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PRESENTATION

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

Good morning. How are we doing? First thing, so as always, it's really nice to see you. I need to start with an apology. We're 10 minutes late. There was a technical issue with the soundboard at the back, so it had to be replaced. So my apologies for starting a little bit later than normal. What I'd like to do -- Alan and I will get into the results and all the performance review in a second. But what we thought we'd do is give John the floor for a couple of minutes to share a bit of context.

John Allan ***Tesco PLC - Non-Executive Chairman***

Right. Good morning, ladies and gentlemen. I don't want to distract you from hearing about the progress of the business, which Dave and Alan will return to in a moment, and which frankly is extremely positive and very good. But I thought you might want to hear a few words about the announcement we made this morning about the succession today.

First of all, I have to say that personally for me it was with regret that I accepted Dave's decision to step down. Dave has done an outstanding job in rebuilding Tesco since 2014 and he continues to have unwavering support from our Board. Sometime ago, however, he indicated to me he was considering when was the right time to him to hand over to a successor.

And the fact that Dave was very open about that in one of our normal kind of career review meetings allowed me to begin a very thorough and orderly process with the Board to identify the best potential candidate to replace him. And as a result, today, we've announced the appointment of Ken Murphy to succeed Dave as group CEO of Tesco next summer.

Let me take a moment just to say what we were looking for in our next group CEO. So let me take a moment to say what we're looking for in our next group CEO. We wanted a combination of experience, proven leadership in international retail businesses, a strong strategic mind and a track record in commercial and brand. And the fit with the existing leadership was an extremely important factor, too. Tesco has got an outstanding leadership team and we wanted someone who would work very well with that team going forward.

I have no doubt that Ken is -- in Ken, we found the right person for the job, unquestionably a seasoned growth-orientated business leader. With strong values of our own, and Tesco is now a strongly values-driven business, his strong strategic brand and commercial acumen at the top of a very large multinational retail business will bring [forth] alliance. Dave will be with us until the summer of 2020 and we'll announce Ken's precise start date and the handover process in due course.

As I said a few moments ago, Tesco really has got an exceptional leadership team. We've now got a very clear strategy, lots of opportunities for growth, which you'll hear about from Dave shortly, a very strong financial position and we really move forward with confidence.

And now I'd like to hand back to Dave for the presentation. And I'm available for any Q&A at the end. Thank you.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Thank you very much. Okay. So as always, starting to the results, I'll say a little bit on succession at the end and then we can take all of your questions.

We talked to capital -- well, we talked before then, but we talked to Capital Markets Day at how it is we look at the business. In terms of customer satisfaction, cash profitability and cash flow, so that's the lens that we're going to look through as we share with you the performance. And then I'm going to go on and pick up from the Capital Markets Day and what we talked about in terms of what we're going to do to drive growth, what's happening in terms of innovation and where are we in the enabling technology in a number of key places.

So I'm going to talk customer satisfaction and then I'm going hand over to Alan to talk about the financial performance.

It's been a really -- look, you know what the market conditions have been like in the U.K. You know about the comparisons. Everybody's talked about all of those things. I want to talk about something different. The volume outperformance of our business in the U.K. has been really, really strong. 17 weeks out of 26 weeks, we were winning the market in terms of volume. And overall, in the half year, we were 0.5% -- 0.4% ahead of the market.

Importantly, the element we talk to you about a lot is mix, and you see that performance being particularly strong in food and packaged. We continue to be selective in the way we support general merchandising. They're margin-dilutive categories. We don't chase the sales if they're not profitable.

The other thing that's interesting and noteworthy is that performance is driven pretty much off a static promotional participation. We saw quite a significant step-up in promotional participation in the market. And I've given you some indications here in terms of August this year versus August last year for some randomly named competitors.

We do a very deep, what we call, spotlight. Under Tony's leadership, we have a very rigorous program of spotlight, which is customer satisfaction across a number of measures for ourselves and indeed all of our competitors. Everything you heard from us in terms of simplifying what it is we do in shops and the changes to the operating and service model that we talked about in the Capital Markets Day really come to life in this measure. What I'm sharing with you is what the total business scores were and what the improvement was year-on-year. We were already doing pretty well last year. The improvement has been really strong across every single measure.

If I turn that into NPS, what we've given you here is the unrolled but the rolling, you see that strong improvement continuing all the way through. I'll talk about the market in a second because I'll share with you some other things in terms of NPS. NPS for the market, both the retailers and other businesses, last half year has taken a dip quite considerably, all right? Quite considerably. And I'll show you the Tesco performance in that environment in a second.

The other thing that's interesting is I see that improvement in every single channel, so be it large stores -- and I can give you the regional breakdown, be it small stores, be it online. Customer satisfaction with what it is Tony and the retail team in the U.K. are delivering is really strongly positive in the first half of this year. We simplified it and we're getting it right more and more and more.

The other thing in terms of customer satisfaction that's worth sharing is how well Exclusively at Tesco is doing. We talked about it before. Customer perception of the products, very strong, both in teams of taste, quality and price. We now have 417 SKUs and 550 shops. We've put on something like 40,000 distribution points, and we have nearly 80% engagement in much as participation in our baskets.

Importantly and strategically is switching, all right? This is total switching into Exclusively at Tesco products. And so what you see here is, as we increase the distribution and we increase it, we're getting switching gains -- and this switching includes new store openings, switching gains from everybody.

Now you all know in switching, you hear a lot about switching, there's some really interesting things. If you take new stores out of switching, because if new store means everything is 100% switching in, switching gain, you take it out and you look, the picture is even stronger, all right? But when we said what we wanted to do was give a value offering which is price competitive versus general retailers, that's what we're doing, and we're now seeing positive switching in.

If you need a breakdown between what's coming from people coming into the brand or the brands from our existing shoppers versus those who are coming in from our competitors, and you see that, actually, it's doing exactly what we hoped it would do. The reason for that is -- and I've updated -- you've seen this picture from me a number of times in the last couple of presentations. This is it as of September. So we continue to have a very competitive offering for our customers and therefore go back to the strategy, take away a reason why they need to take any of their business anywhere else, they can buy this portfolio cheaper in Tesco than anywhere else.

That led to quite a lot of challenge in terms of ASA ruling. We've become a little bit more protective of our price position because we can be. And you saw rulings against our competitors for misleading claims. It is fair. In full transparency, we lost one. We lost one. Some of you have commented on this. Actually, the interesting thing is why we lost it was not -- ASA said, actually, your prices are valid and cheaper, all right?

They had no problem with the fact that we were claiming to be cheaper. The thing that they didn't like was because distribution was building, we couldn't show it was available everywhere. And therefore, they said, actually, the advertising needs greater availability. We've now finished the availability, so we thought about running a slightly different ad apologizing, but we now built the distribution. But importantly, all -- everybody has seen the value perception.

