Tesco Half Year Results

Wednesday, 4th October 2017

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Opening Remarks

Dave Lewis

CEO, Tesco

Good morning, ladies and gentlemen, how are we this morning? Good, good. I thought I'd start with this shot, if I may, just by way of a thank you and not for any bias at all. I think you should just look at this guy up here in the top left-hand corner.

As you know, just over – well, it will be a month tomorrow, we started – a Tesco colleague, started the Great Tesco Walk for Charity, one of our big events for charity. And they will finish – we started in Land's End a month ago and we will finish in John O'Groats tomorrow. More than 4,000 colleagues have done that and we thought we would give you a picture of Chris in his shorts. But actually, in all seriousness, it is there as a way of saying, 'thank you' because a number of you in the room have sponsored Tesco colleagues in this walk. It will raise, we think, a little bit more than £1 million for the two charity partners that we have, so I just wanted to take the opportunity to thank you for that support.

The Agenda

Let's talk about the results. We have, we believe, a very strong set of results to share with you today and we are going to do that in a very simple and straightforward manner. I will talk around, just very briefly, to bring you up to speed with what we've done on our six strategic drivers. I will then pass to Alan, who will take you through some detail in terms of the first half results. And then I will come back and talk about the value creation part of our proposition for the four key stakeholders, with a particular emphasis on the shareholder stakeholder in our business.

Six Strategic Drivers

So, with that in mind, six strategic drivers.

Differentiated brand

Where are we on building a more differentiated brand? What you see here is the progress on the brand since January 2014, and I am pleased to say that that progress continues, through the behaviour, through the proposition, through the experience the customers are having in our stores. Actually, we are seeing a significant improvement in the health of the brand.

And in the first half of the year, net promoter score for Tesco as a place to shop, up 11 points, significantly ahead of any of our peers. And we have the YouGov most improved brand for the second year running.

And interestingly, if you go into the anatomy of that and what it is this driving improvement, the two key things is our perception of value for customers over that time period has improved by 2.9 points, a very significant step up. And that goes to the relative pricing that you are seeing as we sharpen the offer in our stores. But also, very importantly, actually the quality perception of the brand and the business is improving at the same time as that value perception. And that is what we are trying to do in terms of the way that we build the branded proposition.

So in terms of differentiated brand, very much on track and very pleased with the progress that we're making.

Operating costs

When it comes to operating costs, what I've done on this chart here is, before we shared the announcements last October, Alan and I – it's nearly three years since Alan and I talked to you for the very first time as Tesco – we announced a £250 million reduction. By August 2016, we generated a little bit more that £600 million of cost saving, and then we shared with you an aspiration to reduce by a further £1.5 billion by 2019/2020.

And that is what you see on the right-hand side. The dotted line is the shape that we gave an indication of in the Capital Markets Day and the solid line is what we have delivered so far. So we are at £485 million cumulative, so we are nearly one-third of the way through. And, as we have always said, having set out the target and a first view of phasing, we see it as our job to try and bring forward as quickly as we can the change in the business in a sustainable way, as quickly as we can, those cost savings.

So as we do that, that allows us to think about how we invest in our business, so I am really quite happy with the cost-saving plan. We are ahead of the shape that we said. Our aspiration still remains £1.5 billion in that time period but we put ourselves under pressure in terms of trying to do it as soon as possible.

Generate cash from operations

The third was about cash, we shared – and you picked up the £9 billion of cash that we were looking to generate from our retail operations and that was in the long-term incentives that you picked up. And that's by 2018/2019 and so far we are just under £4 billion.

We are confident about the cash generation. If I look in the first half of this year, and we will talk about cash in the results in particular, but there was another £237 million from working capital, a further £71 million of reduction in stock. And if you look at the cumulative working capital improvement, and actually what it is we're doing in getting record levels of availability actually with significantly less stock, that is a massive improvement over the three years.

And we talked - for those who were at the session that we did in Welwyn – about this concept of One-Touch replenishment, i.e. when it appears at the back door, how much of our stock is replenished and a colleague only ever needs to touch it once? We started from a place three years ago where on that measure we were in the low 50%s and actually in the first half of this year we were actually at 72% And our aspiration, it is a very good and important measure for us in terms of how efficient our operation is, and we continue to drive that. And what that means is that's more than 100 million cases that are only touched once after it gets to the back door; a very important way in terms of how it is we're simplifying the flows in our business. So really, really good performance in terms of cash from operations.

Maximise the mix

We also talked then about how it is we would manage mix and we shared with you the chart that is on the left-hand side in October. And I haven't changed the colours. We will update all of this in the full year in that degree of detail as we did last year.

What I did pull out though is, if I go back to that point, in the first half, in that bottom right-hand corner in terms of Group, we started from a place, which first half 2015/2016 we were at an operating margin of 1.4%. A year later it was 2.2%. And you have just seen in the numbers – and Alan will talk about the results some more – it is 2.7%.

So as we manage mix, that combination of volume, of mix and of cost-effectiveness is playing through in the recovery of the margin, almost exactly as we hoped it would when we set out the plan.

What I've done on the right-hand side is just give you that breakdown. You have probably seen it in the release, but if it's 50 bps up at Group level, it's 32 bps in the UK and Ireland, 132 bps in Central Europe and 146 bps of improvement in Asia. So across the board geographically, strong contribution to margin improvement. And we will get into the detail of mix of margin in terms of categories when we update you full year, but so far so good in terms of how it is we're getting a better quality mix through the business.

Maximise value from property

The next thrust was around how it is we maximise value from property. And we've made announcements and clear declarations of this as we've gone through the turnaround. And what you see on the left-hand side is accumulative impact of the £1.2 billion of value that we generated from the property portfolio. And in the first half of the year that has carried on. There has been about £175 million of value released.

We talked – again back to October – we talked about this concept of 'air rights' and in this half year you saw the Hackney transaction, which is the first of those 'air right' deals. There has been some more store buybacks from British Land and that has sort of concluded our joint venture arrangements with British Land. But there were seven stores there.

And there is just over 400,000 sq. ft. of re-purposing of our square footage, and that's by the partnerships that we've used. You have seen the ones here in the UK, but we've got H&M, Decathlon, TK MAXX in the international portfolio as well. So that element of how it is we can use space with partners continues apace. So again, we're really happy in the progress that we are making in terms of property.

Innovation

And then finally, if you were really paying attention a year ago, I shared with you the concept of an innovation funnel. And the good thing about an innovation funnel is that it allows me to keep all the things that you have not yet seen in a dark blue circle and you have to wait for us to bring them to market. But I did – and it was actually talking to some investors about how much innovation we bring as Tesco and whether we always give it enough credit.

