responded by buying more of what they needed at Tesco.

Let me move to our International business, which is now in its third consecutive quarter of improvement and growth. For the six week Christmas period, like-for-like sales grew 4.1%. Under Trevor Masters's leadership, Europe and Asia saw strong volume and sales performance. Central Europe sustained positive like-for-like sales growth against tougher comparatives last year, and customers responded very well to the food offer and the quality of our customer service. Market shares are improving across our International business, most notably in Thailand, which achieved its highest ever market share in the quarter, an outstanding achievement.

Now let me talk briefly about the third quarter, where performance was very much in line with our expectation. You may recall that in October and November 2014 we inherited three '£5 off £40' coupon campaigns in the UK. Whilst good at driving short term performance, it was entirely unsustainable, and we did not repeat that in 2015. This had around a 1% negative impact on reported like-for-like numbers. We're pleased with how we navigated these changes and if you look through the year, you see a consistent underlying improvement in sales performance.

Before I open for questions, I want to take the opportunity to thank colleagues across the Group for their commitment, their passion and their energy throughout Christmas. Today's the first time we've been able to announce positive like-for-like Group sales in over four years, thanks to their outstanding efforts in serving our customers a little better every day. I also wanted to take the opportunity to mention two changes to the PLC Board, which our Chairman announced this morning, and one change on our Executive. I'm pleased to see Alison Platt and Simon Patterson joining the Tesco Board as additional independent non-executive directors, with effect from 1st April. Both Alison and Simon bring a wide range of skills and relevant experience to the Board. I also want to take this moment to thank Rebecca Shelley, our Group Communications Director who'll be leaving Tesco after four years in February. We've announced this internally, but I didn't want to let this call pass without recognising Rebecca's contribution. We're – Rebecca has been a highly valued member of my team, which since I've been here, has seen, let me say, one or two Communications challenges. Rebecca is both an outstanding person, outstanding professional, and we wish her all the best for the future.

So let me conclude and then we'll go to the questions. The market remains very tough and there's plenty more for us at Tesco to do, but these results represent another step in the right direction. We're making good progress and we've shared an updated sales performance. We're also confirming that we're trading in line with profit expectations for the full year. With that, I'll pause and ask the Operator for questions.

Operator: Thank you sir. Ladies and gentlemen, if you do wish to ask a question, please press 0 followed by the 1 on your telephone keypad. If you wish to withdraw this request, you may do so by pressing 0 followed by the 2 to cancel. Once again, to register for a question, it's 0 followed by the 1. There will be a brief pause whilst questions are being registered. The first question comes from John Kershaw from Exane. Please go ahead, your line is now open.

John Kershaw: Good morning guys, happy New Year.

Dave Lewis: Same to you, John.

John Kershaw: As well – it's not normally in my nature to say this, but congratulations. I don't think anyone expected, certainly Cantor or Nielsen positive like-for-like view out of this Christmas. With that in mind though, do you think it is a Christmas island effect, or is this now the industry turning and the discounter growth slowing, or are we still in a, sort of, negative sum game as your industry backdrop for the core supermarkets? So that's the first big picture question, and the second, some of your competitors against that backdrop are looking elsewhere to diversify away from Food, any comments on how you see – how you address these challenges? Do you need to make acquisitions in other segments or is it just focussing on core Food that gets you success?

Dave Lewis: Okay. Thank you John. Look, I don't think it's the island effect, I'll ask Matt in a moment to add a comment to that, because I think the way that I would look at it, John, is over the year. If I look, you know, Q1, Q2, Q3, you know, with not repeating the '£5 or £40s', I think I feel like I've seen a gradual improvement in the performance and the competitiveness in the business, you know, a bit in line with how we wanted to do it. We said as we – you know, we started from a place where we had a significant challenge, particularly in the UK, from profit, but as we re-engineered the business, we realised some value that we invested in making the business more competitive and tried to get ourselves into a – you know, a more positive frame of mind, driving volume in a way that could allow us to invest in the business, and that's continued to happen, and it happened strongly over Christmas. So I think that's what it's about, I don't think it's an island effect, I think the investment that we've put into reorganising ourselves and thinking very carefully about how we run the business is paying dividends for us.

Now, we haven't seen everybody's numbers for the Christmas period, but I don't think, I don't think this means there's a seismic shift in the marketplace, I think we performed better than perhaps some expected, but it's a continuation of a trend for us. And going forward, I think the market's still really very tough. I think we'll still see some deflation in next year, and there's still some things that Matt and the team in the UK would want to invest in as we have the opportunity to do that. So I think you'll see us, you know, continue to do that. But I'll, on, not really for me to comment on the strategy of our competitor, I understand exactly why you ask it, I suppose I'd just to say you, you know our business very well. We already have a very big general merchandising clothing business, very happy with the business that we've got, and as you saw today, we've been able to improve the performance across the board, be it food, be it clothing, be it GM, and that's what we're focused on doing. Matt, I don't know if you want to add anything to that?

Matt Davies: Thanks, Dave. Hi, John. It all reinforces, we planned for a strong Christmas, and we're delighted with what we've delivered. I think if you went around our stores over the Christmas period in particular, you will struggle to see anyone operationally deliver as we delivered over that period. I'm delighted what customers received. It was really, for me, a continuation of the journey of investments that we've been making in quality, range, service and price, and releasing the amazing talents and energy, tens of thousands of people across the business, to delight our customers. So, you know, the market is tough, you know, challenging. We continue to believe that the market will deflate, but we're very confident that we have the right strategy in place to continue to navigate the UK market.