That on top -- on top of that, what Ali and the team have been doing, it's part the Centenary, you've seen 100 years of great value. And we ran it again in September, works really well, all right? The 2 elements of that are return on investment. Again, Capital Markets Day, we talked to you about return on marketing investment and how it is we think about every dollar we spend. And this event is really capitalizing on that. Strong engagement, strong promotional uplift.

One of the things that's really interesting in that is Clubcard prices. In May, when we did it, we only did 40 products in a few categories. Interesting reaction. This time around, we did nearly 400 products in 15 categories, all right? And if you've been in store, you will have seen it. Very interesting and very promising feedback in terms of the engagement. And we see quite a lot of new vitality in Clubcard, both in terms of total numbers, engagement with the app, and you're going to hear some more about that in a second.

So all of that comes together, and again, on brand attributes, value continues to strengthen quality and trust. All right? So from a customer satisfaction point of view in terms of brand, really, really good progress.

And this is the thing on NPS versus competitors. So in a period between February and August, where, in fairness, it's not just in retail but across most, customer sentiment in general gets negative, you've seen NPS scores across many, many categories come down, that's how you saw at the sentiment-type stores. And this is what it's been in retail. So we would ideally want to be more than one point. But if you look at it through a competitive lens, it's actually a very good and strong relative performance.

Finally, in terms of customer satisfaction in Booker, very good, very strong, 1.7% overall. In terms of catering, you see the numbers here. Satisfaction up. Retail satisfaction up. Everything that Charles and the team have been doing in terms of choice, price and service landed really very well, landed really very well. So in the U.K. particularly, strong U.K. core, strong Booker performance in terms of customer satisfaction.

And with that, I'm going to hand it over to Alan.

Alan Stewart ***Tesco PLC - CFO & Executive Director***
Thanks, Dave. Take some water. Good morning, everyone. As Dave said, we run the business through the lens of profitability, cash and then the balance sheet, and that's how I'm going to talk through the presentation today. It's a slightly different format from what we've done before, and -- but it's consistent with the way we think about the business.

So if we start with cash profitability. Sales grew in all regions apart from Central Europe where sales were impacted by the actions we're taking to transform the business to reposition it for future growth.

In the U.K. & ROI, sales were up 0.2%, with positive like-for-like of 0.1%, despite lapping strong comparatives particularly in the second quarter due to the hot weather, the World Cup and the royal wedding, all of which happened last year.

In Central Europe, the majority of our sales reduction of 7% was driven by actions to reshape our business in Poland. Excluding Poland, we saw an impact of negative 1% from our decision to reduce unprofitable general merchandise sales. And with the impact of the store closures, this drove an overall sales decline of 2.7% when compared to last year.

In Asia, sales were up 8.4% and by 1% at constant rates. Like-for-like was down 1.3%, principally, again, as a result of reduced general merchandise sales. And for Tesco Bank, revenue was up 2.8%.

As Dave has said, we are focusing on better sales mix and the mix of our sales is an important driver of our cash profitability. Food like-for-like continues to outperform general merchandise strongly in all regions and grew by 0.3% in the U.K. and the -- and ROI. We continued to refocus our general merchandise offer on sustainable profitable categories. Group like-for-like sales were held back by 0.4% in the first half as a result of this focus on profitable categories.

So to give an example. In the U.K., the better sales mix within our general merchandise proposition, where we refined our electricals range, saw like-for-like down 12% but improved the profitability of the category with a year-on-year margin improvement of 5.6% points.

We are focusing on building relevant food-adjacent ranges, including in our own home category, which saw 8.8 percentage points like-for-like growth in the half. And additionally, our core brands within the home category are margin accretive. For example, Fox & Ivy margin is 12.5 percentage points above the general merchandise average and the Go Cook is 18.8 percentage points higher.

Another key driver of cash profitability is cost effectiveness. And I'm pleased to say that we are already ahead of our GBP 1.5 billion full year target, with GBP 290 million of cost saves achieved in the half.

I'll come back to Central Europe in a moment, but savings across the group included in the U.K. the changes made to our in-store counter offer, responding to shifting customer shopping habits, which generated a saving of GBP 24 million in the half and will generate GBP 64 million saving annually. We announced changes to simplify our store operations in 153 Metro stores, which will save GBP 7 million in the first half and GBP 21 million annually. And in Thailand, we also accelerated our cost savings, including distribution efficiency improvements and more focused, effective marketing activity.

In Central Europe, we focused very strongly on cost effectiveness where we're undertaking a significant transformation by resizing, simplifying and improving the relevance of our business to the Central European customers. This includes our plans to address 2.7 million square feet of unproductive space through downsizing, repurposing and refitting, with work more than 2/3 complete at the half year end. We've also removed 1/4 of our range and simplified our distribution and replenishment routines. There's a significant change program in Poland, which Dave will touch on in a moment.

Another important driver of our improvement in cash profitability is our joining forces program with Booker. We delivered GBP 54 million of synergies in the half and remain very confident that we will reach our cumulative targets of circa GBP 140 million this year and circa GBP 200 million by '20/'21 next year. We remain focused on achieving these savings as quickly as possible.

In our distribution center in Magor, in addition to fulfilling all ambient product which we've spoken about before, in the first half, we've also now started fulfilling chilled product to 25 Booker sites, with total savings of GBP 5 million per annum. Booker is also supporting our harder-to-serve distributor routes, including delivering to 760 one-stop shops and 443 petrol forecourts across the country.

Moving now to the bank. The operating profit before exceptional items is down 3.3% to GBP 87 million, driven by an investment in the pricing of our insurance products and an increase in the provision for bad debt, principally linked to the industry treatment of the so-called persistent debt within banking. Last month, we confirmed the sale of the GBP 3.7 billion mortgage portfolio to Lloyds Banking Group as part of our repositioning of Tesco Bank to focus on the right products and services for people who shop at Tesco. The bank will recognize an exceptional gain on this disposal in the second half. We continue to operate the bank on a prudent basis and expected to return GBP 50 million per annum as a dividend payment to the plc.

In summary, we have delivered a significant improvement in operating profit in the first half of the year, up 25.4% to GBP 1.406 billion. This includes a strong increase in operating profit in the U.K. & ROI, up GBP 240 million to GBP 1.085 billion, driven by the improved product mix and the cost savings progress. The year-on-year comparison also benefits from the inclusion of Tesco Direct operating losses of GBP 23 million and Booker transaction costs of GBP 22 million which we booked in the first half of last year.

In Central Europe, the underlying profit improvement of 1.3% was held back by the disruptive impact of the fundamental transformation we are undertaking. We also took a GBP 13 million provision in respect of historic VAT liabilities.

In Asia, operating profit of GBP 171 million was GBP 60 million higher year-on-year. This included the effect of renegotiating promotional investment from suppliers which held back last year's first half numbers as we went through this process, as well as an acceleration of our cost savings initiatives in the current year.