So I've just put up there some of the things that have happened. Core product innovation – something like 810, 809 – I think to be specific – completely new lines launched in Tesco during the half, but very significant activity in the launch of a national Tesco now 2-hour delivery capability; the re-branding of Tesco Play Plus; the re-issuing of Tesco loyalty card, with now a contactless capability.

You will see more and more and more as we enhance the capability of things like the loyalty card, of things like own label. You will see quite significant activity continuing in the innovation space. And actually, these innovations are, for customers, part of what is driving that re-appraisal of the brand. So really happy with the innovation capability and, if anything, we are stepping that up as the brand gets stronger.

So really that's it, that's the six strategic drivers. That gives you an update of what's happened long-term but also very importantly in the last six months. And with that I'll hand over to Alan to take you through the results.

The Half Year Results

Alan Stewart

CFO, Tesco

Thanks Dave. I'll just bring my water. Good morning everyone.

Overview

So if we start with our half-year results, we've made good progress in the first half and it's another strong financial performance. We have continued our momentum in sales, which have grown 3.3% at actual rates, and 0.7% at constant rates, to £25.2 billion. This means, as you have seen this morning, we have now delivered seven consecutive quarters of growth in both the UK and the Group.

Our operating profit was £759 million, up 27% year on year, driven largely by the UK and we have seen strong margin progression, as Dave said, in both Central Europe and Asia too. Overall, Group margins are up 50 basis points to 2.68%.

We have generated £1.1 billion of cash, which is up 19% year on year, and means we are firmly on track to achieve our £9 billion cost target.

UK

If we turn now to the UK, our volume-led recovery continues. Overall volumes grew by 0.3% and we delivered a particularly strong performance in our fresh food business, with volumes up 1.5%, one and a half percentage points up. We outperformed the market in volume terms by nearly 6% in meat and 3% in produce. Transactions grew by 0.4% in the half and we've seen almost 300,000 more customers shopping with us in the UK year on year.

These results have been driven by continuing to improve the customer offer. Two particular highlights give examples of this. In addition to being named Britain's Favourite Supermarket for the third year running, we were delighted to be names Supermarket Bakery Business of the Year last month. This is the first time in nearly a decade that we have had this award. The improvements we have made have led to a really strong performance and a positive customer feedback.

Our clothing team has also delivered another strong performance with F&F sales up 3.5%. Importantly, the mix of these sales is really strong too, with 84% now being sold through at full price.

UK & ROI

Moving to the headline results of our UK and Irish segment, we have seen positive like-for-like of 2.1% for the half. Market conditions have been challenging with the return of inflation, but we have been able to protect our customers from more of this pressure than others by working closely with our supplier partners.

We have included the usual detail in terms of like-for-like sales and channel analysis in your packs, from which you will see that we have had a particularly strong performance in Extras in the UK, which achieved 1.6% like-for-like growth in the half.

In grocery home shopping we saw 4.6 percentage points growth, which was once again driven by increases in both order numbers and in basket size.

As you can see from the waterfall on the right, UK and ROI operating margin has increased by 32 basis points to 2.1%. We have continued to invest in price for customers and this has contributed to the continued volume growth.

These waterfalls often mask offsetting movements beneath the data. And in this case positive fresh food volumes have been partially offset by declines in, for example, general merchandise, where we continue to be far more selective in the volume we drive. I would also highlight the significant progress we have made towards reducing costs towards our £1.5 billion Group cost reduction target, as Dave has already mentioned.

Central Europe

As you will have seen from the release, we have reported Central Europe and Asia as separate segments to reflect the change we made to our management structure early in the year.

In Central Europe, we've seen an improvement in performance in the second quarter, predominantly driven once again by food. We continue to see strong like-for-like growth in the Czech Republic and in Slovakia. And in Poland, which remains particularly competitive, we have also seen an improvement reflecting our ongoing investment in the offer in this market.

Central Europe's operating margin has increased over 130 basis points to 1.9%, driven largely by significant cost savings of £42 million. Partly offsetting this, inflation across the region has fed through into our cost base. Whilst this has also led to some sales inflation, we have been able to mitigate some of the impact on this on our customers by working closely with our suppliers.

Asia

Looking now at Asia, as we mentioned in the first quarter announcement, our like-for-like performance has been impacted by our decision to stop unprofitable bulk selling activity in Thailand.

Asia's like-for-like for the half, after stripping out this impact, was down around 2% points, which largely reflects a reduction in short-term promotional couponing activity in Thailand, again predominantly in the second quarter, which is running around half the previous level.

You can see the positive impact of these strategic decisions by turning to the profit waterfall. Whilst the market is seeing selling price inflation, we have continued to invest in keeping prices low for customers, but our mix has significantly improved.

With our continued focus on improving the cost base, margins are up nearly 150 basis points in the Asia segment.

Tesco Bank

Tesco Bank, which is now in its 20th year of serving Tesco shoppers, has grown active customer counts by 2.6% in the half, with further improvements to the offer. These included the introduction of our new features to the mobile banking app, which is now used by over one million customers.

Our headline lending balances have grown 16%, with an increased focus on secured lending, which has grown by 37%. Secured lending now accounts for 24% of the loan book, up 4% points year on year, and we would expect this proportion to grow.

Operating profit before exceptional items in the Bank is down slightly by 3.4%, as our strong retail banking performance is more than offset by the lapping of a higher-than-usual debt sale in the first half of last year.

This slide shows the usual standard metrics we always share with you on the Bank. I have already touched on lending, and you can see here the differing rates of growth between the secured and the unsecured lending portfolios.

You should also expect to see a much lower rate of unsecured lending growth going forward, reflecting the Bank's greater focus on secured lending. Our bad-debt-to-asset ratio has increased slightly to 1.3%, but remains well below pre-financial crisis levels of 3-4% and is something that we continue to monitor every closely.

The improvement in our cost-to-income ratio to 59.6% follows the restructuring we made in the bank last year.

And finally on the bank, you can see that our capital and liquidity ratios remain strong.

Cash Flow

Turning now to cash, we are really pleased with the continued performance in our operating cash flow.

As you will have seen from the release, we have changed our measure of retail cash flow to better reflect the cash available to shareholders. As such, it is shown after property transactions, exceptional items and business disposals. This waterfall however shows you the way we think about sources and uses of cash within the business.

I start on the left with £1.9 billion of cash from retail operations, which is up 27 percentage points year on year, excluding movements in working capital.

If we then look at working capital, as Dave said, we have had a positive inflow of £237 million as a result of continued focus in this area. This includes the One-Touch replenishment benefit, which Dave mentioned, which was a 10% increase in UK packaged food. And we've also seen a more efficient promotional strategy in Central Europe. For the second half we expect a further, albeit much smaller, improvement. Going forward I would generally expect around £200 million per year improvement in working capital.