John Kershaw: Just if I may, very quick aside. I got on the call late so I don't know if you've quantified the growth in the non-food business, perhaps, Matt, I wasn't aware you were on the call, so maybe some first impressions, key challenges, key positive surprises you've seen, if I may.

Matt Davies: Sure, look, it's sort of, each [inaudible], and it's basically part of the tester team[?], David and I talked at great length before joining, as this strategy was being developed, so, and the strategy that we are executing as a business, where we focus on serving Britain's shoppers a little better every day, and we focus on driving volume, is a strategy that for me is totally compelling, so I'm delighted to be part of the testing team and pleased with the results the business has produced over Christmas, and looking forward to the coming years continuing the journey.

Dave Lewis: And John, for your numbers if you missed them, clothing is up 5% in the period, and we talked about general merchandising of the seasonal lines being up 18% year on year.

John Kershaw: Okay, that's great, thank you very much, guys.

Dave Lewis: Thanks John.

Operator: The next question comes from Bruno Monteyne from Bernstein, please go ahead.

Bruno Monteyne: Good morning.

Dave Lewis: Good morning.

Bruno Monteyne: Great numbers. The vouchering that you referred to before, did that completely sort of stop as of November the year before, therefore going forward we shouldn't expect any more adverse impact of previous years' vouchering? Second question is, sort of stepping out of the impact for quarter three, you're already at -0.5% like for like, that's within spitting distance of zero, what would it to cross the zero and [inaudible] within the next few quarters [inaudible]. The last question is, Thailand is trading, is quite a bit ahead of the big C, scratching my head a little bit how you did that there, cause you know, just on the [inaudible] stock a lot of big priced goods that are taking in Thailand, I thought they were already pretty good on prices before. What is Tesco doing very differently in Thailand from Big C, please?

Dave Lewis: Okay, so, look, three questions, Bruno, thank you very much. So vouchering, you're right, that was the last of the five-off-forty, so there's no corporate couponing that we've done in the time that I've been here that we'll, on that we'll have to anniversary as we walk forward. And against your [inaudible] resistor, against the Q3 0.5, I guess the thing that would take you positive is about 0.5% more sales. So we're working on that. Matt and the team did a very good job in the nineteen weeks to, up to and including Christmas, but as he just said, there's more to do and we'll carry on doing that. And Trevor would've joined us but can't for a family reason. But in Thailand, it's been, it's a different version of a similar story, really, which is, how it is we put the customer in the centre, we've done a lot of work in terms of the customer insight, we've done a lot of work therefore in terms of range and the service that we've provided. It's been very much more focused on the food offering, and as we said, that's got us to a place where Trevor, John and the team in Thailand have generated the highest market share we've ever had in Thailand. So, you know, we're delighted with that.

Bruno Monteyne: I'll try a bit differently on the second one, Dave. I have the right. We don't hope for any changes in inflation, we don't hope for this improvement in the market getting any easier, do you have, is it within Tesco to still get to the posted numbers without any tailwinds of that?

Dave Lewis: I think it's still within the realms of possibility for sure, Bruno, but you know and we keep saying and I think Matt just said as well, you know, we still see places where we would like to invest, and we have the opportunity to invest. I think we've been quite patient and tried to make the investments at the right time when we can give it to customers in a way which they appreciate and it matters. And what we're trying to do and I think what we've demonstrated is that we've made those investments and we've driven the volume, that actually the volume payback is worth it, and you know, we're getting to a place where it's getting closer and closer to being positive. But that won't become, I think the thing I'd say to you, Bruno, is that won't become the god. It won't become the god of the business and I'm sure it won't become the god of Matt in terms of achieving that number. We'll continue to put whatever's right for customers, whatever the prevailing economic situation is, at the heart of everything we do and to some extent there'll be an outcome. But we're not going to make achieving that particular number something that drives all of the behaviour because we're in this very much for the long term.

Bruno Monteyne: Thank you.

Operator: The next question comes from [inaudible]. Please go ahead, your line is now open.

Question: Yes, hi, good morning guys. Three things from me as well, please. You've talked about plenty more to do, a couple of times. To what extent are you referring to pricing here, which are the key areas for you now to be looking at in terms of pricing? That's the first question. Second one, I appreciate this is a trading statement, but to the extent you can help us it would be useful, your views on the need or otherwise for any potential rights issue, and third probably, I'll just ask Bruno's question in a slightly different way and see how you react to it. What potential headwinds you might see to continue to report these positive like for likes, please?

Dave Lewis: I think probably, one and three have some connection in my mind. We've invested, you can track as well as I can, if you look at the volume and the like for likes, you see what we've invested, there's been some market deflation but there's been investment by ourselves. We see that, we still see a situation where we need to continue that, we're going to do it surgically in the way that we've done it before. We haven't seen everybody's numbers, but people will ask me about the growth of the discount chains, so I think we've got to make sure that we are competitive against all potential offerings in the marketplace. So when I say there's more to do, you know, that's what I'm talking about. It does come to price, there's still things we can do in range, there's still things we can do in service, there's still some things we can do in innovation, and we've got some plans to do that, and you know, the reverse of that is that they can be the headwinds as well. So those two things are about the competitive dynamic for me. I think we would argue that we've made our offer stronger, certainly Matt and the team have made the offer stronger through the second half of the year, but we know that that's not suddenly going to go away. So there's a lot still to do. On the rights issue, I'm looking at Alan, he's probably best – but to be honest, I don't think we've got very much to…

Alan Stewart: In terms of the rights issue, what I can say is that nobody's working on a right's issue inside Tesco. We've got, you know, the sale of the Korean business took four and a half million off our total in debt, and there's four billion of cash, half a billion or so of lease commitments removed. We've got cash sitting in our balance sheet, we've got strong liquidity, and I really don't understand why the rights issue question – I'm not getting at you, I don't understand why it seems to surface, it's nothing that we're working on.

