Please note, this transcript has been prepared by our third party webcast provider and is not reviewed by Tesco.

Half Year Results 2018/19

CORPORATE PARTICIPANTS

Dave Lewis *Tesco PLC - Group Chief Executive & Executive Director*
Alan James Harris Stewart *Tesco PLC - CFO & Executive Director*
Jason Tarry *Tesco PLC - CEO of UK & ROI*

CONFERENCE CALL PARTICIPANTS

Andrew Philip Gwynn *Exane BNP Paribas, Research Division - Senior Food Researcher & Analyst of Food Retail*
Bruno Monteyne *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*
Clive W. Black *Shore Capital Group Ltd., Research Division - Head of Research*
Daniel Ekstein *UBS Investment Bank, Research Division - Director and Equity Analyst*
David McCarthy *HSBC, Research Division - Head of Consumer Retail, Europe*
Dusan Milosavljevic *Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst*
James Robert Anstead *Barclays Bank PLC, Research Division - Director*
James Robert Grzinic *Jefferies LLC, Research Division - Equity Analyst*
Nick Coulter *Citigroup Inc, Research Division - Director*
Robert Joyce *Goldman Sachs Group Inc., Research Division - Equity Analyst*
Stewart Paul McGuire *Crédit Suisse AG, Research Division - Research Analyst*
Xavier Le Mené *BofA Merrill Lynch, Research Division - Head of European Food Retail Equity Research and Director*

PRESENTATION

Dave Lewis *Tesco PLC - Group Chief Executive & Executive Director*
Good morning, everybody. Thank you very much for taking the time (inaudible) to join us this morning. I'm pleased to say I'm joined by a few of our executive colleagues. Charles, it's nice to see you back fit and well and firmly back in the saddle. But Jerry Mellon, some of you may not have met before, but Jerry is the new CEO of the bank, 6 weeks in. So it's his first time at the stock exchange. Andrew as Chief Product Officer is new to this event. Jason's changed seat, but he's been here before, but he's the U.K.

CEO, he's also here. So when we do get to questions at the end, as usual, we'll try and keep it very sharp in terms of 1 question each. All difficult model questions will be for Chris Griffith after. I'll try with Alan to answer, but if I need some help or if I can get a bit more flavor from my colleagues in the room, obviously, I'll invite them to make a contribution.

Okay. We are going to get straight to it, exactly the same format as we did the last time. I'm going to very quickly pass over to Alan, he's going to take you through the results. And then I'll come back and I'll talk about where we are through 2 lenses, the 6 drivers that we talked about a number of years ago, where are we, how are we doing as to medium-term aspirations, and then I'll spend some time talking about where we are versus the stakeholders in our business and what progress we've made and what it is we're going to be doing next. And then we'll go to Q&A. Is that okay? Alan, over to you.

Alan James Harris Stewart ***Tesco PLC - CFO & Executive Director***

Good morning, everybody. I'll begin with the performance of the group. We've delivered a good start to the year and remain firmly on track to achieve our medium-term ambitions. We maintain momentum in sales, delivering our 11th consecutive quarter of sales growth and an overall growth of the half of 12.8% at actual rates.

Profit growth continues to be strong, up 24.4% on the year-on-year to GBP 933 million, including the benefit of Booker. As you've seen from the release, last year's numbers have been restated for IFRS 15. This has had a relatively small impact in the half with a GBP 9 million reduction in revenue and operating profit.

Our retail operating cash flow remains strong at GBP 1.1 billion. This is down slightly year-on-year as a result of a timing impact relating to the Palmer & Harvey administration, which we flagged back in April. Excluding this outflow of GBP 139 million, our retail operating cash flow was up 10.8%.

If we turn now to the U.K. & ROI. If we -- we continue to focus on our food offer, which has seen 2.6% like for like sales growth. Like our performance overall, this strengthened in the half from 2% at the first quarter to 2.7% in the second.

General merchandise like-for-like sales have declined by 4.8% in the half as a result of our actions to focus on sustainable profitable ranges that are more complementary to a grocery shop. We've reduced the number of general merchandise products by 15% since the start of the year. We continue to perform well in those categories where we see sustainable profitable growth such as home and seasonal, which in aggregate grew by 3.6%.

Overall, we've seen 189,500 more customers shopping with us over the course of the last year with an average basket size [up] 2%.

The U.K. & ROI delivered GBP 685 million of operating profit before exceptional items and amortization of acquired intangibles, up 47.6% at actual exchange rates. This includes the benefit of consolidating

Booker from 5th of March, which I will return to shortly.

As I said, we've continued to deliver strong like-for-like sales growth of 3.8%, improving from 3.5% to the first quarter to 4.2% in the second quarter. As you can see from the waterfall, operating margin has increased by 56 basis points year-on-year to 2.66%. This includes the benefit of GBP 171 million from our cost-savings program. Combined with the benefit of increasing volumes for our suppliers anD improving mix, this has more than offset quite a considerable increase in cost inflation in the half. Cost inflation is largely driven by the full year impact from the first phase of our agreed pay award, which took effect for colleagues in November 2017.

We took the decision to close Tesco Direct in July, and these results include sales of GBP 92 million and losses, excluding closure costs, of GBP 23 million, up to the point of closure.

We've said that the Booker merger was about growth, and we are delighted with the first half performance as part of Tesco group, including very strong sales growth. Like-for-like sales grew by 14.3% in Q1, accelerating to 15.1% in Q2. This gave an overall like-for-like sales growth for the half of 14.7% or 13.3%, excluding tobacco. This growth benefits from a strong (inaudible) performance and some pleasing new contract wins.

Profit for the Booker business for the half was GBP 97 million, and we delivered GBP 16 million of synergies from our Joining Forces program, putting us firmly on track to reach at least GBP 60 million this financial year.

In Central Europe, we've seen good underlying performance in the region, and we continue to be challenged by some specific issues in Poland, which Dave will touch on later. These include the impact of changes to Sunday trading regulations, which have resulted in 13 fewer trading days in Poland during the half. This impacted like-for-like sales for the region as a whole by 1.2%. We closed 18 unprofitable stores in Poland, which also contributed to an overall sales reduction of 3.5% for the region at constant exchange rates. We announced an additional 13 closures in Poland in August this year, which will take place in the second half.

Operating profit before exceptional items was GBP 59 million, with a small year-on-year decline, reflecting the inclusion in last year's base of GBP 9 million profit on property-related items.

Finally, in Central Europe, we've made good progress in our regional cost-reduction program with total savings of GBP 34 million in the half.

Moving on to our Asia segment. Whilst like-for-like sales for the region declined by 7% for the half, like-for-like sales performance improved from down 9% in the first quarter to down 4.8% in the second quarter. This follows the annualization of our decision to remove bulk selling in April.

In Thailand, we've made significant changes to our sales mix in promotional strategy. We are continuing to see a sales impact of nearly 2% negative from the issuance of government welfare cards, which cannot be redeemed in modern retail chains, and there's also been a deflationary effect of our own price investment. This has resulted in some continued volatility in our like for like sales as we moved into the third quarter.

Our operating profit performance for the region is disappointing, down 29.1% year-on-year. The combined effects of the sales withdrawal, our significant price investment and the temporary impact of renegotiating promotional investment from suppliers into everyday low prices for customers have all had an impact. We expect this to continue in the second half as we maintain our investment in price in order to position the business for growth in a competitive and challenging market.