Exceptional cash items resulted in an outflow of £247 million. Within this are £135 million of payments in relation to the deferred prosecution agreement with the SFO and the initial shareholder compensation scheme payments, as well as £82 million of restructuring costs.

These restructuring costs were made up of £53 million relating to provisions we made last year and £29 million relating to payments in the first half. This then leads to an overall retail operating cash flow of £1.139 billion, up 19 percentage points year on year.

I will come to CAPEX in more detail in a moment, but it is important to note that the CAPEX shown here is on a cash basis and partly reflects the yearend accruals now being paid. Net interest and tax payments of £173 million, were £38 million lower than last year, largely as a result of our significant debt-reduction programme.

Net property transactions include the consideration relating to the BLT transaction, which Dave mentioned, and in which we regained sole ownership of the seven stores in the UK. This was largely funded by £138 million of proceeds from property sales, including the completion of Hackney and the sale of a further 49 sites.

We raised £277 million through disposals and dividends received, and this is mainly the sale of our remaining minority stake in the Lazada Online business.

As a result, our overall free cash flow for the half is £586 million. This reflects our strong underlying profitability and working capital improvement, offset by the SFO payment and the timing of the cash CAPEX and property transactions.

Capital expenditure

If we look now at CAPEX, the first half CAPEX of £427 million is largely made up of our continued maintenance and refresh programme in the UK. The £45 million for Central Europe reflects the space repurposing we have been carrying out and from which we are seeing good returns. In Asia, the £74 million relates to 33 new stores we have opened, primarily in the convenience format and repurposing in 11 stores. We now expect CAPEX for the full year to be at £1.1 billion, as we continue to benefit from efficiencies in both the purchase and the use of capital items. Going forward, we expect CAPEX annually to remain between £1.1 billion and £1.4 billion.

Pension

We've included a couple of slides here on the pension to help explain the significant movements this half.

Triennial pension review

I'm pleased to say that we've concluded the triennial actuarial valuation, and have agreed with the trustees and the regulator that our annual contributions will increase by £15 million to £285 million from April 2018. The long-term framework for our agreement with the trustees remains unchanged. This is a small increase on the previously agreed £270 million, and is in line with our expectations. The valuation also confirms the actuarial deficit of £3 billion as at March 2017. This is an increase of around £250 million since the last actuarial valuation in March 2014, and reflects the updated view on expected future returns and the actual scheme experience, plus of course the market performance of the assets since the last valuation.

Given the understandable interest that always surrounds our pension position, it's worth pointing out that our scheme is very young compared to the majority of schemes. Only 18% of all members are currently drawing a pension. This means the liabilities are very long-term, with over half of the benefits due to be paid in a period beyond 30 years from now. We've a long-term plan to manage the funding of these liabilities, and a balanced mix of assets to reflect this. Our intention remains to get to a level of self-funding within the scheme over the longer term.

IAS 19 pension deficit

Our IAS 19 pension deficit has reduced significantly to £2.9 billion pre-tax and £2.4 billion post-tax as at the end of August. As you can see from the waterfall, in addition to gains in scheme assets, this reduction has been driven by three key factors. First, the change in the discount rate that we've made now to more appropriately reflect corporate bond yield over the life of the scheme's liabilities. Secondly, we've applied the latest industry life expectancy tables, and, thirdly, there's been positive scheme experience since the last funding valuation in March 2014.

Balance Sheet Improvement

Along with the pension deficit, we've also made further good progress towards strengthening our balance sheet. Net debt has reduced to £3.3 billion, reflecting the improved cash generation I spoke about earlier. We've repaid around £1 billion of gross debt in the last year, including the £500 million bond tender exercise we recently completed. We'll see the benefit of the reduced interest from that in the future, and we'll continue to look at making our balance sheet as efficient as is appropriate.

We've also seen a reduction in our lease commitments following the buyback of the seven stores I've previously mentioned. Total indebtedness now stands at £13 billion, an £8 billion reduction from 2014, with lower net debt driving around half of this reduction. Net debt is 56 percentage points lower from 2014 through to where we are today.

Improving Debt Metrics

The significant progress we've made on our balance sheet is reflected in an improvement across all of our debt metrics. Net debt to EBITDA has improved from 1.6 times to 1.3 times, reflecting both the £460 million reduction in net debt, as well as the increase in profitability of the business. Our fixed charge cover has improved from 2.2 times to 2.4 times, and the total indebtedness ratio has decreased from five times to 3.7 times, reflecting the improvement we've made in reducing net debt, the benefit of the discounted lease commitments dropping, as well as the reduction in the pension deficit. We can see a clear path to the investment grade metrics now being met.

Earnings per Share

This table reconciles the operating profit that we've made to our diluted earnings per share measure, which strips out the non-cash IAS 19 pension deficit charge, and the predominantly non-cash impact of fair value remeasurements on financial instruments as required by IAS 39. This is a measure we've refined in this half to better reflect the underlying cash performance of the business. The 71% increase in EPS largely reflects the improvements in profitability and the lower let finance costs year on year.

The tax shown here applies our effective rate to PBT pre-exceptional items, and the other adjustments I've just mentioned. We anticipate a full-year effective tax rate of 25%; you'll see the rate for the half is slightly below this.

Dividend

We are pleased to be able to restore the Tesco dividend, and have declared an interim dividend of £0.01 per share, which will be paid on 24th November this year. We anticipate a broadly one-third/two-thirds split between the interim and the final dividend, and we will intend to reach the targeted cover, as previously announced, of around two times earnings in the medium term. The restoration of the dividend reflects our continued improving performance and the Board's confidence in the plans that we've set out.

Guidance

Finally, and before I conclude, we've included in this one slide all of the statements we've made that help shape your understanding of our continued progression. The margin, costs and cash generation targets are directly linked to our six strategic drivers, which Dave spoke about earlier; the majority of the other items, I've touched on already in the presentation.

Just a little bit more colour on the finance costs and tax, to help your modelling on these going forward. On finance costs, our average rate of interest on long-term debt is around 4%, which should give you a sense of how that line will move as we pay down debt. On tax, as I mentioned, we expect the tax this year to be around 25%, in line with last year. However, we anticipate this to reduce to around 20% in the medium term.

Financial Summary

So, in conclusion, we've had another half of strong performance across the whole Group: 3.3% in sales growth, margin up 50 basis points, and a 19% increase in retail cash generation. Our balance sheet is in a significantly stronger place, our net debt is down £469 million from the yearend, and we repaid £1 billion of debt, including the £500 million bond tender. We've also agreed with the pension trustees our annual deficit contributions of £285 million per annum, starting in April 2018. And finally, as I said, we're pleased to announce the reinstatement of the dividend, demonstrating the Board's confidence in our recovery.