Question: Thank you, just a very quick follow up. That was very helpful, thank you Alan. A very quick follow up in terms of the [inaudible], is there anything more you can say on how more recently the categories are doing? Please? You say it's strictly the result of availability[?], but trading performance-wise, how are these responding versus your expectations?

Matt Davies: [Inaudible] your category research question, the headline would be: we're really pleased with the first phase of the category reset journey. We've got a small number or resets that we're finishing off over the next few weeks. And then what we'll start to do is we will start to revisit categories again, so nesting[?] etc. So this isn't a one-off exercise for us. We're continually listening to our customers and trying to work out how we simplify our shopping experience, and the overall range that we present in our stores is a significant part of that.

I'm also very keen that we think harder about our convenience estate, and how we can simplify that shopping trip for our customers as well. But it's a win-win so far from every perspective. And our six specific categories, like wine, are really proud of the job that we're doing on behalf of customers, because we're moving away from this artificial, high/low pricing to stable pricing, which means that, when a customer has their favourite wine, they don't need to wait for it to be on promotion, and they can trust Tesco to deliver day in, day out the right price.

Dave Lewis: Perfect. And one thing I'd add to what Matt said, just because it might be a question later on: we're on track to finish the first wave of all of those category range resets by the end of February, as we said last time.

Question: Thank you and congratulations on a very strong set of numbers.

Dave Lewis: Thank you.

Matt Davies: Thank you.

Operator: The next question comes from Kartik Kumar from Artemis. Please go ahead.

Kartik Kumar: Dave, Matt, I was listening to Mike Coupe's rationale for potentially acquiring Home Retail yesterday, and thought that that logic might be compelling for Tesco too. Do you agree?

Dave Lewis: Well, look – good morning first of all. Look, as you would expect, I'm not going to – I'm not going to comment on Sainsbury's strategy. I suppose what I would say – and I know that you know it – is we actually have already a very good and thriving general merchandise business. We have a very good online business. So actually, when one looks at the business that we've got today, we already feel very well represented in all areas.

And so our focus remains on improving the quality of what we do across all the assets that we have. Critical thing for us is connecting so that a customer has a very consistent experience of their engagement with Tesco. So that's our focus.

Kartik Kumar: Brilliant. Thank you.

Operator: The next question comes from Edouard Aubin from Morgan Stanley. Please go ahead.

François Halconruy: Yes, good morning everyone. Actually it's François speaking from Morgan Stanley. I had one question on your UK grocery performance, and two follow-ups please. So on UK grocery, do you mind just giving us a bit of flavour of how your online operation has performed over the quarter and over Christmas, especially in the food business?

Then, in the UK, it's a follow-up on the question of the range. Now you've done six clever category range resets, could you provide us with some colour on how much SKUs you have taken out of your business as a result of these range resets?

And last one on Thailand: if you could give us a bit of – some flavour on how your like-for-likes have improved in the country on a sequential basis, that would be very helpful.

Dave Lewis: I'll let – why don't I let Matt talk about the UK grocery and the range, and I'll come back in Trevor's absence on Thailand.

Matt Davies: Okay, morning. Firstly, in terms of our dot-com business, the strongest Christmas I think we've ever delivered from a dot-com perspective, in terms of number of orders and from a customer perspective, all of the metrics, so availability, delivery on time. So really pleased with that performance.

We're really focusing on what the economic, sensible business model for us across our entire business, and making sure that, with customers right at the heart of what we do, we balance our channel and strategy. So there is that element that feeds into it, but really pleased with how our dot-com business delighted our customers over the Christmas period.

Picking up the second question, from a reset perspective: on average, it's about 15%.

Dave Lewis: And when it comes to Thailand, you know that we don't break out individual company and country performance. But let me say the following, which is, I think everybody knows that the Thai market has not been as strong economically as people thought going in, so the macroeconomics have not been helpful. So market growth has not been anywhere near what people were forecasting at the start of the year, and the first quarter was definitely difficult for everybody. Actually our like-for-like has improved steadily through the year and finished in the last period stronger. And that's why I reference, without giving you the like-for-like number, the fact that our growth is coming from market share growth rather than any momentum growth that's in the market. So a clear performance ahead of what the macro market is doing in Thailand[?].

François Halconruy: Understood. Thank you.

Operator: The next question comes from Mike Dennis[?] from [inaudible]. Please go ahead.

Mike Dennis: Yes, good morning.

Speaker: Hi Mike.

Mike Dennis: Hi. Just within Q3 in the UK, could you tell us what Black Friday contributed to the Q3 figures and could you give us a sense – you've talked about Extra but could you give us a sense in the Q3 where the formats are performing on a like-for-like basis like you've given us before? And I don't know if I picked it up but did you say what your non-food like-for-like was doing? And specifically what clothing is doing? Thank you.

Dave Lewis: Why don't I start with some of those and then I'll let both Matt and Alan add to it? Look in terms of – so we talked about clothing. So in the period we talked about a 5% growth which we think is a 9% beat[?] versus the market, so actually a very strong clothing performance. We had growth in general merchandising. We gave the seasonal number 18% for that period. We don't give like-for-likes by macro category normally, I think at the end of the year we might give you a little bit more segmental breakdown. Actually the performance of the different formats through the course of the third quarter pretty much a continuation of the trend[?] we saw in the first and the second. So over the whole period, Extra was slightly negative with Expresses being strongly in growth. During Christmas that changed around a bit which is why we gave that colour[?] Mike. I would say on Black Friday what we did was change the model but it's probably better that Matt talks about Black Friday, given that he was leading that particular operation.