So bringing all of this together, our group sales of GBP 28.3 billion were up 0.1%. Our share of income from JVs and associates decreased this year to GBP 10 million, reflecting reduced contribution from Gainland, our associate in China. Our net finance costs decreased by 13.1% year-on-year, primarily due to the lower levels of interest-bearing debt following further debt maturities and bond tenders, which I'll cover later on. And our adjusted before tax increased 47.4% to GBP 1.039 billion for the half, which led to an increased tax charge. As a result, our diluted earnings per share increased by 49.8% year-on-year to

8.17p.

Over the last 12 months, we've delivered an operating profit margin of 3.73%, well within our 3.5% to 4% target range on a pre-IFRS 16 and excluding Booker basis. We've achieved this 6 months ahead of plan. Going forward, all of our reporting will be on an IFRS 16 basis only.

I'll now move to talk about cash flow in the half. Thinking about sourcing and uses of cash, I've shared this waterfall many times and it represents how we think about these. This now reflects our updated free cash flow definition to include repayments of obligations and the leases as required under IFRS 16.

I'm going to call out the most notable items, starting with GBP 2.1 billion cash from retail operations. We then generated net working capital inflow of GBP 114 million. This improvement principally reflects the full recovery of the GBP 210 million timing impact, which we spoke about in April with our preliminary results. This has been offset by the impact from lower stock purchases as we repositioned our business in Central Europe, which is a timing issue, and the phasing of initiatives in the U.K., which are weighted towards the second half of the year.

Exceptional cash items were an outflow of GBP 116 million, driven predominantly by restructuring payments. Our cash CapEx totaled GBP 389 million. I'll give some more detail on this in a moment. Net interest and tax payments of GBP 529 million included an increase in cash tax of GBP 30 million and a GBP 61 million reduction in cash interest payable.

We generated property proceeds of GBP 65 million across the U.K. & ROI and Central Europe, and we used GBP 89 million to buy back our Blandford and Chesterfield stores in the U.K. We've made a commitment to offset any dilution to satisfy new share issuance for share schemes, and this resulted in the cash flow out of GBP 52 million in the first half. We expect the full year cash impact to be around 159 -- GBP 150 million, in line with what we've previously indicated. And finally, the repayments of obligations and the leases drove an outflow of GBP 325 million, which led to an overall free cash flow of GBP 814 million, up 105% year-on-year.

Giving a bit more color on this strong year-on-year improvement in free cash flow. The increase in profits is clearly the biggest driver at GBP 307 million up. In addition, working capital inflow was GBP 126 million improved year-on-year. As I've said before, the other elements such as property proceeds, market share purchases can be quite lumpy, and these net to GBP 16 million outflow in the first half. Our overall free cash generation increased by GBP 417 million when compared with last year.

If we now turn to capital expenditure. In the U.K. & ROI, spend relates to the maintenance of our stores in addition to 5 new convenience store openings and a temporary replacement store in Kennington in London. Year-on-year CapEx increased by GBP 25 million related to the work we are doing to simplify our operations in store.

In Central Europe, we continued our broader program to address unproductive selling space. And we opened a further new stores -- 4 new stores in Thailand and 1 new store in Malaysia. We saw lower Capex spend in Asia in the half, reflecting a short pause while we refined our store costs and our operating model, as we outlined in our recent Capital Markets Day.

We now expect capital expenditure for the full year to be no more than GBP 1.1 billion, reflecting our continued strong capital discipline. Going forward, I continue to expect to see our annual spend remaining within the GBP 1.1 billion to GBP 1.4 billion range that we've indicated previously. We're also pleased to be able to open new stores within our strict payback period, and Dave will cover these later.

We also continued to unlock value from our property portfolio, and we consider this an important driver of value creation in the group. We disposed of 50 small sites in the half, generating proceeds of GBP 65 million. In addition, we have agreed a further sale of 23 sites in Central Europe with aggregate proceeds of GBP 145 million due to be received in the second half of this financial year and in the year beyond that.

If I now cover the balance sheet and the financial discipline we bring into that area of the business. With the adoption of IFRS 16, our net debt definition includes lease liabilities. Since the year-end, our total indebtedness had reduced by GBP 0.9 billion to GBP 14.7 billion, primarily from a GBP 0.5 billion reduction in underlying net debt. There was also a GBP 200 million reduction in lease liabilities and an equivalent reduction in the pension deficit, from GBP 2.3 billion at the end of the full year to GBP 2.1 billion at the end of the half.

Strong asset performance, including in our LDI portfolio, together with some improvements in actuarial factors and our deficit payments more than offset the change seen in the scheme liabilities from the fall in corporate bond yields.

We repaid GBP 1 billion of debt in the half with a Eurobond maturity and the early repayment of GBP 337 million of sterling bonds. We also issued new 6-year debt of GBP 400 million at a 2.5% coupon in May. We are now investment grade under 2 of the rating agencies, with a positive outlook from the third agency that rates us.

Our debt metrics have continued to improve since the end of last year, and we're making good progress towards our total indebtedness target range, with an improvement in ratio to 3.2x. Our fixed charge cover has also improved to 3.2x and is now above our threshold target. Both metrics are now calculated on an IFRS 16 basis.

Our diluted earnings per share, as I've said, were 8.17p, up 49.8% on last year, with the stronger profit performance driving this increase. We are pleased to declare an interim dividend of 2.65p per share, up 58.7% year-on-year, to be paid on 22nd of November. This will result in a total cash costs of approximately GBP 260 million. We remain committed to achieving our target of a 50% payout ratio in the current year. And the dividend reflects our continued improvement in cash profitability and the Board's confidence in our future plans.

Just before I conclude, as usual, I have a slide summarizing our key financial guidance and how we see our continued progression. As I said earlier, this year, we expect to be at the lower end of our CapEx guidance at GBP 1.1 billion. The remaining guidance for working capital, pension contributions, finance costs, tax and the dividend remain unchanged from April.

So to conclude. We have a more profitable sales mix in all of our markets. We are already ahead of our full year cost savings target and we see many more opportunities to improve the cost effectiveness of our business. Our margin target has been achieved 6 months ahead of plan. And we've delivered a strong cash profit improvement and generated significantly higher free cash flow. Our interim dividend at 2.65p is a significant increase on last year, and we continue to expect a full year dividend payout ratio of 50%.

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

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Thanks, Alan, really. Okay. As Alan said, really very pleased with the first half year. A very strong performance in the U.K. The recovery in Asia, very pleased with. And there's a hell of a transformation going in Central Europe, and I'll share some of that in a second.

As I said, go back to the Capital Markets Day. We tried to give you a number of opportunities for the business where it was we saw some growth opportunities, where it was we saw the ability to innovate better for customers. And we talked a lot about how it was we were going to apply technology to different parts of our business.

We didn't at the time -- you said too as well, what are you going to do, when and in what order and could you give us some priorities and what will the shape of the plan look like. And we demurred to do that because we didn't want to get into that sort of deliberate guidance that 0were so tempting at that time.

But what I do want to do now is show and bring to you what it is we are going to do, what it is we are doing in that space. So look, we would say, I would say, we're well-positioned for that sustainable, profitable growth. We completed the turnaround. The brand is stronger. And now the opportunity for us to express ourselves presents itself.