I'll now hand back to Dave.

Creating Long-Term Value for Our Four Key Stakeholders

Dave Lewis

CEO, Tesco

Four Key Stakeholders

Thanks very much, cheers Alan. So, as Alan says, I think we look at the first six months of the year, and are really pleased with the way that we've managed to navigate the market conditions we find ourselves in, and the turnaround very much sort of firmly on track. What I want to do now, though, is come back to what we talked before about the four key stakeholders in our business, and what it is we're doing to build long-term value into those relationships.

Customers

If I look at it from a customer point of view – again, you'll remember, the chart on the left I talked about as being, if I look at all of the customer metrics, and obviously we do, the one that is being really focused on is that whenever a customer walks in our store, 'everything I want to buy was available.' And that is a combination where all the range but also the service proposition comes together. And you'll remember that where we were in the first half of 2014/2015 was significantly below where the market was. And what we've been doing progressively over that time is getting ourselves to a place where what it is we're offering to customers when we come is the best range of availability in the market place. Critical that we never let our customers down, that there's never something that they want that is not available. It's a 100% goal that is always difficult to achieve, but relative versus the market place we've become much more reliable, transparent and dependable for our customers during this period. And that's obviously crucial to our business.

Market outperformance

In the last six months, I've shared this chart before but the other way of judging whether we're building value in the relationship we have with our customers is the vote they make in terms of where it is they choose to shop. And we've talked about our volume growth, so the 0.3% volume growth is made up of very strong performance in food, the 1.5 that Alan talked about. There's a drag in there of 0.3 total volume from general merchandisers – we reshaped that portfolio. This is against the market; this is IRI versus the market. And what you see here is a strong and consistent performance ahead of the market in the categories where we put that priority. And that's food, that's fresh food, that's packaged food, right? So that volume and, indeed, value outperformance versus the market continues.

And for those who are interested, if you were to take the [inaudible] numbers and look at the market share of food, over the last 52 weeks Tesco grew our value market share of food for the first time. We've been doing volume for a little while but actually now you see value market share growth in food in the UK as a result of this outperformance. So, building value with customers, those are two proof points.

Colleagues

Significant amount of change

When it comes to colleagues, now it's fair to say there's been a huge amount of change over three years. That's resulted in lots and lots of change in the ways that we work but also in terms of structures, and that's meant there has been restructuring in the first half. You've heard from – head office restructuring, a 25% reduction in head office costs planned there. You've seen the call centre change in Cardiff. So there's been a significant amount of change for Tesco colleagues as part of this turnaround, and there's been consequences to that change.

A great place to work

I have to tell you, the way that colleagues have engaged in that change, nothing short of exemplary. And here, we've shared this with you before but a great place to work and a great place to shop, on both of those indicators, as we've walked through – we do, every six months, a 'What Matters to You' survey. That continues to be positive feedback from colleagues in terms of the way it is we're making the transformation inside the business. And that's crucial, given the changes that we're doing.

First half 2017/2018

In the first half, in addition to the restructuring I've mentioned we also announced the 10.5% pay increase for store colleagues over two years, so a significant investment there. We've also simplified the structures yet further through the organisation. And the way that I look at it is, as a result of those changes we've released another nearly 50,000 hours that go into serving customers on the shop floor. And that's the sort of release that we want: keep it really simple, keep it really lean in all things that are not serving customer, and release all of the effort into serving Britain's shoppers a little better every day.

Suppliers

Growing volumes with supplier partners

We've talked to you about supplier viewpoint and we've shared with you that trend over time. I thought I'd share with you something ever so slightly differently. This is actually a chart that I used at the IGD – we do a trade briefing to all of our suppliers every year, and we shared this with our supply base. And I thought I'd share it with you because when I talk to investors this is actually one of the places where I got a lot of interest. Because it plays into that question which is: how does scale, how does volume leverage play into the relationship? We always talk to you about total volume. I think what we tried to talk to you over time is being selective about the mix choices and where it is we can get benefit. And that really does come down to the particular category or the particular supplier.

So, when you look at total volume, I thought you may be interested to know – and this is to May, I've kept it completely consistent with what we shared in the IGD – there were 95 Tesco suppliers that in the previous 52 weeks had doubled, more than doubled, their volume with us, i.e. more than doubled their Tesco volume. And it's normally that Tesco is one of their largest customers. And so on and so forth down that list. There are 1,200, nearly 1,200 suppliers whose growth with Tesco during that year was significantly more – you can do the weighted average, if you like – significantly more than 10%. And so when we talk about driving volume growth and improving operational leverage in the end-to-end way we work with suppliers, it really comes to fruition at that supplier interface. So, when people ask me how it is we're managing to offset some of the inflation, how it is we're working with our suppliers in order to contribute to that, this is one clear indication of how it is we're managing to do it.

Contribution to volume growth

The other bit that was interesting from that was to show where that volume comes from. As you know, we've taken out some volume from range resets – we've talked about that a number of times in this room. And that obviously takes volume away. The interesting thing is there's an element of new product development that comes in, so the new innovation, and that just about compensates. Now, the fact is the number, if you remember, we took out… Since we started there've been 7,200 SKUs reduced, 2,700 go back in over that period in terms of new innovation; net-net volume about the same in this period.

The interesting thing is growing the core. The contribution to the core, i.e. those things that customers most want, more available at better prices, is what's driving that. And if you're a supplier, for most suppliers, driving core is much more beneficial to your operational margin than some of the innovation that you bring. And that's what's been a really interesting part of what's changed the nature of the business with our suppliers, as well as changing the way we want to do business in terms of our approach. So, a slightly different insight into suppliers, to try and help you with how it is we're managing the business.

Shareholders

Final stakeholder, important stakeholder obviously, shareholders. So, I thought I'd spend just a little bit of time, a little bit more time than we have before, telling you a little bit about how we see the investment case within Tesco. Now, I've used the UK because it's where we do get 90% of the questions. I'll talk to you, I'm sure, in questions about how it is International can play an important role in the portfolio of Tesco.

A structurally advantaged business

But look, I think we start – and I think we've always been very clear, that we start from a relatively advanced place in Tesco in the assets that the business has. We have an unrivalled store network, 3,500 stores; we are very much nationwide. We have an unparalleled reach in terms of grocery home shopping. We can get to more than 99% of homes within a one-hour slot, so our reach is phenomenal there. And our market share in online is greater than our market share in stores. We have 16 million active loyal Tesco customers, and it's been interesting, as we've relaunched the Club card and brought it up to date in terms of its functionality, what that has done in terms of reawakening people's engagement with that unique loyalty offer.