Matt Davies: I can certainly talk about Black Friday because I was positioned in our Salford[?] store at 04.15 where we had one or two operational challenges the year before. So firstly I would say, thankfully, operationally and due to the brilliant planning by a lot of people in the business, it went off seamlessly for Tesco and I think that was universally applauded. But I think we demonstrated that you can run a very effective and powerful Black Friday event without some of the problems that we've seen – well, all retailers have seen in previous years. Black Friday was still an incredibly popular promotion for us online. It resulted in the busiest ever 24 hours for Tesco Direct and I think is part of how we built momentum for the business into Christmas.

Alan Stewart[?]: Mike specifically in relation to what did it mean for the numbers, minimal[?] impact on a year-on-year basis because clearly the focus was on operations this year. As Matt said, very strong operational delivery, very important customer impact in terms of what the customer saw, felt and got, but in terms of overall numbers, really no – nothing that I would highlight at all in terms of year-on-year.

Mike Dennis: And you said that clothing was 5% growth in total, is that right?

Alan Stewart[?]: Clothing like-for-like was five.

Mike Dennis: Clothing like-for-like was five, okay, thanks. Thank you.

Operator: The next question comes from David McCarthy[?] from HSBC, please go ahead.

David McCarthy: Yes, good morning everyone. Hi. Few questions. First of all, a question Dave I've asked you before and that is that you are bigger than anyone else, so you've got considerable economies of scale even if you don't want to admit the full extent of them, you certainly better than everyone else, you're not the cheapest, so why don't you make more money? Where's all the money going? So real going right back to basics. Secondly, if we look at this performance, you've clearly beaten expectations, probably beaten your own budget and you've said that the business will have first call on margin – any improvement will have – for the business to have first call rather than the margin having first call. So with this performance over Christmas, have you now got extra money in the kitty going forward for you to invest in the business or did you spend that money in the business as you go along? And then finally, and a question probably for Matt, is I can't get your availability, you know and you're talking about this 98%, I spend a lot of time in stores as you know and I can see a lot of improvements but it's the online availability.

I don't want to sound sort of trite here, but when I look – you know, I've sent pictures through before to Dave of screenshots, so I mean, 80% unavailability – unavailable products in key lines. You know, still can get shots like that. I look at a very substantial order that I put in oat Christmas which was over 100 lines, was 15% unavailable on your busiest day of the year. I won't be the only customer that's experienced that. So are you measuring this in some way that's wrong? So for example, I get emails in advance saying we haven't got this product, so you've forced me to take it out the basket, so you kind of – you know, you're cheating some way on your availability numbers to do .com, or is it you've got a problem with your .com centres? Or, you know, what's going on?

Dave Lewis: Okay, well I'll try. I think I'll let Matt talk about the last one but you and I have talked about it. We certainly don't cheat on the numbers, let me tell you that, and we also verify them externally. So it's always regrettable when any customer has any experience which is below their expectation, and David you've clearly had some and you've shared it with me and that's regrettable. And I suppose I need to – you know, my comments and our comments are about what the totality of the offer is, but it's always regrettable when you share anything.

David McCarthy: Yeah, but I won't be the only one with that experience is the point Dave. I'm not that unlucky.

Dave Lewis: Yeah, but David, the point I'm making to you is against your, you know, are we missing in some way. We're doing both internal and external and all of these things are customer verified, so I'm very confident that we're measuring this in a robust way. So I thought I'd just give you that before Matt answers the question.

Back to your other two. Look, it's a point about size but we're being – and I fully, fully, fully get to use our scale to buy better and for us to take that advantage and give something to the customer. I think, you know, we – it's pretty clear and you know and you've written about tit that over a period of years that wasn't happening, so whilst our size was there it wasn't happening. And it's also true that as we reorientate our business model it takes some time for us to be able to sort of rebuild all of that. The critical thing, and it links to your second question, is every time we've been able to do that, and you know because of the supply chains and the seasonality of food in particular, that there's some lead time to this as we've been able to make the improvements we put that, all of those improvements, back into improving the offer for customers. You'll see at the end of the year we'll talk some more about how volume leverages allow this to recover the profitability that we deliver. It's a journey. We'll carry on. We're not sitting here with any buffer or, what did you say, kitty. That's never, unfortunately, been an experience that I've had while I've sat in the Tesco chair.

We – you're right, we have said that if we do generate and we continue to generate any gains from running the business where we are, we will continue to invest them in the customer offer whilst getting the – you know, some degree of profit return given that we started from less than zero in the second half of last year, but that's an ongoing journey and I'm pleased with the progress that we're making. I think it came to the fore during Christmas but as you've seen yourself during Q1, Q2, Q3 we've managed to improve the performance as we've done that. But it's a journey and it'll take us some time to rebuild back to the level that we were once at.

I don't know if you want to say any more on David's availability point.

Matt Davies: Yeah, hi Dave.

David McCarthy: Hi Matt.

Matt Davies: I guess first thing I would say is apologies. Thank you for shopping with us but apologies. I know we got it badly, sort of wrong in this instance. Hopefully you will give us another chance. I know you'll be really keen to pick up and see how we do.

I think your order was delivered from one of our fulfilment centres and I think on that day the availability was slightly low in those fulfilment centres, but when I looked at the availability of you order it was well off what the overall fulfilment centre was running at. I think the fulfilment was running at about 95% and you were – yours was loads lower than that, so apologies.