Our Malaysian business continues to perform well, and we've made further progress in our cost saving progress across the region as a whole, saving a total of GBP 36 million during the half.

Moving now to the bank, which has had a good start to the year. Operating profit before exceptional items is up 6% to GBP 89 million, mainly driven by increased income and ongoing cost reductions. We've continued to focus on secured lending with our mortgage base up 38%. Secured lending now comprises 29% of our overall lending portfolio, up from 26% at the year end. Unsecured lending is up 5% with an overall lending balance increase of 12.8%.

As I mentioned at our preliminary results in April, Tesco Bank has adopted IFRS 9 from the beginning of this year. This reduced opening retained earnings by GBP 166 million and results in the minimal profit impact in the half.

As usual, I've included this slide on Tesco Bank so you can see the standard metrics we always share. Along with our growth and income, our bad debt-to-asset ratio increased slightly by 20 basis points year-on-year. We have a robust system in place to manage customer bad debts and we continue to monitor these very closely. The balance sheet remains strong and well positioned to support future lending growth from both a liquidity and a capital perspective with a total capital ratio of 18.2%.

As I've said before, this waterfall on sources and uses of cash represents how we think about them. I'm going to call out the most notable items, starting with GBP 1.3 billion cash from retail operations. I then split out the working capital to illustrate the significant timing impact from the Palmer & Harvey administration, which as I mentioned earlier resulted in GBP 139 million outflow. Without this, we would have seen an underlying working capital inflow of GBP 110 million in the half.

Exceptional cash items resulted in an outflow of GBP 147 million, comprising restructuring costs of GBP 88 million, onerous lease provision utilization of GBP 32 million and shareholder compensation scheme payments of GBP 27 million in the half. We spent GBP 459 million in CapEx in the first half and, for the year, we will spend no more than GBP 1.2 billion. I'll provide some further detail on this in the next slide.

Our net interest and tax payments of GBP 274 million are GBP 101 million higher year-on-year, principally due to the resumption of tax payments in the U.K.

We generated net property profits of proceeds of GBP 99 million, including GBP 134 million proceeds from property sales in the U.K. business, including 2 in Booker. We also completed the buyback of the super store in Stroud for GBP 35 million in the first half.

The net impact of acquisitions, disposals and dividends received is GBP 54 million. This excludes the cash cost of combining of Booker, which is GBP 747 million, which does not fall within our definition of free cash flow. Last year, as you may remember, we also had the benefit of GBP 196 million proceeds from the sale of our remaining stake in Lazada.

Finally, our commitment to offset any dilution to satisfy new share issuance for share schemes resulted in the cash outflow of GBP 139 million, representing the bulk of our expected spend this year. Overall, this leads to a retail free cash flow of GBP 404 million.

Looking now at capital expenditure. Our first half CapEx of GBP 400 million is driven by GBP 251 million in the U.K. & ROI, as we continue to be focused on the maintenance and refresh of our stores at the appropriate level, along with the opening of 5 new Express stores within our convenience format. The GBP 35 million in Central Europe, it's mainly to the repurposing of existing stores where we've partnered with H&M to (inaudible) cost of coffee. In Asia, GBP 109 million CapEx relates mainly to 48 new stores we've opened in Thailand as well as some further repurposing.

As I've said, we now expect capital expenditure for the full year to be no more than GBP 1.2 billion, reflecting our ongoing disciplined approach. Going forward, I continue to expect to see our spend within the range of GBP 1.1 billion to GBP 1.4 billion.

As expected with the combination from Booker, our balance sheet has seen some changes over the half. Net debt has increased by GBP 0.5 billion to GBP 3.1 billion due to the cash outflow relating to the combination. And if we look at our lease commitments, the year-on-year increase is due to the GBP 379 million additional leases that Booker brought into the group. Removing the impact of Booker, these commitments would be down GBP 108 million from the full year at GBP 6.8 billion.

Our pension deficit has reduced from GBP 2.7 billion in the full year to GBP 2.1 billion at the end of the half. The movement is primarily attributable to asset performance over the period in addition to the continued deficit contributions we make. We've also acquired 3 of Booker's defined benefit schemes, which had a small combined deficit of GBP 22 million on acquisition, with all of these schemes close to future accrual.

Looking at our debt metrics, our total indebtedness ratio has continued to improve from 3. 3x at year-end to 3.2x, and our fixed charge cover has also improved from 2.7x to 2.9x. As a reminder, we've set thresholds of less than 3x for total indebtedness and more than 3x for fixed charge cover. We are firmly on track to achieve these.

Our diluted earnings per share before exceptional items and amortization of acquired intangibles has increased by 18.4% year-on-year to 6.36p. This was primarily driven by the strong increase in operating profit, partly offset by the higher tax charge.

As I mentioned at our preliminary results in April, with the continued strengthening of free cash flow, we formalized the commitment to repay -- to repurchase shares and cease any dilution caused from the issuance of shares to satisfy rewards. In simpletons, we want to ensure that the total number of shares in issue stays constant going forward. We still expect this to utilize around GBP 150 million per annum with the exact amount dependent on our performance.

We're pleased to declare an interim dividend of 1.67p per share, up 67%, which will be paid on the 23rd of November of this year. This will result in a total cash cost of approximately GBP 164 million. We continue to target cover of around 2x earnings in the medium term. Our dividend reflects our continued improvement in the performance and the board's confidence in the plans that we've set out.

Just before I conclude, as usual, I have a slide summarizing our guidance for the key financial metrics and how we foresee our continued progression.

As you know, the margin cost-saving and cash-generation targets are directly linked to our 6 strategic drivers. The remaining guidance for pension contributions, CapEx, finance costs, tax and the dividend remain unchanged from April.

We continue to focus in generating cash from working capital. However, for this year, the underlying 200 guidance clearly excludes the GBP 139 million relating to Palmer & Harvey.

So to conclude. The half represents continued strong progress, leaving us firmly on track to deliver on medium-term targets. We've delivered another strong half of financial performance in the U.K. & ROI, with our 11th consecutive quarter of sales growth and significant improvement in profit. I've been really pleased with the Booker Joining Forces program, which delivered GBP 6 million of synergies, and we are on track for at least [GBP 60 million] this year. We've also made substantial progression on our cost-saving program with total cost savings of GBP 241 million in the year, GBP 1.1 billion savings to date, leaving us also firmly on track to achieve our GBP 1.5 billion cost savings target. We continue to strengthen our debt metrics. And finally, our dividend once again demonstrates the board's confidence in our ongoing recovery.

Thank you for your time. I'll now hand back to Dave.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Thanks, Alan. Thank you very much indeed, very good.

Okay. So I said, what I'm going to do now is update on the 6 drivers and then talk through how we see the performance of the business for the 4 key stakeholders.

We touched on some of this in Alan's presentation, but if we talk about the brand, I'll be talking about the brand a little bit more in the second, but we continue developing a more differentiated brand for Tesco. Significantly in the half year, quality perception of the brand continues step forward. And importantly, as I talked before, that's without impacting on the value equation. Historically, that was a very difficult thing for Tesco to do, but as the brand in total improves, the ability to step forward in quality and maintain value perception is actually really very significant to us, especially when you see what comes next in terms of the brand.

The GBP 241 million of cost savings that Alan talked about in the half year take us to GBP 1.1 billion, still very, very confident of delivering the GBP 1.5 billion that we set ourselves as a target.