Supply chain expertise, built up over many years. And if you look at the working capital improvement, if you look at the availability growth that we've had whilst taking significant amounts of stock and working capital out of our business, there's real expertise within the Tesco business and the supply chain. I've mentioned One-Touch replenishment: that's a significant improvement over the time period. And we have a unique own label capability.

Now, we've talked before about the performance of own label, and perhaps how we took our eye off the ball on that a number of years ago. I'm pleased to say, as we've put our eye back on the ball, it's performed extremely well. We're getting back towards a participation which is nearly 50% of sales. Own label as a totality, like for like, first half of the year: 5.5%. And if you look at some of the own label activity –we showed you outside, if you hadn't seen it, we launched two brands in general merchandising, Fox & Ivy and Go Cook. And have a look at the ranges if you haven't. That gives you some idea about the aspiration that we have for own label as it is, we relaunched through the balance of this year and into next year. But Tesco brand, a key differentiator for our business, and we have some longstanding supplier partnerships.

January 2015 internal plan

Now, I know that most of you know that already but it's really important that we always remember that when we think about what it is and where it is we start from, and how it is we layer on new opportunities for the business. Because if you remember back in January – if I remember back in January, and I'm sure Alan remembers back in January, we started from a place which is reflected in that sales baseline. And forgive me for trying to make this really simple. It is deliberately simple but it'll hopefully allow me to be clear. We talked, and you're right, we talked about volume-led recovery but we did talk about volume, mix and cost. And then if you think about it, when we came in October, we were very clear about what specifically we were trying to do in cost and specifically what we were trying to do in mix. But we've always thought about those three levers as being the ability to turn the business around. And what we shared with you in October was – we had this plan before we shared it with the market, obviously – is we had an ambition to reduce the cost by £1.5 billion. And we could see an outcome in a margin of around £3.5-4 billion if we got all of those elements right, and in doing so we could do that and generate £9 billion of retail cash, right? That's where we started from three years ago.

A sustainable model to deliver strong returns

Where are we now, and what does it mean in terms of as investors think about us going forward? Same ambitions, no change. In terms of financial efficiency, our capital discipline has continued to get better and better and better. Alan's updated you in terms of what we think it'll be this year, in terms of £1.1 billion. And we see a range over the next couple of years of between £1.1 billion and £1.4 billion, depending on when particular projects land. We continue to optimise working capital, a significant difference, and we have an aspiration to further improve that by around £200 million. And we're lowering our cost of debt as we reduce the amount of debt. It's as simple as that. And we are getting to a place where we can generate significant free cash flow. Now, with that cash flow – and again, forgive me for being so simplistic – we see the opportunity in driving shareholder returns, and that's significant in terms of EPS growth aspiration. And we've already been clear that we want to get to a dividend cover which is twice in the medium term.

We'll continue to strengthen the balance sheet. We've done some of that already. Alan's talked to you about debt levels; he's also talked to you about some of the bond repurchasing. And we've always had the aspiration that as an outcome of what we do that we would return to an investment grade, right? And if we carry on doing what we're doing, we can see a return to the investment-grade metrics in the not too distant future. It's an outcome of running the business better. And also that significant free cash flow allows us to invest back in the business in terms of the improvements that we want. And if we get ourselves, as we think we might, into a place where there's cash flow available after all of those three things are done, then that gives us good options to be thinking about what it is we might do with it. I suppose what we were trying to share with you is we feel that we're at that place now where we have confidence in the levers that we're pulling, the cash that we're generating, in a way which allows us to invest back in our business, make a return to shareholders and strengthen the balance sheet. And that's a significant difference from where we were when we first talked to you three years ago.

Capacity to Innovate

To that capability, we come back to my point about the capacity to innovate. Because the other thing that we have as a huge benefit in Tesco is we basically reflect the nation. If you look at the social and economic profile of the market and you look at our participation in it, it's almost a mirror image. So that's a huge place for us to start from, in terms of our ability to innovate.

Own label, we've done some; you will see more. Our ability to innovate and relaunch around own label is still an opportunity ahead of us. You'll see some of it in general merchandising, you'll see more of it across the business as we now roll forward.

Loyalty will be a big part of what you see from us going forward. We have a very significant relationship with our existing loyal customers, and as we put the different elements of Tesco together, an opportunity to build that loyalty yet further. And we do truly see how it is we can use a multichannel business to innovate more. I talked about Tesco Now but there are other things we can and we will do in that space.

So all of those things tell you a little bit about how it is we're looking to add value to the shareholder stakeholder in the Tesco business.

Booker

And then the final part of that is obviously where we are with Booker. I don't have any new news for you in this regard. But just to be really clear, in terms of timing, so the timing is they're due to give an interim view at the end of October and to produce their report by the end of this calendar year. That would mean therefore that in the first quarter of next year, depending on what the outcome of that review is, we would be in a position to make that proposal to shareholders. So Q1 2018 is – if you go back to January last year, it was what we anticipated to be the timing and we are still absolutely on plan for that timing. And nothing for me to report to you at this point in time.

Summary

So, to summarise, where are we? We're delivering on the six drivers. We shared them with you a while ago and I've shared with you where the progress is; I'm really happy with the progress that we're making on the six drivers. Those six drivers are continuing to drive momentum in our performance. You've seen what we've done in terms of increasing sales, profit and generating cash. It is a more competitive offer. We know that our rate of inflation is below that of our peers; it is a very good way for us to be able to enhance our relative pricing competitiveness. And we've seen that rewarded in the way that customers have chosen: 300,000 more, year on year, shopping with Tesco than they were last year.

We made significant steps on the balance sheet and Alan has taken you through that. And all of that allows us to be confident about reinstating the dividend. And I've tried to share with you a little bit about how we see what that means in terms of a sustainable model for long-term value creation for shareholders, as we continue on the journey that we set out for ourselves.

So with that, I'll stop and Alan and I will take your questions. Now, the one thing about questions, I did listen to the feedback from last time so we're going to revert to previous practice. So I need your help at this point, so we're going to go back, if I may, to the idea that there's one question per person. And that doesn't mean one question with A, B, C, D and E. I'm also going to ask you, which is – if it really is a very specific point on a technical detail, or a technical number, in order to help modelling, then I'm actually going to drive those and ask you go to Chris and the team, so that I can take the questions which are more for the room than a specific model. So I need your help in that but I listened to the feedback last time, so can we start? Why don't you start, because we...

Q&A

Andrew Gwynn (Exane): It's Andrew Gwynn from Exane, first off. My one question, Asia. So it's like-for-like down 2%, profit up 40%. Could you talk about the movers? I know you talked about cost savings and things but it's obviously quite a bit pool in that International component. How much should we extrapolate that into the future? 5.6% margin looks pretty chunky.