You know, reinforcing what Dave has said. Look, you know, we're not messing around with the numbers. It's in nobody's interest to mess around with our availability numbers. You're absolutely right that you can take your availability to – at times that will compliment you or you can take your availability that at times that genuinely reflect what a customer is experience. And we are doing the latter and not the former. Our year on ear availability has moved up significantly across every single area of the business. And so, if I talk about products availability, it improved 4% in the peak Christmas week. Every one of our customer measures, so satisfaction, price, availability, quality, service, range, all improved, many of them by up to 5%. But ultimately I appreciate that doesn't make it right for you because you've got a really poor order form us and I apologise for that.

David McCarthy: Alright. Thanks very much. No need for the apology.

Matt Davies: No, no. It's absolutely fair and appropriate. Thanks David.

David McCarthy: Thanks.

Operator: The next question comes from Xavier Le Mené from Bank of America Merrill Lynch. Please go ahead.

Xavier Le Mené: Yes, good morning gentlemen and happy new year, actually. One quick one from me, actually. Back to 2014 we saw a good Christmas also from Tesco and then we saw, you know, the Q1/Q2 performance not being as good as what we saw in Christmas. So what is the risk that we see exactly the same picture this year with a very strong Christmas, you know, for you and we can argue for the market as a whole but then to see a significant slow down, you know, going forward in 2016? And can you give us, you know, a reason why Christmas was particularly good, you know, for the whole market and what is potentially the risk[?] for 16.

David Lewis: Okay, Xavier, I certainly can. Let me give you a perspective and then if my colleagues want to add they can.

Look, you know, I joined the business in September the year before and we did nothing to the business apart from trying to get the operation running again and I think that resulted in Tesco colleague delivering a very good Christmas last year for our shoppers, and it stood out as a notable change in the trend that the market had seen for the last three years of Tesco. It was the 8th January last year that we set about trying to change the organisation and it was only 8th January last year that we set about that. We made massive changes to our business, most of those changes around people and new roles and new ways of working only landed with people in roles in May and June of this year, so that for sure has an impact. But I suppose the thing that I would pick out is actually if I look at the sales line from the Christmas of last year and then I look at Q1 and I look at Q2 and I look at Q3, especially if you give us the credit for not repeating those corporate activates and you're looking at Christmas, actually the trend from the start of the year has been a constant improvement.

So yeah, maybe Christmas surprised everybody last year because I certainly walked through the door with forecasts of doom for Christmas and we're pleasantly, but then as we reset the business in January and set about what has been, you know, a mammoth, an absolutely mammoth transformation programme, we've seen ourselves steadily deliver as we went through the quarters. So that's the way I look at it and maybe the thing that is unusual is that we surprised you by getting Christmas better than people thought before we started making all the changes to the business.

Alan Stewart: Xavier, what I would add is that, you know, we've seen here that Q3 – that 2014 activity impacted Q3 that we just reported on, that whole of the first half of last year, the quarters you've mentioned, we were up against activity in the previous year and you'll remember that that peaked with -5.5, I think it was, like for like in Q2. So we were up against some very significant trade driving activity in the previous year which strongly influence d our reported numbers as we go through now. As we've said, we're going to talk about what we're going to do from a customer perspective, customers will see that first and foremost, but what we do know is we're not up against those very significant activities year on year.

Xavier Le Mené: Okay. Can you just give us – just the last one maybe. How is January going so far?

Alan Stewart: Well we reported on it in the weeks that we – we're up to last weekend and, you know, do you want me tell you how it went yesterday?

Dave Lewis: So obviously the release – as Alan says, we're smiling because obviously the release is up to last Sunday, so we've got only a few more days' data than you've now got. So pretty much in line with what we announced up to Sunday.

Xavier Le Mené: Thank you.

Dave Lewis: Thanks.

Operator: The next question comes from Clive Black from Shore Capital. Please go ahead.

Clive Black: Good morning and happy new year everybody.

Dave Lewis: Morning Clive.

Clive Black: And you'd be very pleased to know that in the Tesco stores in the world, Timothy Taylor's landlord was fully available and fully utilised.

Dave Lewis: Quite a lot of volume sold I saw as well.

Clive Black: Indeed.

Dave Lewis: I don't know if that was you Clive.

Clive Black: Yeah, we don't drink Prosecco as they do down South. A couple of questions if I may. Firstly, it'd be interesting to hear Matt's priorities really for the UK business sin the new year, and in relation to that some degree perhaps Matt or Dave might like to just give us a view of how you see large stores and drawing on central Europe in particular as well which we can sometimes forget, where do you feel the large store, the hyper market fits on the back of this quarterly update looking forward because you still have got a substantially differentiated estate in that respect. And then maybe one just for Alan to not feel left out. Should we take it from an encouraging stance that the very strong volume you've had in the UK and presumably further afield bodes well for working capital and should we still believe that positive operational gearing features with this – with such a trade and performance across the quarter rather than just Christmas? Thank you.

Dave Lewis: Okay, Clive. Well let's do that. I'll let Matt talk about priorities, large stores in UK, I'll pick up and talk about large stores Central Europe and across the group and Alan can talk about operational leverage working capital. Is that okay?

Clive Black: Thank you.

Matt Davies: Okay, morning Clive.

Clive Black: Morning.