And we generated GBP 7.2 billion of cumulative retail cash from operations against the GBP 9 billion that we set out in that guidance. And again, very confident of getting to where we need to get to.

We continue across the group to work on mix. You see the group margin is now 2.94%. We closed Tesco Direct. If you take that out, the margin is just over 3%. And we continue to work on mix, particular in terms of general merchandise, particularly in terms of channel, but across all of our businesses. And the one thing I'd say is that's a very dynamic, it's a very ongoing thing. And it -- we see opportunity still in thinking about mix across the business.

Steve and the team continue to do absolutely fantastic job for us in property. Another GBP 134 million of value released from some of the schemes that we've talked to you about before. And we've also announced another store buyback, we completed Stroud, we are also completing in Siren Sister. So where stores are highly valuable with a good commercial return, we remain interested in buying those back, but we do that on a store-by-store basis.

And finally, when it comes to innovation, we are just over halfway through of the largest relaunch in the business's history. All right? This is 10,000 products that are changing, more than 5,000 have changed already. It will be finished by the end of our financial year. It's a huge undertaking. But the reaction from customers has been fantastic and I'll dig a little deeper into that. And we've also in the half year with Alice team done some really good work on making Clubcard much easier to use, much faster in terms of being able to utilize the value that comes from Clubcard.

So those 6 drivers continue to work for us across the business. I'm really very confident in the direction that we have against the guidance that we've given you.

The bit I'm going to talk about a little bit more today is actually in the area of the brand because there is some significant things happening on the brand. Now you've seen this chart from me before. We talked way back in November, October, November of '14, when we got ourselves to a place where the trust in the brand was 0. But I suppose in the context of this chart, for those of you following Tesco for longer, go back to January '14. And if you like I could put '13 on here as well and '12, and the gap between Tesco and the average of our 3 largest competitors in terms of how the brand was appreciated by customers in the U.K. by the YouGov measure was a significant weakness in the business proposition. We've worked hard, every part of the business, whilst Alis chief customer officer it's very true, the way we improve the brand is pretty much through the operations and everybody's customer experience of Tesco. And there are a number of things which have very systematically built towards improving the view and the perception of the Tesco brand. And that's significant what I'm going to come and talk about about where we go next, because we're getting to a point where we are about to see some of the fruits of a plan which has been 3 years in the making, in terms of how it is we rebuild the brand first and then actually how it is that brand expresses itself going forward. But that's, for me, quite a significant move.

And when you then move to the 4 stakeholders and we talk about customers, and I'm looking at that screen because this one's gone off, we've done, as I say, the own label launch is on track. Of those -- 3 -- more than 3,000 formulations improving, right? So investment in formulation as well as we've gone through. You will have seen some of it. We now have 16 new Exclusively at Tesco brands. They're all launched now. 80% of the products that we intend to introduce are already on shelf. And in that particular tier, that will be finished by the end of this calendar year. And already, against that Exclusively at Tesco brand, we've got 72% product penetration. So customers already are appreciating and buying into what is effectively the new good tier within our good, better, best part of the brand architecture.

Now with those very good memory, you'll remember this blue box from the Capital Markets Day we did a couple of years ago. We shared with you and everybody what we intended to do in terms of good, better, best, both in terms of what the branding would be going forward, what the quality benchmark would be, what the price benchmark will be and what the customer preference, aspiration was.

So if we just to walk that through. So in good, used to be Tesco value. It's now exclusively at Tesco brands, expectations have moved on from customers in that space across the market. The quality benchmark are the 2 German retailers. The price benchmark are the German retailers and we want a customer perception of at least 6x out of 10.

Now as I stand here today, we've introduced 324 products at that level. That's 81% of that total number, so a little bit more than just over 400 products will be there at the end.

But if you go up to the better, the core, we've done 4,000 products, but that's 47%. And Finest, 638 products in that 72%.

So I wanted to give you a little insight in terms of where we are with that brand. It's a significant move for us, it's taken us a long time to plan for that. First of all, we cover the overall corporate brand and then worked very deliberately for everything from supplier reset to the brand architecture to the changes that we need to make, and this is where we are.

Now the significant part of that is, for those who have been watching, you'll start to see the question is when do you start to communicate that? You always want to be 100% the way through, but given the scale of the change, you don't always get there. We are now 80% there in Exclusively at Tesco, and I say, we'll be finished by the end of the calendar year. And You'll have seen some of this advertising start to appear in the last 7 or 10 days. You'll see more of it over the next few days, weeks and months. And we call out the price, we call it Exclusively at Tesco and we are very clear that these are our best value brands in store today.

You'll see other things start to appear in stores starting this weekend, building through the next few weeks as we call out the most competitive baskets that we have had in Tesco for many, many years. Now why do I say that? And it comes back to the strategy I talked to you about 3 years ago. On the 24th of September, all right, and actually on the 2nd of October, we did a bit of shopping. If you bought, there are 28, and just to make this really clear, these are the best selling lines, over the last 12 weeks, the best-selling lines, they have to be in 400 stores in order to qualify and they're compared with like-for-like products in randomly said competitor A and competitor L. And as you can see, we didn't have a target. We talked about price matching, actually we're price beating. So just thinking about where it is we got to the idea that we offer to customers in the U.K., 400 lines, which are the best value lines in the marketplace was part of the strategy we talked about 3 years ago, we've worked very diligently to get there. It's a hell of a journey, and I pay tribute to Jason's team and now Andrew's team in terms of the amount of work with suppliers to get us there. But if you haven't picked it up, there is now an offer in Tesco which is very, very competitive. We now have to start communicating that and you're just starting to see it. So significant investment in the portfolio, both in terms of quality and in terms of price.

Now that sets us up because we are -- I know we don't look it, but we will be 100 years old next year. We will be very clear in how it is we want to celebrate that centenary. For those of you who came to Cambridge, you would've seen we shared with you an internal video which is about the history of Tesco and going back and celebrating what it was that it created this great business. And if you distill it all down, this idea of Tesco was a champion for customers is very real. You can pick lots and lots and lots of examples for it. But if you summarize it, it's all been about giving absolutely great value.

So as we enter into our centenary year, it will all be about celebrating 100 years of great value.

Now Exclusively at Tesco, key part of that. As I say, it will be finished by the end of the calendar year. It puts us in a great place, but we will start communicating that already. And you would've seen that we announced the launch of a new brand and format with Jack's in (inaudible). We have plans for 10 to 15 stores. We're spending about GBP 20 million of CapEx there, learning an awful lot in terms of format about cost effectiveness and working very well. It's 2 stores, it's 2 weeks, but actually trading really very well. We open 2 more tomorrow in Edge Hill and Saint Allen's, and we will continue to roll out on the basis that we shared before.

But that's where we are going in terms of the customers and as we move out of the plan we have into the centenary year.

Colleagues. And again, I think it's very hard I think, to explain to you sometimes just how much has changed in our business, both in terms of restructuring, store closures, the impact of changing mix, all of that change, yes, here in the U.K. but also internationally. We track twice a year we have a What Matters To You? survey. We get more than 0.25 million bits of feedback from people. It's the largest employee survey in the U.K. by some distance and internationally. The really interesting thing is we've gone through all of that change, all of that change, actually, customer colleague engagement has improved markedly. And in a business like ours, having the support of our colleagues is fundamental, absolutely fundamental. So great place to work. We are 79% last year in the first half. It went up to 84%. A statistically significant move for those who are interested in the numbers is 1%. And it went up 5 points. It now puts us at a place where we are way above the top quartile. And if you take any businesses of scale, we are absolutely at the top of it. And if you compare it to the retail market within the same sort of database, it's significantly ahead of.