Dave Lewis: Well, look, I think there are two things – Alan touched on it – so if you take the improvement, a little bit more than a third of that improvement is driven by our decision not to do the bulk selling. The other is, as Alan says, a change in our couponing activity; we've reduced that by half. And the third element is, as – we talked to you a lot about the changes that we're making in the UK because that's where the interest is. But you should be really clear, the changes that we're making in the UK are then shared with Europe and shared with Asia. So the other part of that is changes to their operating model that are consistent with how we've been running the business in the UK. And it's those three elements that have driven that improvement. The change in bulk selling will be one-off through this year and it will be what it will be. But the improvement in underlying operating is something that we would seek to maintain going forward. So three things are driving it and we're really very happy with it.

Andrew Gwynn: Did you say, sorry, it's a 6%[?] margin [inaudible]?

Dave Lewis: Well, look, with a market-leading position and the way that we're managing it, we think that margin is sustainable, yeah.

Go ahead. I'll go that way, sorry.

Stuart McGuire (Credit Suisse): Morning, Stuart McGuire from Credit Suisse. You called out the performance of the Extras as being particularly good. I think the like-for-likes were 1.6%. Can you give us an indication of what the volume is in that, how much of that will be driven by inflation?

Dave Lewis: No, I don't have the split on volume inflation by format size, so I'm going to put that to Chris and we can follow up afterwards. But volume is – we only share volume at total Group, so I don't split it down in the same way.

Stuart McGuire: Does that mean I get another question?

Dave Lewis: No. There you go.

Rob Joyce (Goldman Sachs): Thanks very much. Probably more for Alan, I'm afraid. On the pension side, so the pension deficit has basically halved in the last six months. I know you gave us a little bit of detail on the bar charts but can you tell us what assumptions have changed there, and what's driven the change in those assumptions over the last six months?

Alan Stewart: Yeah, I'm going to keep it to the high level because any detail is either set out in the deck or we can go back to Chris and the team. In terms of the reduction, 45% of the reduction is driven by the external factors, the mortality and the experience of the scheme; 55% of the reduction is due to the change in the discount rate methodology where we're now looking at the bonds.

Question: Okay, and just what's driven those? Why have they suddenly changed?

Alan Stewart: We can take that offline but they are external – the experience of the scheme is actually compared with assumptions made three years ago; the mortality tables, you'd have to ask the government actuary.

Rob Joyce: Okay.

Dave Lewis: So just to add to that, because it's clearly a point of interest, so asset performance and mortality rate drive 45%, the experience of the Group and the change in mortality. And 55% is driven by moving from using the gilt returns to corporate bonds, and that's 55% of the benefit.

Rob Joyce: Okay, so in short the government is saying we're going to die sooner.

Alan Stewart: Well, the government is actually saying that the rate at which we're going to increase the amount of time is less than it was last time is actually what the government is saying.

Dave Lewis: Yes, I think that's – let's move it on. Apparently we were going to live longer but only a little bit. Clive

Clive Black (Shore Capital): To the other end of that scale. UK margins, the movement in the first half, can you give us an indication of the dynamics of that? Do you have operational leverage in your business? And given the target you have reaffirmed today for the medium term, does that create a pressure point for you for some quite big stepped adjustments in trading margins in full year 2019 and 2020?

Dave Lewis: Short answer: no, it doesn't. So I'm really, really happy with the way we've managed the balance in the UK. So within that, there are always swings and roundabouts within it. We've been clear about what's driving it, so there is operational leverage. That supplier was one that I gave, the mix is another. So actually, the UK, given its size and import, is driving all of those big indicators in terms of the change in the quality of the business. And Clive, the guidance we've given for the medium term of an outcome of 3.5–4, really very comfortable with and the UK will play a full and big part in delivering that, so no problem.

Nigel Waller (Oldfield Partners): Nigel Waller from Oldfield Partners. In your January 2015 plan you talked about assuming ongoing sales deflation. We don't have sales deflation, so are the targets too easy?

Dave Lewis: So, look, you're absolutely right and we said at the time – and the reason for keeping the consistency is we did – when we wrote that plan, we assumed that deflation would carry on either from a market or from ours. It's changed; long-term plans, lots of things change. I don't think it's made it easier because the inflation affects most elements of that. But do we confirm that we still have an output range which is 3.5–4? Absolutely we do, yeah, and we're managing inflation in the way that we have.

Alan Stewart: Can I just add, the other element of the deflation was our desire to become more competitive relative to the market.

Dave Lewis: Correct.

Alan Stewart: And in that sense, with inflation, the rate at which we can become more competitive, actually the – not that it helps us, but it means that we can get there more quickly. And the more that we are absorbing that working with suppliers, the more competitive we are becoming.

Dave Lewis: Indeed.

Edouard Aubin (Morgan Stanley): [Inaudible], Morgan Stanley. Just to follow up on the hypermarket format, so on aggregate your volumes were down in hypermarkets. Any plan to accelerate the downsizing of the stores?

Dave Lewis: Yeah, look, we talked about the repurposing, we continued to repurpose and with the partnerships. I think the thing that we're saying – what we're trying to share with you is if you look at the long-term performance of the Extras, they're not a drag. They're performing really very well. I'm very happy with the mix, I'm very happy with the profitability that comes out of that Extra format. And the opportunity we have to repurpose is just an opportunity and we'll manage it in the fullness of time. And I'm very happy with the way we do that. So it's not an acceleration, to use your question, but we've got some really good partners. And where those partners allow us to give a mix and an offer to customers that enhances that Extra, we can take it and that's an opportunity for us.

Do you want to pass it forward? And – go ahead. If you've got a question, I didn't see whether you –

James Tracey (Redburn Partners): Hi, James Tracey from Redburn. There was £33 million of property profit included in underlying EBIT. Could you please give the split between UK and the other divisions?

Dave Lewis: Do you want –

Alan Stewart: Yeah, it's about £20 million of that is the UK; the balance is international. And what I would say is that there are also underlying – within the underlying earnings and profits that we're declaring, there are some movements, some quite significant movements, in terms of the costs that we're taking. We've got a lot of technology infrastructure work that we're doing year on year; that's a cost. We didn't call it out but we want to be really clear and transparent in terms of the property profits in terms of where they're split. But it's about two-thirds UK, one-third International. And overall Group-wise it's about 11 basis points on the margin.

James Tracey: Yeah, perfect. Cheers.

Dave Lewis: Go on Bruno. I'll come – I'll move that way and come [inaudible].

Bruno Monteyne (Bernstein): Good morning, Bruno Monteyne from Bernstein. Going back to the slide five with your margin progression at 50 basis points, a lower increase than the year before, the UK about 30 basis points, am I right that to get to your Group targets, the UK profit improvements has to step up in the next two years, the rate at which that [inaudible]?