So let's start with growth. We talked already about what we've been doing in small stores. We talked about work that's going on. We talked -- if you remember, we talked about the service model. We talked about, actually, how do we leverage across the group the different capabilities.

One of those was reducing the capital cost of opening new stores. We gave the Asian example in the Capital Markets Day, and we talked about reducing the capital cost; changing the operational costs, i.e. lower; and improving the mix. Therefore, commercial gross margin better meant that we could now invest in opening more stores in Asia and getting a payback in less than 3 years. So 750 stores over the next 3 years, 50 of which will be opened in the second half of this year.

Same is true with the U.K., all right? So in terms of capital intensity, we -- the target given to Steve and Tony and Jason was, could we drop the cost of opening Express stores by 40%, we're at 33%. By the way, for those people who are interested, some of the things we learned in Jack's about build-out and more affordable build-out is helping us when we think about changing the model for the Express format.

The mix gives us about 200 commercial gross margin points. We've reduced the operating cost, and Express stores are now accretive to the U.K. group average. So as a result of that, I think we got to the right place. We're very confident about investing. And we're going to step up and we'll open 150 stores over the next 3 years with a payback of less than 3 years.

There are also selective opportunities in terms of Superstores. Again, capital costs of opening reduced. In this case, 15%. The different mix, 80:20 in terms of food, general merchandise, everything we've learned in terms of one touch replenishment, again, you've seen that in some of the simpler stores. And the reduction in the operating costs has been driven in the business means that we'll open 4 stores, 3 of those in the U.K., 1 in Ireland, with a payback -- all of them with a payback of less than 5 years.

So having got ourselves into that place, I mean all the work that we've done on the model, we can start selectively investing in opening stores again. Importantly, and I just want you to remember one fact. We have a very extensive network of stores in the U.K. Our penetration of households in the U.K. maxes out at 85%. We get to 85% in 6 months. The nearest competitor we have gets a penetration of 63%.

So even with our footprint, there's 15% of the market that we don't reach. There are parts of the country where our market share is in the teens. So this -- if we get the right store in the right place, there's very good growth opportunities. But we needed to make sure that it was very capital efficient to do so, and this is the work that's been going in to getting that right.

The other reason I gave you the penetration number is what we're sharing with you now is more detail on the online plan. Now I put one chart in here because it never ceases to amaze me. When I go to shareholders and investors and they talk about online, they look at all online businesses as if they're equal, all right? They are not. Our business is more than GBP 3 billion, all right? We're getting close to 1 million orders a week, all right? The thing that's really strategically interesting is if my stores can only get me there 85% of the way, I can reach 99.7% of households within an hour. So actually, online is a way of me being able to close that distribution penetration gap from 85% to 99% if I can do it cost effectively.

And what we've been working on -- and there's a load of work about the operational efficiency, I've given you details here in terms of pick rate, productivity, cost per order. There's other work that's going on, and we talked about bumblebee in terms of driving algorithms at shorter, quicker, less costs because of less fuel.

So the work that's been -- you will remember, all this time we've been saying, it wasn't profitable, we'll make it profitable. When we make it profitable, we'll think about how we grow it. It's now profitable, makes a really good cash contribution. We can step up the growth because we know now how to increase the capacity in a capital-light, capital-efficient way. You've seen in the first half that we doubled, more than doubled the rate of growth in our online business. It grew at 7.4% in the half.

Again, we gave you an insight to this capability at the Capital Markets Day. But this is now what the plan is. So we will open 3 urban fulfillment centers by the summer of 2020. The very first of those will be in West Bromwich by March of 2020, all right? We have a plan. The idea is how do we, over the next 3 years, double our capacity in online delivery?

We still got capacity, all that productivity is helping us. But if we really want to penetrate in the way that I talked, we need to increase our capacity. We're going to put urban fulfillment centers on the back of those stores. We have the space, all right? We'll need to convert some of those stores, but we have the space. We'll put in 3 by the summer. The 3-year plan has least 25 in order to get that 15% sales potential there. Given the details, 10 to 15k square feet are needed, and they're very, very, very efficient in terms of pick.

The other thing we talked about in the Capital Markets Day, Ali told you about loyalty. We gave you the detail in terms of Clubcard, in terms of the 19 million Clubcard users. And we gave you the detail in terms of what it is when somebody takes more than one Tesco product. Remember, strategically, I talked about how do you put the bank, mobile and the grocery business and the fuel business, how do you put all of that together as a Tesco offering and what that means in terms of our penetration to the disposable income of Tesco customers.

And we gave you the example, if you remember, of a Colleague Clubcard that did that as a test, 75,000 colleagues if you remember. And when we put all of that together, we saw an impact back into the size of their grocery shopping basket back in the Tesco store.

Now Ali talked to you then about what we were trying to do, what we were thinking of doing, and the new news back then was about member pricing. We've done it in May for the first time. Capital markets Day was in June. It was a small-scale test. We've done it again in September. Really very happy with the first look at the results in September. But now, something new. Now something new.

(video)

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
So before the end of this calendar year, we will introduce Clubcard Plus. It's the way of putting together all the different elements, the bundle of benefits across Tesco with a very strong core offer in terms of large basket size.

Think about it. If you go back to strategy, increasing -- and by selective store investments and by increasing penetrations through online, we get to customers who currently don't shop with Tesco. The other way of growing our business is to grow the loyalty, and that's where the leverage and the opportunity with Clubcard is unique to ourselves.

So you'll see this launch between now and the end of the year. Pretty much all of the details of where we're going to be are highlighted here. There are a couple of things that for competitive reasons I haven't put in, so you have to wait until it's actually launched to get all the detail, but coming soon.

Fifth area of growth that I'd like to talk about is Booker, all right? You know about Booker from supporting Tesco growth. Alan touched on it in terms of supporting One Stop, supporting petrol filling stations. You know about the 200 bulk stores that Jason has put into the U.K., really very happy with how that is working. This concept of catering top-up. There's quite a lot of Charles' customers in Booker who come to Tesco for supplemental things. The way we tie that in to their book of purchases is what we call a top-up and it's an interesting opportunity. We'll try that regionally first.

And for those who are customers, Booker online will benefit from Tesco technology with a relaunch in January. If you remember, a very significant part of the Booker business is already digital. It now has some of the capability that comes from Tesco that it didn't have before, and you'll see that in January.

But what we announced today, and as you know -- so my apologies from Charles, but he is, this morning as part of the original plan, meeting Burger King, Pret and KFC, because we announced today that we're buying for a nominal consideration the Best Food Logistics business. It's GBP 1.1 billion of sales. It's ever so slightly loss-making.

But strategically, if you go back to what we said when we did the merger, the opportunity to grow in foodservice was one of the principal strategic rationales. And the ability to take a slightly loss-making business and turn it profitable, Charles has a well-proven track record in doing that. He does that with the Joining Forces. At Tesco, we are very confident in our ability to add cash profit to it.