Now so much so and I've given you that it is broadbrush, it's very, very consistent across. It comes back to that purpose, the values, the way that we choose to lead consistently across is important and recognized. And you see the numbers all the way through.

I'll call out particularly Europe. Fair play to Matt and the team, as we've gone from those 4 countries into a Central European model, lots and lots of change. Initially, as always, some questions about that change, but a really big step-up under Matt and the team's leadership in terms of clarity. And you see, it's not just about great place to work, it's also in terms of motivated by purpose. That's right at the top of any business in terms of people relating to the purpose of the organization. Performance reviews where they value the input and the development that we're putting in with Natasha and her team. And also very important to us in Tesco is having a very inclusive culture.

And if you do look at these things, I know some investors are particularly interested, I don't think you find many companies in the U.K. that have an inclusive culture judged by such a large group of 84%. Now we say to ourselves, that means that 16% of people still don't feel completely included. But if you make a competitive benchmark of it, it's actually not a bad place for us to start from. So really important to me that we have colleagues that are engaged in the business.

You will have seen our mention in the first part of the pay awards continues in November, so there was a 2-year deal which was 10.5%, so we continue to be very competitive in pay. And I'll preempt a question that I had.

So in distribution, all right, so there's a distribution improvement due to come in, in November. As we sit here today, 9 of the 12 distribution centers in the U.K. already pay more on a basic hourly rate than what was announced yesterday by one of our competitors, all right? And there's a November improvement still to come. So actually, that's about a catch-up. So there's no challenge there given the questions I got on the press call this morning.

In terms of employee ability and life skills, we look to take on 1,000 apprenticeships across our business.

And we've agreed with The Prince's Trust to work very specifically on 10,000 people who are traditionally those people that struggle most to be employed, learning difficulties, employability difficulties. So we're going to work with The Prince's Trust across our business to support 10,000 people become much more employable.

And you've heard me talk about before commitment to health. If you've been in our stores in September, you saw another healthy little swaps event for customers. Behind that is an awful lot of commitment in colleagues. We've provided more than 4,500 health checks. We have very deliberate programs in all of our business around supporting mental health. And for those who follow this bit, particularly, we announced a 5-year program with the 3 charity partners in terms of heart, cancer, diabetes. And part of that was to move just from fundraising to actually behavior change. What we did with colleagues was we invited colleagues to take part in a occupational health improvement study.

Now just to give you an idea of how this works is we were looking to get 500 or 600 employees to volunteer and come with us so that we could judge the impact of our interventions but also the interventions of the expertise of the other 3 charities. 8,000 colleagues signed up. It will be the largest panel of understanding health intervention in the workplace in the U.K., bar none, right? But a demonstration of the commitment but also the engagement of our colleagues in what it is we want to do.

Moving to suppliers. Look, again, under Jason's leadership and now with Andrew, a big turnaround in suppliers. So advantage survey, you are familiar with. Very pleased that we were nominated again to be #1. And interestingly, I'll show you a bit more detail in a second, they this year gave Jason and Andrew an award for the best-in-class overall retailer because we lead in every single category, right?

So as we talk about the turnaround in the business, engaging with our suppliers in a different way has been a key part of that. Yes, commercial terms are really important. One thing that I always have to explain to the media is just by building better relationships, we don't go away from the commercial reality of this thing, but the way that we engage has changed fundamentally and is being appreciated by our suppliers.

But you also see that we continue to change. We've done some category resets, we've done some supplier resets, there's consolidation. I've given you 2 examples here. We now have 1 supplier for onions. So Stourgarden are now our 100% supplier for onions. It's allowed us and them to invest. It'll make onions a more British onions a better price for customers. The investment will reduce packaging by 20%. So actually, a very strategic partnership in 1 category which is a good illustration of what we've been doing.

Kepak will be another long-term, multi-year partnership, improving their share of our business. It allows us to work with Kepak and Hilton, sharing information across trusted partners in a way which is lowering the cost, improving the quality and a lot of efficiency in terms of the supply chain.

So just 2 examples of what's happening in terms of real long-term partnerships.

I thought I'd also say, as we go through the reset program, I've given you some of those stats before, but if I look in the period, 98 of our supply partners and suppliers have doubled their volume with us, all right. Interestingly, 5 of our largest Tesco product partners have grown volume by more than 10%.

So when you ask me as you do about actually how does supply volume come into the commercial relationship, it all comes together at the point of the contract. So whilst we always look at the amount, actually it's at the contract with Kepak, with Stourgarden, with some of the suppliers there, what is the business volume opportunity that the Tesco group affords that supplier is what is the most significant. And if we provide them with great volume, in a relationship framework with great expertise, we think that's the winning formula.

Now look, I said I would give you a bit more detail. So what this does, when you get the survey back, if you're familiar with this, you get your own detail. They give us a lot of detail and answers on Tesco. The only thing that we get competitively is the average of the rest.

So what you see here is the score for Tesco and the average for the other retailers, other 5 or 6 retailers in the survey. So look, and I say, I give credit to Jason, but I also give credit to the supply chain team in the stores. I mean overall performance, relationship, organization, category, execution, supply chain, interestingly, look at the difference in supply chain of working with Tesco versus the rest, payment processes and own label capacity, capability are very big. Better feedback for us about how it is suppliers see Tesco in the U.K. market.

And then I thought, finally, I've shared with you, I just said that volume plays into contract. And from a supplier point of view, if you're sitting there, you probably look at this sort of information. I know I certainly did when I sat in a different seat. But look at the Tesco group in the U.K., just under GBP 700 million of quantum growth in the first half, right? And for comparison, I've given you -- actual reviews Kantar and the external data sources to estimate that of the competitive set. But this growth plays into that supplier conversation very, very directly. And the key thing for us is, if you can grow with Tesco, the rewards are significantly greater there, I say, than growing elsewhere in the marketplace. And that's very important to us.

Finally, shareholders. Booker, really very happy with Booker. When Charles and I stood up and said, actually this is a merger that's all about growth, there were some questions about that. We understood it. We were both, I think, very confident of it.

Second quarter, over 15%; first half, 14.7%. Growth in retail, growth in catering, doing really very nicely. Alan said there are GBP 16 million of synergies that have been identified already. One bit of detail for you in that. We chose to, right, we didn't have to, we chose to have all of our supplier negotiations on Joining Forces under G Scott conditions. Booker are not covered by G Scott, we chose to take the approach and apply it to all. For those who are not familiar, that means you have to put in a delay period, a notice period to any changes, and therefore, you delay any changes, but you do it consistent with. So really very happy with the way that's working, GBP 16 million so far, at least GBP 60 million for the year. And other opportunities. And if anybody's been to Gallions Reach, you will have seen it, you'll have seen the picture there, more stores planned. We continue to look at different product offerings across the 2 businesses. I sat with Charles and Jason and the whole steering group on Joining Forces just last week. We see a lot of opportunities for how it is we can grow together going forward. We are still very comfortable with the guidance we gave you after the deal was done of GBP 2.5 billion of growth.

But we've also used the combined assets of the business to offer more to customers, the 2 depots that we talked about before, (inaudible) and Middleton, worked really very well, very good from a service point of view to Booker customers. And there are more opportunities there. And we're starting to buy key services together. So very happy with Booker, very happy with how it's playing out.