Dave Lewis: I think go back to Clive's question. If you look at the size of the UK in the Group, the UK has to get to around what we've talked about for the Group. But I repeat, I am very confident in our ability to get there. I think the way that I would encourage you to look at this, Bruno, is that, look, we had an awful lot of price realignment to take care of. And we've done that through volume and mix and cost effectiveness. As we get to a place where our price is as competitive as we would want it to be and, as Alan says, we can do that through avoiding inflation, rather than the deflation we assumed at the time, then as we get to that competitive position, as we continue to make those improvements, then we release more to be able to recover the margin. That's exactly why we set out the shape that we did. So I look at the plans, I look at our ability to deliver that and the fact that more of that plays into margin in the future years is exactly how we envisaged it when we started.

Bruno Monteyne: So it sounds like you've achieved a point of pricing where you roughly want to be?

Dave Lewis: Well, look, it's dynamic, right? So I think anybody would be foolish to say, "I've reached the point and that's it." It changes on a weekly basis, you know that, so we have to keep the ability to flex as we need to. But clearly, we inflated by 1% less than the market, so that's sharpened our pricing and we continue to look for opportunities how we can sharpen the pricing. But there are different ways, it doesn't just have to be a complete price reposition, we could change the basket if we want to. Okay? Do you want to pass back? Thanks.

Niamh McSherry (Deutsche Bank): Niamh McSherry, Deutsche Bank. I was surprised by the level of margin improvement in Europe and Asia. And even if we exclude the couponing and reduced bulk buying, it still looks like 50–100 basis points from the cost-cutting programmes. Is that something that we should expect to continue over the next few years, or was there something particular driving that this year?

Dave Lewis: So the bits which are not driven by – so let's take Asia, let's take Europe, as two separate ones, and Alan please add as you see fit. In Asia, that's about the bulk selling, that's the significant bit. But the improvements that we've been making to the operating model in the UK, the way that we run stores and all of the things that you've seen, the bits of that which are applicable to the way we run the business in Thailand, we're sharing with Thailand. Tony Hoggett, who was the Company Operating Officer in the UK, is now responsible for Asia, so he's taking some of those lessons and applying them. And therefore we can improve the operating efficiency in Asia as a result of that. And then we'll decide whether that's further invested in the offer or enhances margin.

In Central Europe it's slightly different – we're on a journey to look at those markets together. And so a series of changes, both in terms of how we physically run the operations – and that's numbers of offices and all of that good stuff, so that'll be a one-off benefit, one-up step that we take. But then there's an opportunity to buy better, yeah. And there's an opportunity to buy better and you know Matt Simister was responsible for buying in the UK and he takes that expertise with him there, so I see an opportunity there. So we see opportunities in both. Whether that translates itself into ongoing increases in operating margin or whether we choose to reinvest it in the way we have in the UK and drive volume, that's the optionality that we have.

Alan Stewart: The one thing I would say is that we would expect to see continued profit improvement across our business.

Niamh McSherry: Thanks.

Dave Lewis: There we go. Yeah.

Dan Ekstein (UBS): Thank you, good morning, it's Dan Ekstein from UBS. Going back to margin progression in the UK, we saw 30 basis points, which is I think pretty decent progress in the context of what you were just saying about offsetting 100 basis points of inflation. And it seems a lot of that relates to more efficient collaborative relationships with suppliers. And I wonder if you could tell us a bit more about where we are at in that process, whether sort of the bulk of the improvement there has been achieved or whether there's more to go? Thank you.

Dave Lewis: Okay, so there's still – definitely there's more to go. I think the only thing I'd build on, I think, is the improvement in the UK comes back to that absolute volume performance in the categories that matter most; the mix that we choose to make and choose to sell and the cost-effectiveness that we are able to generate, so it's not just that. And we see opportunities in all three of those. We're approaching £500 million on our £1.5 billion journey; that's an opportunity. In terms of suppliers, just take what I was saying about One-Touch replenishment. We've got it to 72 from – we started from 50. There's an aspiration to get that yet more. And so I spent part of the day yesterday with a supply chain team. Some really interesting plans on a supplier-by-supplier basis in terms of how it is we can, not just lower cost but increase the amount of freshness, the shelf life; lots and lots of opportunities. So we started the journey. The important thing for us – most important thing – strategically is having built a relationship now where, actually, partners want to sit down and talk to us about three, five, seven-year plans that can actually fundamentally change the way we work, that's what we're working on.

Okay, going that way. Can we go back? I'm just going to keep working that way and then we'll – please, have we got a microphone? Okay, the microphone will work it that way. My apologies. Go ahead, please.

Sreedhar Mahamkali (Macquarie): Morning, Sreedhar Mahamkali from Macquarie. Just picking up on Bruno's point, again, and a little bit, probably, differently, as you look at second half, the trade-off that you talked about in terms of improving relative price positioning and the margin, does it look pretty much the same as first half? Is that any different as you're going to walk through the peak inflationary periods and probably if anything the inflation is [inaudible]?

Dave Lewis: I think, look, none of us know exactly how the second half plays out. I think, look, Sreedhar, the best way I can answer is we see what the market is looking at in terms of expectations for the full year, we're comfortable with that. We have some plans for the second half year about what it is we want to do but we'll see how the market reacts and therefore I wouldn't get in – we don't see any difference in terms of inflation, for example, to be specific. But we're comfortable with what it is the market is expecting and we'll play the volume, the mix and the cost effectiveness as we see appropriate, as we walk through the next five months.

Sreedhar Mahamkali: And was the shape more or less even through the first half of the year, or was it –?

Dave Lewis: No, look, but the shape wasn't even but let's be candid, that's much more to do with the weather pattern that we saw in the first half than anything you would attribute here. So we don't talk about weather but it's been very different month on month, year versus year but that's the cut and thrust of retail and I suspect we'll have that in the next six months as well. So it's much more to do with that than the shape. But the plans that we had were delivered.

Can we pass the microphone down this row in front of you, please? There we go, sorry. Is there any more water?

Roland Bosch (Hermes): Thank you very much, Roland Bosch from Hermes. You created a more transparent relationship with your suppliers and you mentioned also that with 1,100 suppliers you increased significantly your volumes. How has that translated in supplier satisfaction? And I have seen also some metrics of the grocery adjudicator.

Dave Lewis: Yeah. So if you look at it, we've shared, I think, supplier viewpoint as we've gone through. So we're still – if you take that measure, it's still high and in the 70s. I think we've seen that moderate somewhat as we've gone through that resisting of inflation but it still stays at the 70–odd level. And if you look, the feedback from Grocery Code Adjudicator is absolutely very, very, very good in terms of the feedback that that body is getting about the way that Tesco is doing its business. So actually, those relationships are coming through really, really very strongly, so still very good.