So it's completely consistent with the strategy that we talked about. Interestingly and significantly, it will complete a national distribution service for us in terms of foodservice. What that means is we'll -- including that acquisition, sales in Booker will be nearly GBP 7.5 billion versus the GBP 5.5 billion that we were when the merger happened.

And the final thing I should tell you on Booker is we just agreed to incorporate the Booker business centers that were in India into our Trent JV. So now in India, it's small, it's relatively small, right? It's only in a few regions at this point but we have a unique opportunity. We're the only international player that has a retail and a wholesale presence in India. And icon for the future.

So those were some of the things that we're doing to drive growth. From an innovation point of view, what I want to talk about is I want to talk about Poland. You know what we've been doing and Steve's been doing in terms of realizing value from property. Alan gave you the numbers. The changes going on in Poland is really very significant. And again, we've charted this for you since we broke out Poland.

But just to give you some numbers. We're taking 7.5 million square feet, and we're taking it down to a business which will be 3.9 million square feet. We're coming out of large hypermarkets completely, and we will reduce in what we call compact hypermarkets in the range from 41,000 SKUs to around 11,000 to 13,000 SKUs. It's a massive change. Having sort of been through Central Europe, seeing some of these changes, they're really very impactful. And we'll end up with a chain of supers in Poland with 4,000.

What does that mean? I was trying to think about how do I share with you what does this mean. It means that in Poland we've got a -- we have -- we started with a GBP 2 billion loss-making business. We've done an awful lot of store disposals and there's a little bit more that we can do, and Alan has given you some indication of what the proceeds of that would be. When we -- we used to have 71 compact hypermarkets, 63 hypers, 219 supers. And we used this wonderful combination of 25 -- around 25% commercial growth for 29% cost, which is not good, all right?

Where we'll be when we finish this transformation, and we are about 3/4 of the way through it. Let's be honest. It will be GBP 1 billion of sales, but with a 3% operating margin. We'll have 2 formats, compact hypers, just under 100, and 216 standard supers. And the 3% margin comes from a very significant reduction in the cost.

A lot of innovation in product. Andrew is here, he can talk you through any and every one of these if you're particularly interested. There's everything from the latest incubators. So as you know, we have some incubator programs where we sponsor and support small entrepreneurs to build their business in partnership. And there's all other product development as well. The one I thought I'd focus on because it's probably the biggest in terms of scale is what we're doing in plant-based foods.

You know about Wicked Kitchen, we launched it a couple of years ago. There's a 60% increase in the range that's coming through. And we launched this week a completely new range called Plant Chef. In total, we'll have 200-plus lines. We'll double our presence, and we're listing some other brands as well. So we were the leader in plant-based, we doubled down. There's quite a lot of innovation that you're going to see. And you'll see some change in merchandising in stores as we do that.

Finally, going back to what I said in Capital Markets Day, plastic is our #1 customer issue. They're very happy with what we've done on food waste. This is the #1 thing we need to solve. We talked you about closed loop back in Capital Markets Day. If you remember, I gave you the insight that 18 months ago, we have taken a census of all the materials in our business and segmented them on: red, too difficult to recycle or hard to recycle; green for the recyclable; amber, some new materials, don't yet know where they are.

We said we would be out of red by the end of 2019, and we confirmed when we met 1,500 of our suppliers about 6 weeks ago. From a Tesco brand point of view, we'll be completely out of red material by the end of December, and we think all brands would be there, too. We can't control brands in exactly the same way. There were 800 SKUs the last time -- or about 6 weeks ago that we still wanted them to address, we have confirmation that they will. But -- so it looks like we will be absolutely on track.

If you've been in Bar Hill, anybody shop in Bar Hill? If you want to have a look, Bar Hill, we gave a store, a complete store in Bar Hill over to test all innovation in terms of plastic packaging. Now the look -- there's some really interesting pictures as you walk up. And we invite customers to work with us on how it is we could lower our use of plastic across the business. So some fantastic insight, but also initiative, lots and lots and lots of learning.

The thing we are positioning, and this is the insight to our strategy going forward and all of our engagement with other stakeholders, is around the 4 Rs, all right? And the way you should think about this is, we want to remove as much plastic as possible.

First step, anything that's hard to recycle, out of the business. Anything that's unnecessary, out of the business. If you do need to use plastic, use the absolute minimum, so reduce it. And as you reduce it, design it in the way which, ideally, you can reuse it. And when it's gone through its reuse cycle, then make sure we do recycle. And that comes back to the closed loop that we talked about before, okay?

You might have heard of this, the reason I told you this is one of the things I took to suppliers was the insight which is, as retailers, we don't sell air, we don't move or store air, so we don't want to package it. There was a lot of chatter because what we did -- and by the way, Tesco are as guilty. If you look at the footprint of packaging versus the product that's in there, there's a hell of a lot of plastic which is just not needed, all right? So we need to redesign.

So what we've agreed, what we asked is, by October -- consultation with suppliers, by October they will come back and tell us what the issues are about meeting this brief on packaging. Andrew is then going to decide the timing of the range reviews next year. And in those range reviews, we'll go back to good old core retail DPC/DPP evaluations. And that is about the cube space of the product versus the shelf it takes. So actually, the size in the packaging will start to matter.

Now that's not just environmental, right? It's not just environmental. We gave an example where -- I think it was a KP Hula Hoops example from memory, where by repackaging the multipack, it was 24% less plastic. Great. Take fantastic. Same amount of Hula Hoops, 24% less plastic. Very interestingly though, smaller cases. More cases on the pallet, more products on a truck, a change in a 6 pack of Hula Hoops takes 50,000 road miles out of supply chain, all right?

So actually being very efficient -- and that's, by the way, why Tesco -- this is when I was a young salesman trying to sell into Tesco, I used to have to come and share the analysis of DPC on pallet filling, case filling, low refill and what have you to show the cost. So we're going to bring that back. It will be brilliant from a packaging point of view. It should also be pretty good from a supply chain and other environmental point of view. All right.

Finally, technology. What have we been doing? We shared with you, Tony shared with you, Capital

Markets Day, the cost to serve our about some of things we've done which has been driving down operation cost. We also showed you seamless shopping, if you will, at the Capital Markets Day, you remember? And today, you see them mentioned here. We have invested equity in the trio business. They were the best partner when we tested everybody. So we have a -- not only do we have a technology development agreement with them, we're also an equity partner. And you've seen what I said before in terms of Clubcard app. And now hopefully, you can understand why we did everything we did with Clubcard in terms of update digital app, now gets you ready for Clubcard Plus, which I've just shared moments ago.

Very important, technology in terms of cost efficiency. It's interesting. We had a session yesterday. We shared with our Board how [Steve Gottman] and his team manages extreme weather, and actually how flexible and adaptable and how able we are to forecast. There are some really good work going on in here, all right, some really good work. So our sales forecast accuracy is improving. We were pretty good before. We're really good now. For those who are really into this space, we're having our forecast bias in fresh food, which is massive. If you go back to all of our supplier interactions, we're giving much more consistent and timely information and signals to our suppliers, and that helps us run the business much better. And you see in our availability, you saw it in the shop spotlight that I talked about before.