Matt Davies: Look, continuation of the journey. We're really focused on making sure that bar offer continues to become even more compelling for our customers, and so it's about what we've done from a pricing perspective over the past year. We've brought thousands of prices down, we've launched brand guarantee which we mustn't forget is the only mechanic in the market that give customers an instant [inaudible] money back at the till. So you can see how we're communicating at the moment, sort of on TV etc and in stores, we continue to really build a momentum around brand guarantee and we'll start to challenge ourselves again around sort of rest, from a service perspective, we've got a lot in the pipeline. The support and the aspiration of our colleagues, in terms of service and delivery. So very much a continuation of the journey that we're on.

And from a large store perspective, look I've been in, sort of, retail for quite a while now. I'm a huge believer in our store estate and the ability that we have to optimise our space across the business and to use the space that we have in our large stores to really support them as a destination. So if you look at some of the recent work that we've done and with Arcadia, you know, that's going to be a huge part of it.

But the headlines for me are priorities are, number one, customer. Making sure we support Britain's shoppers a little better every day. Number two, that we lower the cost to invest. And number three, we empower our colleagues to act as brand ambassadors for Tesco and we differentiate on that basis.

Dave Lewis: And just to take matt's point about where we are with large stores UK. Clive, if you look internationally, if I look across internationally, you're right, it's a bigger part of the format internationally than even here in the UK. Actually, and if Trevor were here he would tell you, he smiles when people talk about it because our Extra format across international is growing and growing quite nicely.

Alan do you want to –

Alan Stewart: In terms of – yeah. In terms of the working capital and the operational gearing, we are absolutely focussed on not only generating cash form our trading but also generating cash including working capital. And that will remain a focus. What we've said, Clive, is that this is something that we think there will be opportunity. We'll come back in April and talk about what it means for the full year results.

I think the key thing, really, operationally is getting the right matching of intake of new stock compared with what we're selling and the rate at which we're selling. And that brings into the whole commercial operation and it also obviously means that if we can make our supply chain more efficient then we can get working capital benefits. So we spoke about making the supply chain more efficient from a customer perspective, which gave us two days of freshness. We can equally try to look at it from an operational and working capital perspective. And it's a journey. I think it's a different way of operating. We will continue to focus on it. And as you know we've got long term aspirations and targets in respect of cash generation.

On the operational gearing point, yes operational gearing works strongly in your favour when you are going positively. We're still overall, you know, we've just got group positive sales beginning to work. It's early days. There will always be inherent underlying inflationary aspects of running a business. Rates, we speak a lot about. We should not ignore the impact of rates in the UK business. So there are a number of things which comes back to Matt and what he said was his second priority, lowering the cost in order to invest. So we'll seek to get operational gearing in the business. What we are seeing is volume benefit and we know that the volume benefit is the first part of that.

Speaker: Okay, Clive?

Clive Black: Okay. I'm conscious of the time. So look, thanks very much for that guys and all the best.

Speaker: Cheers, thanks.

Speaker: Thanks a lot, bye.

Operator: The next question comes from a Rickin Thakrar from Haitong. Please go ahead.

Rickin Thakrar: Yeah, good morning guys. A couple of questions. First: Dave, you mentioned you were comfortable with fully-operating profit consensus, I think 980 or so. You made some changes to your accounting, mid-way through the year, to include property profits and losses. Does the comfortability with your 980 or so – does that include the 250million you got on property in the second half of last year? That's the first question. The second question-

Dave Lewis: No it doesn't. No it doesn't, no.

Rickin Thakrar: Oh, okay thank you. The second question is, again, on the rise dynamic – you've got 3.3billion in bonds outstanding for the last two years, 3.3billion, or so in cash. I imagine you're going to have to access that revolver. Is – do you still feel comfortable with making your payments in terms of those bonds for the next five years? And then finally, just can you comment a little bit on the, on your online performance, how that compares to the large store performance? Thanks.

Matt Davies: In terms of the bonds, yes we have maturities, we've got, in the current, in the financial year about to start we've got 1.2billion of maturities. We banked four billion of cash, three and a half billion net of the cost transaction and taxes, primarily in respect of Korea, so we start with a very strong cash position, and the liquidity is strong. So, you know, we haven't spent the 3.5billion we took from the Korean business, so we've got very strong liquidity. Obviously in terms of specific market activity relating to the issued bonds, that's a long way off, but we have very strong liquidity.

Dave Lewis: I'll say something, just to clarify on the property-

Matt Davies: -Yeah, in terms of the property, the consensus is 930 – and there isn't the profit we made to the extent that there was on the sale of the properties we announced earlier in the year. That will be viewed not as normal course of running the business to the extent there's profit there.

Alan Stewart: Correct.

Matt Davies: And that was cash that we spoke about, it was 250 of cash.

Alan Stewart: Indeed

Dave Lewis: And to your final question, the online business continued to perform strongly. I think Matt talked about it in an earlier question. So, online business had its busiest period over Christmas, continued to grow – I think online grew by more than 5% during the period, but also as Matt said earlier, we've been much more thoughtful about the economics of online verses the offer elsewhere in the estate. So, I like the balance of the growth that Matt and the team have been able to deliver.

Rickin Thakrar: Okay, thanks.

Operator: The next question comes from Nick Coulter from Citi. Please go ahead.

Nick Coulter: Hi, good morning, three from me. Firstly could you quantify or talk about the like-for-like fees volumes in both periods, and then secondly your sense of whether the volume is more customers or just capturing a greater share of wallet. And then, in Ireland, could you talk about what you've done, and the competitive environment – clearly the like for like has turned in a market with a high discounted share, and also quite a high level of coupons, off and on. And then lastly, I think we'd all like to know what Mr McCarthy had in his basket, to have such a large bearance on his availability.