And then finally, from a stakeholders point of view, Carrefour, we announced it in July. We were with them together on Friday, Jason, Andrew and the team. The French competition standstill finishes tomorrow. No issues at all envisaged and will become operational by the end of October. We made communications to all of our suppliers about how that is going to work. We had a top to talk with our largest branded suppliers in heart last week. So Carrefour on track. No guidance given. We will start together in October.

I mentioned already, we continue to work on mix. Tesco Direct is the biggest single example in the half year but still very live. And somebody asked me a couple of questions last time behind the scenes on dunnhumby, so I thought I would update you. dunnhumby, completed the new management team, growing really very well. Very much stand aside from -- standalone from Tesco. We have a service agreement with them as a customer, but they're free to build their customer base in a way they weren't before. 22% growth in customers in the first half of the year, some of them retail but also some of them fast moving consumer goods, probably the most notable on that would be McDonald's globally. So dunnhumby, growing very nicely and with some really interesting plans for the future for those who had asked me those questions before.

Now the 2 things that I should talk about and Alan touched on are Thailand and Poland. So in Thailand, remember, fantastic market, very attractive market, our #1 position and the most profitable part of the group, okay? Now we wanted to change some things in Thailand, part of that was unprofitable sales into trading channels, we went about doing that. Know it's painful, it's difficult, all those sorts of things, we saw the benefits of that at the end of last year and we continue to see the implementation of that as we go.

The other thing that we are doing is we want to change the trading terms approach within Thailand. Now this is exactly the conversation I had with you 4 years ago, but what we wanted to do in the U.K. The Southeast Asian markets are traditionally a back margin market. We wanted to be front margins so that we can lower prices to customers every day. We think that is the most attractive and appropriate model. It requires, how shall I say this, supplier support in that move. And we are having -- we'll have some challenges as we work through that. But as Alan says, we will walk you through. We'll walk you through in the second half of the year. We will exit in a position which I think is much better for Thailand as we do it. But as we do all of that, we have a couple of sort of headwinds that we have to deal with, which is government-issued welfare cards that can't be used in retail, particularly of country and outside of Bangkok, that's having a 2% impact on sales, so it's not a small impact, it's a significant impact. And as we have changed our model, you won't be at all surprised particularly in our bulk selling, some of our competitors have not. And we have to deal with that and that's why we made some of the price investment that Alan was talking about. So we will stay sharp on price as we take away unprofitable volume, and we will switch the trading terms with our suppliers. But it is being painful and I will be very honest with you, we'd hope that it would have got moved further in the first half of the year, it's not. But we will see it through, all right? We will see it through, and we will see it through as we walk through the second half of this year.

But the critical thing is still the most profitable part of the group. It's still an attractive market and really very happy with the Thai business.

Going to give you more detail on Central Europe though, right. And this is a level of detail that we've not shared before because it's important, right? This is the first half year, right? And I suppose there's 2 parts I want to pull out. If I take Czech, Hungary and Slovak, we have a #1 or a #2 position. Sales were just over GBP 2 billion, profits of GBP 91 million, a margin of 4.3% and generating more than GBP 200 million of operating cash.

Poland is a different. Poland has always been the challenge for us. We're #4 in the marketplace, it's not profitable. We do now generate cash, which is a big improvement from where we were 3 years ago. But Poland is the only unprofitable market that we now have as Tesco anywhere in the group. And we made some fantastic progress last year, again, Matt and the team did a fantastic job. The impact of 2 less trading days, big impact. So every time we make an improvement, that environment comes back and it challenges us. And that's why you've seen further announcement from us in the half year of closing unprofitable stores and changing the cost base in Poland. And I suppose what I'm saying to you is that will continue. We have to make the Polish business profitable. We think we can. But it's important, I think, as we crystallize the issue to be in a Polish issue, we don't lose sight of the fact that in Czech, Hungary and Slovak, we've got actually a very good, very well performing business that from a shareholder return point of view is actually really very attractive. So that's why you'll see us talk and as focused much more on Poland and dealing with some of the Polish issues in a way that perhaps we've not been so clear before, all right.

So those are the 2. Now again, in the release, in total, are we happy with where we are, all right? what I said in the call this morning is, as a group, we are bang on where we thought we would be at the middle of the year. Composition every society different, but we are bang on where we said we would be. And we are absolutely confident in the medium-term aspiration that we gave you around operating margin, cash and that cost reduction, all right. So very much business as usual and really very happy with where we are.

Think because we said actually longer term than that, our underlying philosophy for the business is customer satisfaction without any questions are absolutely at the heart of everything that we do. And then from an investment point of view, cash profitability, which is if you look at it in terms of first half EBITDA is GBP 1.5 billion, earnings growth and free cash flow, all right. That's the direction that we are going in as a business. That's where we think long-term the best value creation is. We will deliver on the left-hand side as we move the business very importantly to the philosophy that I'm sharing with you on the right-hand side, and we are bang on track with where we wanted to be when we started the year.

So good start of the year, strong growth in sales, step-up in Q2, very happy with where we are and we got strong cash flow. We've invested a lot, right? We've invested an awful lot in quality and in value, probably the biggest illustration of that is where we now got ourselves to in Exclusively at Tesco. And you'll see us communicate that more. Joining Forces with Booker, working really very well. Strong feedback, strong opportunities and a very motivated team. Charles and Jason lead that together. We will address the specific challenges we have in Poland and Thailand. We will deliver on our medium-term ambitions, and we will have those strong sustainable returns. And we're looking forward to a strong centenary year.

So with that, I will stop and invite questions. Now again, based on your feedback, I'll try and keep it like it was before. So one question each. And if it's a detailed model question, I will push it, if you don't mind, gently towards Chris so that we will give you specific answer but not tie up everybody's time to do it.

So where would we like to start? Why don't we start?

QUESTIONS AND ANSWERS

Andrew Philip Gwynn ***Exane BNP Paribas, Research Division - Senior Food Researcher & Analyst of Food Retail***
Andrew Gwynn from Exane. On Slide 24, which is on our packs, so that one.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Yes, I'm familiar.

Andrew Philip Gwynn ***Exane BNP Paribas, Research Division - Senior Food Researcher & Analyst of Food Retail***
Better category about just under halfway through kind of reset, that's sort of 2 years in, you've got more or less another year to go in terms of the 2020 plan. Should we expect a significant amount of price investment over the next say a year or a bit?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
I think you can see from the -- so just to be clear, we started changing the product of that less than a

year ago, all right? So we gave guidance as to where we wanted the own label to be, own brand to be 2 years ago in the guidance. We started making the changes November time. So and you'll see us I say we'll finish that by the financial year. The price investment that you see is much more likely to be in the Exlusively at Tesco, which is where we've made the investments to now and I gave you some illustrations of that.