The changes that we made have allowed us to change the stock control, that's a GBP 40 million a year, and we continue to drive the transactions in Tesco Pay+.

Simplified, we've now got all of our large stores on the scheduler. We -- Natasha talked about that in the Capital Markets Day. That's saving about 2 million hours in stores. Now the saving is not necessarily monetary. Tony may redeploy them somewhere else, but it's actually quite a significant amount of saving through a very, very, very smart application of technology. And if you go into one of our big stores, ask store managers what it's like to do it like this versus the pen and paper that they used to have to do it with before.

My product is helping us with cash management and maybe not significant to you, but it's significant to Steve and myself, which, as you know, half of our profitability in Asia comes from our property portfolio. We -- for the first time, we now have an IT platform which is actively managing the leases for that important part of profitability.

Finally, sustainable value for shareholders. We talked about medium-term ambitions. We've delivered on those. We talked about the underlying philosophy that's being there for 5 years. That's the performance that Alan has just talked to you about.

And the final thing I wanted to do was reiterate what we've shared in terms of our capital, thinking about allocation of capital within the business. 1 or 2 of you asked me about this in the context of succession and change. This capital allocation framework is agreed with the PLC Board, is owned by the exec, it's absolutely underpinning the way we're thinking about the strategy going forward. No change.

And with that, I'd say we've delivered every element of the turnaround plan. I said at the full year, we've met most of them, and I was confident we do the rest of them this year. We've done them in the half year. The customer satisfaction is really strong and improving across all measures. There's a good and strong increase in our profitability, particularly in the U.K. business. Cash generation, Alan told you, doubling retail cash flow and well positioned in terms of investing, still within the 1.1 to 1.4 of capital in stores, online, in loyalty and with Booker here in the U.K. and what it is we can do within Asia and the transformation that's going on in Central Europe.

So look, that's the results, that's all the detail that we would normally share. I thought probably the best thing is to say just a little bit about succession, then we can take questions on everything rather than split it up, if that's okay. Is that all right?

Now I don't have much to share apart from the following, which is -- look, it is a personal decision. I have a view. It's a long-held view. I believe CEOs of big businesses like this have a finite timing. I believe 5 to 7 years is a pretty good time to come lead a business, set a strategy, deliver the strategy, embed what comes next, try and build some capability, that always feels about the right time. By the time we get to the summer of next year, I will have been in Tesco about 6 years. All right?

We have -- I was recruited to lead a turnaround and with people in this room, but an awful lot of other people as well. I could not be more proud of the way the people have stepped in and turned around the Tesco business. The expertise in this business, in our business, is just unbelievable. The -- I suppose they're having delivered the turnaround. We're now in a place where we've got a very, very, very strong leadership team, pound for pound, man for man, woman for woman, by far in a way the best food retail business in the U.K. by a distance. No question. Strategy is really, really clear, and we're starting to deliver on it. All right. There's an energy around what it is, you, the opportunities that come from having been sort of the turnaround and setting ourselves up.

So at that point, it seems like the right time to do a smooth and orderly transition. And John described the process that we went through, and that's the best way I think we can do it for the business.

The final thing I would say to you is if you don't know me well, there will be not a single change in the way that we run the business between now and next summer, all right? You ask my team, those who have known about this for a while, I don't think they will feel any difference from me at all up to this moment. And I guarantee you, it won't change between now and the summer. We will not be letting up.

Finally is I've been asked and we might as well just deal with it so you don't ask me the question. I'm not going anywhere, all right? I'm not leaving Tesco to join somebody else. I'm not. I'm not in conversation with anybody about anything.

And just for the record, despite all the rumors, whilst yes, I have been approached by things in my time in Tesco, I have never spoken to anybody about any opportunity other than Tesco in the time that I've been here. It's not how I work. I am, though, going to step away, take some time, think about what is I want to do for the next 10 or 15 years. I have the answer. I have no idea. I have absolutely no idea. I just know that in a job like this, given what I said about how it rolls, the idea that I could do that thinking whilst doing this is not going to work. So I'd rather not. Let's finish this together, totally proud and committed to the team, and then I'll step aside and I'll decide what I'm going to do. But I have no idea what it is. Okay? So that's probably as much as I can tell you. I do know Ken. I do know him. He used to be a customer of mine. I met him at the end of this process. I met -- they're shortlisted so they can ask me questions the other way around. He's a great bloke. He's a really nice bloke. He's smart, strategic. He's everything that John said he is. But most of all, I am very confident that his personality will fit very well with the Tesco leadership team and the Tesco business.

So with that, why don't I shut up and now we'll take your questions. Bruno, why don't you start? We need a microphone. Can I give you this one? Is that okay? Here you go.

QUESTIONS AND ANSWERS

Bruno Monteyne ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***
Bruno from Bernstein. Three questions from me. Exclusively at Tesco is clearly a bit part of your turnaround in U.K. You defined it as gaining 6 out of 10 scope of customers preferring it versus all the qualities are better than them. I'm hearing quite some pushback from competitors and whether really is the right quality. So can you just confirm around those 400 products, big blind taste testing with customers, you do score that 6 out of 10 across the board?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Deal with the 2 questions as well, because it counts as 1 question rather than 3.

Bruno Monteyne ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***
Okay. The second one is, previously, you always talked about how you thought the volume growth in the U.K. is bigger than the discounts together because you have Tesco and Booker. Is that still the case?

And last but not least, you talked about opening new stores and you talked about how you have lower penetration, teens market share. Every retailer has areas where they have lower market share. You always thought of talking about opening of new spaces in those areas. Are you starting to kind of the sins of [2007], 2012 and adding way more than we need?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
So let -- I'll take them in the order. So looking, Andrew, we continually benchmark. The point is -- so the standard is exactly the standard that you remember. And when we launch, we're confident that we launch, but then people move and we have to keep doing. So you can never say hand on hand that everyone, every day is the same because people are relaunching all the time. But the criteria on which things are launched is exactly that, all right? And so we're confident when we put them in the market data, and we review them periodically in order to make sure they're there. And if somebody changes, we

benchmark again. So that's where we are.

I think in terms of total volume, yes, I believe if we look at the total volume, we're still at place where you -- if you can take in quantum, we're capturing a significant amount of the volume in the marketplace, and it's bigger than the growth that is available elsewhere.

And look, I don't think we are at all committing the sins of the past. I think what we're doing is -- and that's where I -- suppose -- what I was trying to give the insight for is thinking really hard about the capital you invest. It drops the cost of opening an Express by 33%. Thinking much more deliberately about the space and the mix that you do and the simplification of the operating model gives you some opportunities that, before, you would have been doing but be absolutely not capital-disciplined way of doing it. But if we can, in low market share places, open stores which have strong gains and a paying back inside 3 years, Jason, I want to be absolutely in that. The conversation we have is I want a model that pays back in 3 years because we're not playing the old game which is all about opening stores and we'll worry about the payback later. That's not what we're doing. So as long as we keep really disciplined in our choice of sites and the cost of opening and the payback, then selective investment's absolutely the right thing to do.