Pass – let's keep coming this way so that efficiency with the microphone, sir.

Xavier Le Mene (Bank of America Merrill Lynch): Yes, good morning, [inaudible] from [inaudible] Merrill Lynch. A question just on strategy, actually, in the UK. A few months – we can say years – ago you was trying to find the balance between growth and profit –

Dave Lewis: Yes.

Question: – so where are you there? Because we saw some initiatives which could potentially be dilutive to profit rather than accretive. So what is the strategy in food, and then can you elaborate also in non-food?

Dave Lewis: So where we are – so the growth in online in food was a little more than 4%, so 4.3–4.4%. Basket size is increasing, order size is increasing, so actually the health of our online food business continues to improve, and as does the intrinsic profitability of that. So I'm really – the strategy is playing out in online food shopping exactly as we wanted it to. We were very clear in general merchandising we start from a different place. The reduction in loss in general merchandising online has been made but we've enhanced the offer in a way which is not dilutive to that sort of profit turnaround that we set out to make. So actually, we've made a huge amount of progress in online.

And I can't believe I'm going to tell you this now, so just to give you a really interesting fact is if you were to take all of the orders and all of the food that was ordered online from Tesco last year, and measure how many hours it takes, that accumulative effort, and you take it to the website and the interface that we have now and you ordered exactly the same volume, the same number of people ordered the same volume, it would take you 3 million hours less to do that activity than it did a year ago. So the improvements that we're making in terms of how it is we engage and how we think about it all the way through are really quite material and significant. And we've got a long-term plan for how we'll continue to do that.

Do you want to pass down?

Mike Dennis (Lazarus Research): Thanks. Mike Dennis from Lazarus. I just want to understand, in terms of cost savings going into the future, you showed us no volume chart this time. You also showed us the IRI data without the discounters, in terms of packaged volume growth. And if my interpretation is right, you showed that you took – or you said previously that you took 23% of your range out of your business and that actually the volumes are mainly the linear square footage that those 280-odd suppliers have got from taking the range out of the business, so the volume growth that they've got is due to the one-off. I'm sort of trying to understand how that feeds into cost savings in the future and –

Dave Lewis: Well, the cost – sorry.

Mike Dennis: – why the actual cash margin seems to be going absolutely nowhere.

Dave Lewis: So, to your core issue of cost savings, we identified when we talked about £1.5 billion of cost savings, we identified three buckets. When we get to the full year, we'll give you the breakdown by the buckets. But in terms of store operating changes, we're delivering those; in terms of the warehousing and distribution logistics, we're delivering on those; and in terms of goods not for resale, we're making the improvement in there. So the cost efficiencies that we talked about in £1.5 million are in those three buckets.

When it comes to volume performance, actually we can and we should share with you in some of those details but the volume improvement that we're taking in aggregate – and this is where taking percentages, one always needs to get to the actual quantum in order to understand what it is we, as Tesco, represent to our supply base in terms of volume opportunity. And what I was trying to show with those list of suppliers is we're not talking about a small amount of people – a small amount of volume for partners in Tesco. And that's what we continue to drive and as we drive that volume leverage, we have the opportunity to invest that back in price. And what we've been doing up to now is investing that in price and taking the benefit in volume and we'll continue to do that. But, to Bruno's point, when we get to a price which is as competitive as it needs to be, the opportunities to rebuild margin from that will be available to us.

Mike Dennis: Yeah, but within that, obviously, the suppliers who've gained from the range review have gained linear square footage volume out of the business. So it's sort of a nil-sum game in some ways; they've just gained out of other people's losses of a range review. And therefore that's a one-off, it's not going to happen again. You're not going to take 23% out again.

Dave Lewis: But Mike, I'll give you the answer and then I'll move it on, which is that's why I deliberately gave you the benefit. If I looked at the volume over a 12-month period that came from the range review and innovation, and showed you that actually what's happening is the growth coming from the core, that's what I was trying to share with you. 300,000 more people are shopping with us every month and they're buying more volume from Tesco and that's what's driving it.

Do you want to pass the microphone backwards, please? How many more have we got? So I think there are two in the – sorry, it's very bright, I can't see. Yes, thank you. Yes. Keep waving, it's better if it...

James Grzinic (Jeffries): Morning, it's James Grzinic from Jeffries. A quick question on the brand index chart that you opened up with. It looks like your rate of catch-up is stalling, or the gap has remained pretty static for a few months. Firstly, why are you still underperforming? And secondly, how do you make sure you close that bit that you seem to be not doing any more?

Dave Lewis: Okay. So I think, look, as we – it is – law of mathematics, as we get higher, the incremental improvements will get more difficult; I'm sure you'd appreciate that. We show you versus an average of three for the rest of the market because we don't want to call out a particular competitor, as much for their sake as anything else. Look, the things that turn around and will continue to drive the brand is, first of all, the core experience, and so how do we keep that core experience? We started – we talked about three years ago that we'd need to behave our way out of the situation and we want people to reappraise Tesco through the experience that they have. And that's what we've been focused on. As we continue to offer more value, that will change the brand index. And then when it comes to the innovation that I talked about, that really is an opportunity for people to reappraise. So what you'll see in terms of what we do with our own brand, what you see what we'll do in terms of loyalty and the ability to add value from the whole of the Tesco offer, opportunities for us to add yet more value to the brand. And actually, as I look at the brand plan going forward, it's stronger than it's been at any other points in the three years. So it gets harder as you get higher, but I'm comfortable that we have enough ammunition to improve.

James Grzinic: So based on that chart and what you're saying, we're still not in a situation where we can let more of that self-help[?] flow to margin? I'm just wondering because if I strip out property profits and presume rental savings, the UK margin is largely unchanged.

Dave Lewis: Look, the opportunity – so the opportunity from adding value to the brand – I've always been clear – is a medium and long-term opportunity for Tesco but I don't delude myself as to where we started from. And therefore, at the moment, what we're talking about is volume, mix and cost to get us to the 3.5 or four that we talked about and we're really very comfortable with our ability to do that, and the progression of the brand in the way that we've seen.

James Grzinic: Thank you.

Dave Lewis: Thank you. That actually might have been the last question.

Speaker: Do you go around again?

Alan Stewart: Right, that's it.

Dave Lewis: No. Very good. Well, ladies and gents, thank you very much for your time, thank you very much for your attention. As we've tried to demonstrate, firmly on track and comfortable with the progress that we're making and the aspiration for the full year, so thank you very much indeed.

[END OF TRANSCRIPT]