Bruno Monteyne ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***
Bruno from Bernstein. Last year, the second half margin improved quite a bit because you stopped delaying inflation. This year, you made investment in the Exclusively at Tesco. You start communicating them heavily now like you suggested in store and other ways. Won't the dilutive impact of Exclusively at Tesco actually grow in the second half so you wouldn't necessarily see the half-and-half improvement that we saw last year in the U.K?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Well, that's not how we -- so in terms of our plans, we have a plan which gets us to the ambition that we had. We have an assumption from what the impact of communicating will be. As always, we'll have to see how it works out. But the critical thing for us in the short and the medium term is do we reposition the Tesco offer for customers appropriately? And we are absolutely sure that what we need to have and what we should have is an offer inside Tesco, which is best value, and that's what Exclusively at Tesco is. We've got an assumption about what will happen to the category. But as you know, the most important thing, we learned it from farm brands is, launch category by category so that you change all of them at the same time. And actually, when we see actually our predictions of what the cannibalization will be what the mix would be has not been too bad at all. So we'll see in the second half, but I'm still very confident in the plan we've got.

Daniel Ekstein ***UBS Investment Bank, Research Division - Director and Equity Analyst***
It's Dan Ekstein from UBS. Got a question about the store state and strategy over the sort of medium term for excess space. I think you said in the past maybe 5% to 10% of the space in your biggest stores is not as productive as you'd like it to be. When I look at the group at the moment, there are various different initiatives ongoing. You've got kind of Stop & Shop concession trials with Dixons and next and (inaudible). You've just launched Jack's. You've got Chef Central. There's a lot going on, none of which are individually material. So when you think about use of space on all these initiatives, how do you sort of put it all together? And is there a kind of a broader vision for turning that unproductive space into something more profitable?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Sure. It's a good question. So in the thrust, we talked about realizing value from property, and that's been everything from sort of repurposing but also sort of residential development, in some cases. When it comes to the actual retail space, be it in Central Europe or be it in Asia or be it in the U.K., we've looked all the space we have, I'm looking at Steve Rigby (inaudible) property Chief Property Officer. And we got ourselves to a place where we've repurposed an awful lot in Asia and a significant amount in Central Europe, also here in the U.K. I think when we talk with Jason about when he looks at this U.K. space, we

don't have anywhere near the excess space that, that 5% or 10% now suggest, because actually we've used most of it. We are now in a situation where, where we do have slightly more space than we want is actually in little pockets. And then the question for us is we have now choices about what it is we want to use it for. So Booker, Jack's, Holland and Barrett, all of the things you mentioned. So actually, we're not sitting here now, certainly in the U.K., we're not sitting here now saying actually we got an awful lot of excess space that we want to repurpose in the marketplace. It's all part of our normal plan, but it's nice having a portfolio of partners, be it clothing, be it health food, be it Booker, that we can think about offering something unique for customers and getting a better return because we don't need it for some of the categories we've chosen not to be in. Very dynamic, store by store. The thing that's always difficult I know for anybody analyzing is there's not 1 fix which is for all. It varies much store by store because it depends what other offering is around that store, but the nice thing is we got a portfolio of partners and actually some internal options that we can use because, actually, it's still great retail space. Compared to other retail space in the market, it's great retail space. Do you want to pass? Let's go down to the end and move up back across the rows, if that's all right.

Stewart Paul McGuire ***Crédit Suisse AG, Research Division - Research Analyst***
It's Stewart McGuire from Crédit Suisse. A question about Jack's and pricing. Can you clarify whether you have national pricing Jack's or whether you do localized pricing and whether it's going to be the lowest price (inaudible)

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Again, as far as Cambridge and (inaudible) concerned, we have national pricing, all right. So look, it's -- I do understand (inaudible) I understand the confusion because we showed people the day before it was open, I think for those who -- we didn't want to sort of come out and be give our pricing intentions in any detail to anybody. So I understand a little bit the confusion. But the very simple articulation, and I'm looking at Jason because if I got this wrong, he can correct me. So what we do is we look at the cheapest of our national competitors across them all and we match them as a Jack's price positioning. And what happens is as a root cause of doing that, you always end up with the cheapest basket in town because you've taken national, but then we have it in the Jack's stores at that price, okay? So we still -- we haven't changed national pricing. We look at national pricing versus our competition. And if we match the lowest of those (inaudible) then the basket becomes cheaper because you've taken the cheapest comparison across. And if you look at where we've been on Jack's over the last 2 weeks, it's been a very, very, very competitive basket, okay? You want to pass it down. I'll -- okay. I'll tell you what, you go now, go ahead, and then we'll keep moving that way.

Robert Joyce ***Goldman Sachs Group Inc., Research Division - Equity Analyst***
Rob Joyce from Goldman Sachs. Dave, in your presentation, you referenced Kantar. One of the things that your data had been showing across the last few months is an acceleration in the losses in the key food and drink category for Tesco. I was just wondering what you would attribute that to and whether you think you can turn that around or that's focus.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***

Understand. I see it. I think the 3 things, Rob, I would say to that is we would look at volume versus value, which is where people talk Kantar. And we do that because of what we are doing to changing our mix. All right? So when I look at volume, I look at actually I'm more interested in customers and transactions than I am value which is where that is. Because actually i that period, there's been an acceleration of Exclusively at Tesco into. It's also been a place where when you're in that change, being very candid with you now that it's in the past, when you're in that change, you're most vulnerable in terms of being able to put your foot down in terms of the customer offer because you're all betwixt between the old and the new. And we come through that and we finish that now with the health month in September, which is also a period which is not designed to be a like-for-like sales driver, all right. So we make conscious decisions about the promotions that we put on. So all I can say is, do I think that the mix that we have going forward Exclusively at Tesco core and Finest plus everything also we've got will be competitive and see an impact in terms of switching? I'm sure it will be. But during that period of transition, actually, we tracked volume and we tracked customers now and talked about 190,000 customer increases for Tesco. And so the health signs for us remain very strong through that transition, but there was a transition for us in the middle of the year as we move the portfolio.

Robert Joyce ***Goldman Sachs Group Inc., Research Division - Equity Analyst***
But you'll see yourselves through that transition (inaudible)

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Well we're 80% on Exclusively at Tesco. We'll get there at the end -- by the end of the financial year, the whole portfolio will be there. Do the pass back then we'll go and then down to (inaudible) questions seem to be in this bit.

James Robert Anstead ***Barclays Bank PLC, Research Division - Director***
James Anstead from Barclays Just a question on Poland. So you talked about losing the GBP 32 million in the first half of the year. I just wonder what are the reasons to be optimistic there, because it's been a competitive market for very long time. I guess you've been focused on it for quite a long time. And the trading days, which is an issue the first half, I think is getting worse in the next couple of years as well with increasing restrictions. So what's the reason to be at all optimistic about this?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
So I think what I would (inaudible) from a place which is I'm very confident in what is Matt and the team are doing. I think there's a phasing into the reality, which is -- in fairness to the team, the improvement last year, if I've shown you last year's number, we have seen a massive step forward. And then the 2 days has an impact that then takes you back again and as you write. So just to be clear, next year, you get 1 more day. The year after that, you get another day. So you've got to factor that in as you go. So there's a fundamental rebasing of costs going on. And there's a fundamental review of property in the region going on. And we've got some ideas that will get us to a profitable business in Poland. But I suppose the thing that I would illustrate is I don't see a situation where Poland gets to the group average in terms of margin any time soon. But it must not be a diluter, it must not be a diluter, and that's the thing that we most must fix first. So still to do, still to do. Great progress, headwind changes, we have to rebuild, that's

why you've seen some announcements and we will carry on working that. Okay? Do you want to pass that along? There we go, and then down to David.