Okay? I think we go -- we'll go by row, shall we? We'll go that way this time. Please.

Maria-Laura R Adurno ***Morgan Stanley, Research Division - Equity Analyst***
Maria-Laura from Morgan Stanley. So I have 3 questions as well. The first one is -- sorry, they're very short, very, very short. So the first one is around the customer perception, the area where there's still some -- on a relative basis where you still lag on price perception. And so just wondering what are the initiative that have been put in place particularly if you look at how competitive the market is and how the others are reacting. So that's number 1.

Number 2, impressive turnaround in the Asian business. But is this margin actually sustainable?

And the third question which I had, you mentioned a very strong leadership at Tesco so why not choose an internal candidate?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Okay. I'll let John do the third one, if that's okay.

So the price perception, still more to be done. It is a competitive situation. You saw some of the advertising that we've done, and we'll continue to do. Alessandra is working. We've used the centenary event as well as a great value event. But there's more that we can do. The critical thing is get the reality right. So if our pricing is actually very competitive, then you can work on the perception. And we got also a place where our pricing is now very competitive. And now the job in store and in communication is to carry on communicating that.

To your second, is the margin in Asia sustainable? Yes.

And John, do you want to say something about process?

John Allan ***Tesco PLC - Non-Executive Chairman***
Yes. I'm unamplified, so I'll speak up. We have a really talented management team, as Dave has said, some outstanding individuals. We -- all of them have development plans and all of that I think potential lifelong is coming. And clearly, when we became aware, because Dave and I have lived with this for a while, we looked quite hard about whether the right decision was an internal candidate or an external candidate. We decided on balance, it was right to go from someone from outside. I'll be disappointed if next time, this decision was made in Tesco. We haven't got to a stage where we've got an even greater choice of even stronger internal candidates ready to take on the role. So we had to do what we thought was right for the business. And the right decision for the business I think was the one we've announced this morning.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Okay. Go on. One question.

Andrew Philip Gwynn ***Exane BNP Paribas, Research Division - Senior Food Researcher & Analyst of Food Retail***
Yes. I could give one question. This is Andrew Gwynn from Exane. Market conditions are actually pretty tough. I mean obviously you've talked about the volume performance, but how should we think about the second half? I mean how should we frame sales in the market that clearly is?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Yes. I think it's a brave man that -- or a brave person that forecasts with any certainty given what could happen in the back half of the year. I suppose the way that we think about it, we -- volume performance first half carried on into the second half, really quite happy with the way that we -- I can't do anything about the size of the market but I can do something about my competitive versus the market, and we continue to be competitive versus the market. We've got a very strong plan in the balance of this year. You've seen some of it today, but there's also some things that we don't have control on like Brexit and all that good stuff. So there is definitely consumer sentiment which is nervous, that's it, versus how you see the indicators. But actually in terms of behavior, I can't point to a change in behavior at this point because of that. Okay? Passing it to Clive and then we'll do the segment.

Clive W. Black ***Shore Capital Group Ltd., Research Division - Head of Research***
Yes. Clive from Shore Capital. I can see you make a statement and has moved to become a director for like underground, so congratulations on your achievements to date and best wishes in the future. In that respect, albeit you'd be probably sending postcards from Skype. In next April, you're going to be talking about dividend cover materially coming down. In terms of the allocation on free capital thereafter between acquisitions, you've announced one today, and broader shareholder activity, what would you be recommending to the Board that they should do?

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

Well, look, I will -- I'll go back to the framework that we had before. So I will go through. We talked then -- nobody said why did you put nonorganic into that list? This is one of those reasons. And a very small consideration allows us to open up an opportunity, I think we should always have that. But it's not very much in terms of an allocation of capital. Look, I think -- honestly, I believe that the business has the capital that it needs. Alan was talking about long-term guidance. They'll be 1.1 to 1.4, so we don't feel like we're under-invested. If, as a management team, we can come up with things which actually we ought to invest in, then we can definitely get the return. We will not change the discipline about how we apply our capital. Then we would invest in that business. I think then, I hope that, come April, we'll be saying -- we're saying to the Board, this is the situation and we'll give John a problem as to how is the Board going to allocate the capital. Look, we might -- personally, but I may be biased here. I have a feeling that I'm not sure the share price reflects the true value of the business, but we'll look at it when we get there, Clive, really. It will be a nice problem to have given where we started from.

Robert Joyce ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Rob Joyce, Goldman Sachs. Two, sorry. Quick one is -- it's really quick. You mentioned that back in the summer, you were very tempted to lay out some margin targets.

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

I was joking, mate. There was no temptation at all.

Robert Joyce ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Could we infer broadly from that you do go looking forward, going to come in with a similar line of sight to what you had back in 2016 when you gave those targets? Always to your mind as you are facing a lot of big challenge and the choice that you made?

Second one is just very quick. Been through some of the statutory accounts on BFF, Best Food Group and it looks like they were making GBP 65 million of operating profit a couple of years ago. Is that fair to say?

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

Get ready for the second bit. I know I can't call that. I think the way to answer the question is what -- the way that we look at the business won't change. So customer, cash profitability, everything you've heard from us. There's a 3-year plan which lays out challenges, opportunities, what it is we can see in terms of operating changes, all of that is there. We reviewed it. We'll review again in November. We'll join the Board a review of that plan as we do every year, so we'll inherit exactly that. I think what I would say to you, Rob, is compared to where we were in '16, as a business, we start from a stronger place, all right? We haven't finished the price adjustment at that point. We're actually much more competitive in terms of pricing so anything that we can -- from operating or from mix gives us an opportunity either to get even more competitive, or hence not. That's going to be a nice problem to have going forward versus where we were before, but there are some headwinds as well, right? There are some headwinds as well. You know it so there will be inflation in some of the cost and there will be some offsets there, but we've got lots of productivity improvements. And if you go back to our Capital Markets day, that's where we're trying to show how technology could lower operating cost, how we could do things differently, and that's business. All right? But I think the portfolio of opportunities going forward, all right, are fantastic. All right? So when people talk to me, it was interesting. It was I think probably a bit emotional for all of us yesterday talking through the change. One of the things that were said to me which is interesting was actually I have gone the 5 years that were difficult in terms of the turnaround, leaving at the time when it gets interesting because we've got a lot more optionality. So I think that's what Ken will inherit, and that's exactly what our successors will inherit, statutory accounts.

Alan Stewart ***Tesco PLC - CFO & Executive Director***
The business that Booker has bought is its assets and operations. It's not the company. There are other changes in it. Clearly that there are a number of customers. We've highlighted the 3 large ones. There are price pressures within that business, and it's part of the market which has had some very visible challenges in terms of serving the customers through that food service. So I really wouldn't take that number, which is in historic it may very well be a different number. What Charles has really demonstrated very, very successfully is buying a business for the right price at the time we buy it and then turning that business into a really, really great cash-profitable business. And that's what we're hoping we're going to achieve here with GBP 1.1 billion of sales as the starter.