Dave Lewis: I'm definitely not going to touch the last one – Matt, do you want to take this one?

Matt Davies: Yes, hi, if I answer your Ireland questions first, I was delighted with performance in Ireland. Very much, again around putting the customer at the heart of the decisions that we make, and focussing on the lines that really matter. In that particular marketplace, the offer transpired, is much more competitive pricing, on those lines, and visibly discounted, as you're well aware, it's a more discount-prevalent market, even than the UK is now, and that's coming through with higher volumes, and good positive like-for-like growth over the periods that we're reporting. So really pleased with that, and we'll continue that strategy going forward.

Alan Stewart: Yep, indeed.

Dave Lewis: To your earlier question, you know that more customers came in, it's too early to do the full customer diagnostic across Christmas – that will take some while for the agencies to share all of that analytics. That's why we give you the transactions. We know that more people are shopping more with Tesco, so customers are up and importantly items in baskets are up. It's obviously impacted by the deflation, but we don't yet have any data about where the source of gains has been, so we'll have to wait to see that, and the like-for-like volume on food. And when we talk about that we talk about fresh produce we, you know, we talk about a 6% beat[?] versus the market place. And I think we've said – I'm looking at Chris so I don't get myself into trouble – we've talked about strong double-digit volume growth in our fresh produce through the course of the business and we've seen that continue as we go through the Christmas trading period.

Nick Coulter: Great, thank you.

Matt Lewis: No problem, cheers Nick. I think we're conscious of the time. Do we have one more before we…?

Operator: Thank you. The next question comes from James Tracey from Redburn. Please go ahead – your line is now open.

James Tracey: Good morning guys. Two questions from me. The first one is: the sales performance was about £400–500 million better than expected so, on rough maths that'll be 80–100 million of – more incremental profit, so why has not led to an upgrade, to 930 million expectation for the full year? And the second question is: on the three key measures of availability, satisfaction and price, how far are these below the peaks, because I know they've improved year on year – how much further do you have to go in those measures? Thank you.

Dave Lewis[?]: James, let me make the comment on the first one, which is, [inaudible] with my tongue in my cheek, the sales may be 500 million ahead of what somebody else may have estimated, not necessarily what the team estimated. And so, you know, we've balanced our budget against the sales that Matt and the team were looking at and Trevor and the team were looking at, against the profit we had to deliver. So as I said to an earlier question, you know, we have – as we've got ahead of ourselves if we've made some gains we've invested it back in the customer offer and that's been the virtuous circle that we've tried to build, so there is no – you know, that was planned in. The volatility I've spoken about all the way through the year is that as you make those investments you're never completely sure that you can get the sales that you forecast for them and, thankfully, at Christmas time we did and that allows us to confirm. You know, I'd said earlier in the year that if I felt I needed to invest more that would reduce the delivery below 930, that I would continue to do that if that was the right thing to do for the customer. What we've been able to do is make those investments and still deliver the 930, so that's the – that's the dynamic that we're in. Do you want to say something about availability?

Matt Davies[?]: Yeah. In terms of customer measures that we talked about – so satisfaction, price, availability, quality of service – and the measures were consistent year on year, so delighted with the way those measures have moved on: they're up to 5% across those measures. We've still got a lot of work to do and we're very very clear about that. We've got, you know, huge aspirations for the business, as does everybody that work in this business, but I think if you're asking me to go back further than that it's pretty difficult for me because the way that we measured everything was really not consistent. But what I am very comfortable about is the consistency year on year of these measures and the progress that we're making with those.

Dave Lewis: Okay I'm told that we've got two more questions registered, so why don't we take those two more questions and then we'll call it a day, okay?

James Tracey: Thank you.

Operator: The next question comes from Andrew Gwynn from UBS – please go ahead.

Andrew Gwynn: Hi, morning all.

Dave Lewis: Hello Andrew.

Andrew Gwynn: I was a bit late on the call so sorry it may have already been asked, in which case it may be very quick, but two questions. Firstly just on where you are with suppliers – obviously they haven't seen your volume performance but hopefully conversations are going well. And the second one is just round employee engagement. You've sort of talked, you know, more broadly around that but are there any sort of stats you could share of – you know, I'm not sure what sort of stats you have – but how are employees feeling, because presumably feeling a little bit more, like customers, feeling more love for the brand as it were.

Dave Lewis: Yeah, well why don't I talk about suppliers and then maybe Matt can talk about where we are on employees in the UK, and I'll add on international. Look, we've done a – as you know, we've done a lot of work with our suppliers since I arrived. Jason and his team have been really wonderful in engaging about a different way of operating with Tesco. The good news is our suppliers have seen the benefit in the volume because we would have planned this volume with them beforehand, and so they are seeing some direct benefits of working with us and the results that we're able to generate together.

So a lot of work behind the scenes: a lot of the 'under the hood' that I'm talking is not always so visible to people outside. We've done a major piece of work in changing how we engage with our suppliers. The feedback I'm getting from suppliers is really very positive. We'll do another supplier viewpoint in the next month, so we'll survey them so that they have a chance to give us, you know, more deliberate feedback. But the changes that we've made there and the alignment that we've got with our suppliers has been really really really strong, you know, admittedly from a very challenged place. So I, you know, we've been very public. If you listen to my IGB[?] speech, you know, we talked about the situation we got ourselves into with suppliers and therefore we've had to completely change. Myself, Matt, Jason and the team have put a huge amount of time into that, so – and hopefully, the suppliers that you talk to will be talking to you about feeling a change from working with Tesco and we'll continue to do that. So, so far so good. And in terms of employee engagement, Matt?