Dusan Milosavljevic ***Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst***
It's Dusan from Berenberg. I have a question on consensus really, how you feel about the current consensus given that the shares are down 8% probably on the back of that's more consensus miss on the group. And then within that question, you flagged in the presentation a couple of oneoff costs. So GBP 23 million of Tesco Direct losses, that doesn't recur in the second half and assume it's higher losses in the second half. Then GBP 9 million of property losses. And then you were flagging that the operating leverage, Booker, synergies, that should all ramp up in the second half. So within the context of first half, second half profitability phasing, what do you think about consensus for the full year?

Alan James Harris Stewart ***Tesco PLC - CFO & Executive Director***
Yes, Dusan, I think, you're covering a lot of the factors which sit within it. I think when I think about the consensus, whether it's for the first half, which is not actually a wide group, but more wide for the whole year, I do think that, as Dave said, the Thai business hasn't performed as quickly as we would have want as we go through some of those changes, and we'd see that continuing to the second half of the year. So how that plays into full year consensus, we will see. I think, for us, much more importantly is the recommitment and the reaffirmation of the medium-term ambitions, which we've set out medium-term actually is next year. So we've got 3 half periods where we get store focused on and clear that we can and will achieve those objectives. So there is some issues in terms of the second half of the year. You guys were the ones who formed the consensus, we reflected back. But that's the way we see it that the Thai business has to a certain degree is going to play in the second half which no way the market probably hasn't fully factored in.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
I think the thing that I would add, as you pass the mic to David, again, just to show exactly where we are, which is some of the points you mentioned about leverage. So continued volume growth, Booker, Booker synergies, all those things. You know as we've made savings and changes, we've taken those investments and we've invested in price. We took the whole basket down by between 6% and 7% in order to get back to be competitive in the marketplace. We have now invested again in terms of getting the portfolio of our business to be back where it should be in terms of good, better, best. So actually, as we go forward, as you are thinking about consensus, you've got still GBP 400 million of cost savings to go but we are more where we wanted to be in terms of pricing as we exit this year. Against that, there's Bruno's question, which is what's the mix going to be? So how much will be the 3 tiers? So -- and that's the balance that we have. And I think that's we manage that balance I think pretty well over the years you get it's not always as smooth as some people would like but that's just the nature of our business. And then to that, I think the only new thing is actually we're going to have to say strong in Thailand as we walk through that change. That's the only sort of if you like new element to what we've been talking about before. But that's where we see the second half of the year. David, do you want to (inaudible)

David McCarthy ***HSBC, Research Division - Head of Consumer Retail, Europe***

David McCarthy, HSBC. I want to pick up on that point and the point Alan made. You've got 3 more sets of results before you hit the target. And 2 parts to the question. Just want to clarify, that aspiration, shall we say, of 3.5 to 4, is that the aspiration of what you are going to deliver for the full financial year? Is it the aspiration of what you're going to deliver in the second half? Or are we going to have some weasel words of oh, no, no, it's our exiting run rate and i.e. something we can't see. And then related to that is you have -- you set that target knowing certain things like you knew you would be closing Tesco Direct and so. You didn't know you're going to buy Booker or be allowed to buy Booker. So you've added in GBP 140 million of synergies. And then you've also talked 6 months ago for the first time GBP 2.5 billion of revenue, extra revenue, some of which one assumes are going to be achieved in a 2-year window, and we've already seen them some of the things.

And that's going to be presumably a decent marginal contribution. So you haven't change that guidance. So have you effectively downgraded what you were?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Not at all, because David -- so look, I'll let Alan talk about your question. I don't think we will never use weasel words, we'll tell you how we see it. We talked about 3.5 to 4 in '19, '20, that's what we mean. We were also very clear that Booker is not included. My commitment to you is I will always share with you what the underlying Tesco business performance is ex Booker, and we will continue to do that. We will combine it in terms of reporting, but I will always give you the breakdown, so don't worry about that. I think, look, a lot has changed since we give the guidance. We assumed deflation, we got inflation, all right. We assumed a level of cash profitability and a capital investment and a cash flow which actually we're delivering a bit and the the market has moved on. I suppose with all of the moving on that we just talked about, we are still saying to you, we will deliver 3.5 to 4 in '19/'20. That's where we are.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
For the year.

Alan James Harris Stewart ***Tesco PLC - CFO & Executive Director***
Excluding Booker. Booker (inaudible).

Xavier Le Mené ***BofA Merrill Lynch, Research Division - Head of European Food Retail Equity Research and Director***
Xavier for Bank of America.

Just one question actually. Asia, so Thailand, especially, so we saw, of course, the margin rebates. But where are we going, going forward, because last year, you were very confident with the margin. This year, we've got a good surprise. But going forward, is this year the new base? Or should we expect to come back to where you were before?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
I think your -- second part of your comment. I think we have to walk through the changing trading terms

that I've talked about as we move from back to front. And once we do that, we get ourselves in the place where we think the underlying margin recovers. But the question for us is how quickly we move through it? And that's why Alan said in his point which is we walk through it into the second quarter -- into the second half of the year and then return back to a position in a growing market. So it's a one-off change. It's exactly what we did in the U.K., exactly what we did in the U.K. We were successful in doing that in a limited time period in the U.K. It looks like the change in Thailand might be a little bit more than we thought but we should still carry on and do it. Okay? Yes, (inaudible)

Clive W. Black ***Shore Capital Group Ltd., Research Division - Head of Research***
Clive Black from Shore Capital. Very anal question for me, I'm afraid. Your changes to amortization, one for David to sit down.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Get some water for this one.

Clive W. Black ***Shore Capital Group Ltd., Research Division - Head of Research***
Firstly, you had a long time to digest Booker. You had the CNM investigation that took considerable period. And it was completed before the financial year-end of last year. I'm a bit perplexed just to why you would change the amortization of Booker's intangibles in the next financial year, particularly at half time. And so I would like to just understand the reasoning of that. And also from a supplementary perspective, what it means going forward in terms of how you're going to value those intangibles? And are we going to see recurring changes on that basis? Because it is [GBP 40 million credit]

Alan James Harris Stewart ***Tesco PLC - CFO & Executive Director***
So look, the way I look at it, Clive, is that I don't think we've changed the way that we look at it. It's what we had is we bought from an accounting perspective. We bought the Booker business on the 5th of March. At that stage, the accounting standards require you to go through every element of what the consideration that's been paid and allocate the consideration into either goodwill or intangibles. That exercise is done by us internally, supported obviously by robust financial expectations and then needs to be audited. So until we've got into that and fully worked through it, we frankly couldn't work out how much was goodwill and how much was intangibles. As we've looked at it, we've formed the view that around GBP 800 million, just under GBP 800 million, of the consideration that was the Booker consideration is intangibles, which then needs to be amortized on to the accounting rules. That's amortization and the different elements of it, but broadly it relates to customer relationships and to a small degree brands. It's amortized over about 10 years. And on an annual basis, that's about GBP 80 million, and we have just short of 6 months in it. So it's a noncash cost. I think it's totally consistent with the way that other people in the market do reflect the amortization of intangibles. But until we've done all the work and really understood it, we couldn't have value whether it was GBP 1 billion, GBP 800 million or 0. So it's consistent with what we do. I think the right thing is, is that we now do it. We've done it at the half year. And it will be going forward the way we do it. But it's a fixed number, we'll amortize around 10 years the GBP 800 million.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Let's go back. Nick, it's -- I'll go back, Nick, and then we'll pass or go that way. Is that all right?