Matt Davies: Yeah, I mean, look we've – from Dave, Alan and I going around so many schools over Christmas time, we can certainly testify how engaged our colleagues were over this period. And I think that is a really important ingredient that went into the Christmas that we delivered.

In terms of formal metrics, so last time we did our colleague engagement survey. It has moved on from previously. I think that's some achievement actually, given the change that a lot of people have experienced in the business. We're about to dip again and do a temperature check, again, how our colleagues are feeling. And I'm optimistic that that will and[?] support what we're all seeing and feeling across the business.

Dave Lewis: Indeed. And so when Matt talks about – the dip is actually a market research methodology to get that, sort of, feedback from our colleagues and that happens also internationally.

The other thing I'd say, to give the international flavour on what Matt says is, if you look at the Big 6 that we share, there's a colleague measure in there which is about their recommendation and their view of Tesco as a place to work, and their recommendation as Tesco as a place to shop, which are the ones that we track consistently. And we've seen improvements across, not just the UK/Ireland, but internationally on those two measures as colleagues see us invest more and put customers at the centre of everything we do. So, on a continuous basis, that's how we get a metric, if you like, but then we do a fuller survey like the one Matt's talking about to get a fuller feedback, and indeed that also starts next week, I believe. So, we'll let you know where we get to in April when we talk the full-year results.

Can we go to the very last question?

Operator: Thank you. The next question is from Rob Joyce from Goldman Sachs. Please go ahead.

Rob Joyce: Hi, good morning, guys. A couple of categories[?] from me quickly: on price, can you say where you see input cost deflation running through 2016?

And then also on your own price file, can you say where you see yourselves now versus the discounters and Asda, and where you need to take that?

And the final one's just on: in terms of profit and profitability, and how we think about that, as you mentioned, you've seen strong volume growth this year and cycled out a lot of vouchering that you haven't done, but we haven't seen the profit number really move. What do we have to look for in the years ahead that's really going to drive the profitability? What are the key metrics there? Thanks a lot.

Dave Lewis: Thanks. Well, Rob, as always, you ask those sort of pointed[?] questions which are, at some point, very difficult to answer, but let me have a go. So, look, the point about profit is, we're at a point where we're only talking about this year, and given the volatility we've mentioned all the way through the year, we thought it was important to give the market sight[?] that we think we're able to deliver in line with the expectations that are out there. Come the 13th April, we'll talk about the full year and we can talk then about what it means for the year ahead. But that's where we are. We knew this was very much a year in terms of a long-term rebuilding, sustainable rebuilding of the business that, you know, to get to a level of profitability this year, there was the same, obviously definitions of change, but underlying is the same as where we were last year, given that we were negative in the second half of last year, we think is a very good performance, especially as we've been able to invest so heavily in the business, as we've driven the volume. So, we'll talk about profit outcomes at the end of the year, but that's why you haven't seen it move because actually the job was to deliver the expectations that were out there.

In terms of input prices, we – the only thing I'm prepared to say at this point is, we continue to see softness in commodities, and we only have the sort of visibility that you would be – feel reliable on between a sort of six and 12-month window, but we don't see any big changes in that. And so that's where we – that's why we say we still the inflation potentially in the marketplace, but also the deflation is because we still see that we have to make some investments ourselves, which is – you know I don't quote what I think our price point is. I think the idea that you sum it all up and just put it to a number – yes, it's an indicator, but everything we do and everything we see is when you put the customer at the centre of it, actually thinking about price through his or her eyes is a much more important place. And if we can get that right, as I think we did at Christmas time, then we can see that they reward Tesco with their business, and that's what we're committed to keep doing. And it's not just about trying to hit a macro metric, which is not sort of customer-relevant. We are much more – trying to be much more precise than that.

Question: Okay, Dave, but is it fair to say from your comments that you still see there's further to go on price, in terms of closing up…?

Dave Lewis: Oh, indeed. Look, as I said, you know – Matt's nodding his head here, and so he should. We know that there's more investment that we think we can make in price, but it's important that we make those investments in a sustainable way. One of the things that we've been doing – look, it's not rocket science, and I know you know, but just in closing out the call – it's true, we've taken away corporate couponing. We've taken away unsustainable, short-term couponing activity. We have. We've put it into long-term, lower, more sustainable prices. We think that's the right direction. We've been doing it through the course of this year. It's meant that we've had to face into some very stiff year-on-year comparisons sometimes that don't take that into account. But we've stuck to our knitting, we've stuck to our guns. We continue to want to do that, and we're doing it as we reset categories, as we change supplier relationships, and we'll continue to do that. But yes, we do believe that there's more we need to invest in price. We need to make sure that we do that in a sustainable way for our customers, and indeed our shareholders.

Question: Thank you very much.

Dave Lewis: Okay? Ladies and gents, with that I think we've exhausted all of the questions that were out there. So we've tried to answer them all. I know it's a busy – been a busy week for you. Thank you for listening. Thank you for your time. I suppose my summary would be, we've put the customer right at the centre of everything we do. We've spent an awful lot of time as a business thinking about how we can serve those customers better. At the end of last year, it came together in a very compelling customer offer. I was delighted with the way that the operation worked against that and delivered fantastic customer service. And the engagement I saw within Tesco around delivering that service is both inspirational and heart-warming.

So we've much more to do in a very difficult trading environment. Thank you for listening, and we're happy to have shared with you the Q3 and Christmas trading update. Take care.

Operator: Thank you ladies and gentlemen. This does conclude today's conference call. Thank you very much for attending. You may now disconnect your lines.