Nick Coulter ***Citigroup Inc, Research Division - Director***
Nick Coulter (inaudible) just to be clear, Nick Coulter from Citi. Just to be clear on the Thai reset and the margin level that the guidance implies when the -- when it annualized is, should we look at that as a base but with some recoverability as you move through the supplier renegotiations? And implicit within that, the investments that you've made in the customer offer in Thailand, how does that play into the competitive environment that we have very little visibility on now, the big Cs is in private hands. Is that enough to give you stable or incrementally positive volumes to be able to drive that business sustainably?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
So I'll separate the 2 things. I think once we walk through the change in our commercial terms, you get margin recovery, you get rate recovery, okay. But we have to walk through it, all right, and we will walk through it. Separately, in terms of the competitiveness of the marketplace, yes, we need to make some investments and we've made them. I'm very confident that the combination of volume opportunity, we talked about store opening programs that are still in there, the growth is we think inherent within the Thai market. And also cost effectiveness that we think is available to us within the Thai operation, right, allows us to continue to maintain that margin whilst we deal with the competitive scenario. So I deliberately would separate the 2, one is about commercial terms and how we transition, and the other, the volume, cost effectiveness, let's call it normal retail equation versus the competitive set, I'm still very comfortable with, right?

Nick Coulter ***Citigroup Inc, Research Division - Director***
So it's a one-time reset on that basis you're confident you've done enough this time round.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Well, we got to walk through. The first bit which is we've got to walk through. So with Andrew, myself, with (inaudible) and Alison we've got with suppliers, we've got to walk through and we want to change the way we trade, right? And we've got to walk that through. And if that takes us another quarter or another 4 months, we'll walk it through.

Nick Coulter ***Citigroup Inc, Research Division - Director***
Yes, but on the customer offering, you think you've done enough?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Well, we've done enough for how the market is today. I can't tell you what the market but we've got enough to be able to respond to that given volume, cost effectiveness, the usual levers that we use. Pass so I can't see faces so well with the light in my eye. There we go, I can see a hand.

James Robert Grzinic ***Jefferies LLC, Research Division - Equity Analyst***
James Grzinic from Jefferies. I have a couple. First one, just on Thailand again, I'm sorry, because reset has been used as a word. What you're basically saying is there's a swing of about call it GBP 50 million, GBP 60 million, which as far as I can see is what consensus for this year is adjusting by, which is just you giving away promotional rebates and the timing of that versus you getting it back on invoice terms, which you work on over the next 3 to 6 months. And what you're telling us is that, that GBP 50 million, GBP 60 million, let's call it maybe that, will be recovered at some point in the second half, most likely at the end, and we get it back next year. I just wanted to clarify that as a starting point.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Wouldn't disagree with your analysis.

James Robert Grzinic ***Jefferies LLC, Research Division - Equity Analyst***
My second question is on discount and the population in the penetration of baskets with discount brands. Can you perhaps talk us through the history of that relative to that rate that you've given us today?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
In what sense - (inaudible) history, because (inaudible)

James Robert Grzinic ***Jefferies LLC, Research Division - Equity Analyst***
Just how the penetration rates of discount brand time starting from Tesco value and what's happened since the relaunch I guess of the initial one a couple of years ago.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
I'll look at Jason to tell you about Tesco value because it was way before my time. The one that I can refer to is obviously farm brands. That was the first part of that execution that we did first of all. We went from being 0 to 62% of all baskets having a product in it in less than 6 months, all right? So the adoption rates compared to most brands you will ever see is really very (inaudible). And if we talk about the new brands where we get to a place where we're nearly at 70%, if I take the very first point, November that Ali was talking about, we're 70% on what, 6 to 7 months. So if I were to take from my recent experience, I don't know about the Tesco value when way back, if Jason remembers, I'll ask him to tell you, but it's been something like 60 -- towards 2/3 within 6 months is the 2 examples I've got. I don't -- can you remember Tesco value?

Jason Tarry ***Tesco PLC - CEO of UK & ROI***
No, not really. But we've had -- what we've had is a long-term decline of value for 2 reasons really. Long-term decline in value for 2 reasons, one of which is it became less relevant for customers as the market moved. And secondly, in the early days of our turnaround, because we were we got more competitive on our Tesco core brand, actually value became less relevant as well. So a much smaller proportion of that business in declining over the last sort of 10 years. So this is absolutely relaunch and reset in many senses.

Alan James Harris Stewart ***Tesco PLC - CFO & Executive Director***
Could I just come back to your first question, I just want to be really clear that because absolutely, the analysis, no disagreement. What I really don't want you to take from is the specificity in which you asked the question as around the quantum of the timing. Because the -- what we've said and what we've seen is that in the Thai market, the relationships and the way that suppliers and we are able to work together hasn't been the same as in the U.K. and it hasn't delivered as quickly as we'd thought. So we expected to continue into the second half year, that's the expectation, that's what we work to. We are very clear that we don't see this as a rebase to a lower level, which is 2 questions which we've had. But just really to be clear how consensus moves will be how it moves. We are focused on delivering what we can, but I just don't want anybody in the room, sorry James, to take the specificity in which you asked the question as against the answer.

James Robert Grzinic ***Jefferies LLC, Research Division - Equity Analyst***
Yes, I should have made that distinction.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
You may have been actually the last question. Have we got any more questions either for Alan, myself or any of my exec colleagues in the room? We got 2. Yes, go on then. 2 more this 1 and the last, how's that?

Andrew Philip Gwynn ***Exane BNP Paribas, Research Division - Senior Food Researcher & Analyst of Food Retail***
Andrew Gwynn from Exane again. Just on Thailand again unfortunately. I mean as most separation of the question which is sort of moment in time, but then a bigger question which is, is it China-like situation where the market is changing quicker than the company can?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
No.

Andrew Philip Gwynn ***Exane BNP Paribas, Research Division - Senior Food Researcher & Analyst of Food Retail***
Okay, that's that.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***

Okay. Over there.

Stewart Paul McGuire *Crédit Suisse AG, Research Division - Research Analyst*
Can I ask about your Extra stores? You provide like-for-likes in the supplemental analysis at the end. Your Extra store like-for-likes have started to fall again with 90 basis points positive in the last quarter. In the context of nonfood and inflation, can you talk about volume in those stores? And are you happy with the progression yet still?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
So again in the spirit of very short answer is, yes, I'm happy, the progress is fine. As we go through the general merchandising change that Alan talked about, all of that falls always in big stores. And as we introduce Exclusively at Tesco, you've seen much more of that in large stores than you see elsewhere, so you got a mix effect. So really very happy with the last store performance, yes. Cool.

Ladies and gentlemen, thank you very much for your time. I suppose the thing I would leave you with is actually we think really good progress, really good progress. As a management team, we are sitting in a plan in the half year which is bang on what our internal expectations were for the year. Some of the elements are different, that's fine, but that's business. The U.K. and (inaudible) performance, really very strong. Booker, really very strong. You're seeing in the U.K. a 3-year strategy play out in terms of our own brand and you'll see more of that from us over the next 6 months. We want to make a change in Thailand, it's a fantastic business, we will walk it through, really very happy with the medium- and long-term growth potential in Thailand and we'll continue to invest in that business. In Poland, we'll rebase the cost and we're going to a place where it now doesn't dilute from a cash point of view and we need to get it profitable, but exactly the sort of thing that we've been managing as the Tesco team over the last 4 years and how we will continue going forward. So in really good shape. But thank you very much for your time, attention and your questions.

Cheers.