Nick Coulter ***Citigroup Inc, Research Division - Director***
Nick Coulter from Citi. Can I ask about your branded performance which looks to be less impressive than the non-label? Is that a product sort of a mix and your choice, or is that a kind of a by-product of a promotional environment in the market?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
I think -- so there's no change in strategy. We want to be as available and branded as we are our own brand. So no change in strategy at all. I think there's been a lot of activity from us, so that's definitely added. And the promotional intensity that I showed turns to be more on brand and so it has been. I'm not aware. I'm looking at adjacent. And last time I haven't seen any deterioration in brand and across. But certainly no change in our approached brand versus our own brand.

Nick Coulter ***Citigroup Inc, Research Division - Director***
Just as a relative volume performance?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
No. I think, look, first half year, food, own brand 51%, 52%, which has been above that for the last 12 months or so. So no, I don't think so. Okay? So can you pass it then?

Andrew Ian Porteous ***HSBC, Research Division - Analyst, European Retail***
It's Andrew from HSBC. First of all -- and good luck in choosing your next option. So it's been a good 5 years. Just in terms of -- a couple of questions, [1, 2H], there's a lot going on in your sales line, sort of coming out of general merchandise categories, mix shifts, et cetera. But when we sort of step back from

things, sales are essentially flat in a market that's got a bit of inflation in it. Where is sales growth versus sort of spectrum outcomes that you see? And do you expect the -- or has the balance of profit growth been a bit more cost-led than sales growth-led?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Well, I think if you look at it mathematically, that's clearly the case because what we've been doing is really positioning our pricing positions. So if you go back to the 5 years, we've dropped our prices by nearly 7% versus where we started, so that's the hit in the sales line that you see. And as we've changed the business, generated costs, we've either been investing in price or we've been rebuilding profitability. Well, I think we don't start before Andrew a lot, still, still, do not measure like-for-like, still -- well, we measure it, still do not target anybody like-for-like, all right? So we do look at an element of sales growth, but there has to be an outcome of what is the proposition we want to give for customers, all right? So if that means that we need to invest something and that depresses the sales line, I'm happy to do it if it's the right thing to do. I just look to make sure that we're now delivering the cash profitability as we do. And for me, if you sit in Jason or Alison on that shoes, that's exactly the trade-off that you're making every time. What we've changed is we are not said to people that actually the sales line is the be all and end all because actually we think that can run the wrong behavior, all right? And so that's the subtlety and the change. Your second one?

Andrew Ian Porteous ***HSBC, Research Division - Analyst, European Retail***
One for Alan really. Just thinking about sort of -- you've got good line of sight on getting into that 3 to -- 2.5 to 3x total indebtedness ratio now. What's your approach when you get that? I mean is it a case that you want to get to 2.5 and then go back up to 3 if you're giving back cash? Or is it we've got line of sight, and therefore, we can be comfortable we're going to get there even with giving back the cash, just to sort of give an idea around timing?

Alan Stewart ***Tesco PLC - CFO & Executive Director***
Yes. So look, we're not there yet, but yes, as you say, we're heading very, very strongly in that direction. The -- we wanted to put the range in because we want -- we needed clarity having put the threshold, we needed to put the floor underneath it. The way that I think about it is whenever we get into it, I want to be pretty clear from a business perspective that we would stay within that. And I think it's important because that's the right capital structure for our business, that's the right way that we want to think about it. If I think that we're stable and we can look forward and see that we're going to be within that range, I think where we are particularly between 2.5 and 3, it doesn't really matter. So that's the way we think about it. It's always about a bit like the dividend. The dividend is a statement about today and yesterday, but much more about the confidence in the future. And that's the same way we'd look at our capital structure.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Okay. Next? Oh, sorry.

Xavier Le Mené ***BofA Merrill Lynch, Research Division - Head of European Food Retail Equity Research***

and Director
Xavier Le Mené, Bank of America. Two, if I may, on online actually. The first one, you decided to accelerate online, so we saw that in your sales. You're also talking about not making a profit. Can you share a bit the economics of that potentially and why you're deciding now because you've got your technology to come but you decided to actually accelerate before getting the technology?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Okay. Well, the lack of the answer to the first one is the reason why we're doing the second one. All right? So I was trying to make a joke and obviously it wasn't funny, like most of my jokes. We worked very hard. When we put that mix thing up, sort of in '14, '15, we show that online food was red. It's dilutive. We have a principle, which is in the business, they got allocated a full share of the fixed cost in the store. And if you do that, you say, actually it was then unprofitable and as we've improved it, it's profitable but is dilutive to the mix. There's another way of looking at it, which is, and this is the conservation that 4 of us have is, if I didn't have the online business, what will I actually save? I'll save the picking people and I save the van. I actually wouldn't save any of the fixed cost. So we look at it in both ways. The changes that we've made, both in terms of productivity improvements, so the algorithm around picking, so much better. We were picking 160 SKUs, and that is way ahead. We've done some benchmarking with other people, we're way ahead. So the algorithm around picking, really good. All the things that we've done in terms of transportation really improved, so bumblebee was that. The fact that we started to charge for delivery is significant. We were not charging for delivery before. We now have it. And we've got more than 50% of our online shoppers who are subscribing to the delivery saver, which is, if you like, a subscription model. So we now have an income from delivery which is not inconsiderable. So you get yourself to a place now where the cash contribution is really very good. And if I take my second way of looking at the cost, you get to a nice profit position, and we've been able therefore to step up our investment, the thing -- and therefore, the growth rate. And that gives us a nice base to keep investing in the growth. The critical thing is, how much can you grow without needing to increase the capacity? And that's where the fulfillment centers come in. I don't want to give the economics away. We think we've got an insight into how the economics of this can work that are profitable and there aren't many -- any online businesses that are profitable at this moment in time. So I don't want to give the commercials away for that reason. But the capital efficiency, if you look at that 25 urban fulfillment centers and doubling our capacity and you look at the capital cost of doing that versus any other model, you'll be very happy with how capital light that is by that increasing opportunity. We couldn't do it, but one of them yet. But actually, we're now in a place that we're quite happy. The returns are there and we can build the capacity, and therefore, we should grow. We're keen to build a sustainable business, not just you can grow, I can grow online easily. I just give delivery away and I'll give you a top line of 10%, 15%. No problem. We stopped that 5 years ago, and I don't suggest we go back to it. Okay? You can't have seconds. Who -- anymore at the back? No. Should we give him a second one or should we keep to the rule of only one question each? Who wants to go? Nick, you go, and then we'll give Bruno the last word then. Be short though.

Nick Coulter ***Citigroup Inc, Research Division - Director***
So quick 2 then. On Tesco Plus, obviously, that looks very exciting. You got enough confidence to press

the button. It looks very good from a customer perspective. But how do you square the return profile? Obviously, you got some thoughts around that. And just quickly, on Jack's, if you could update on that format and your plans.

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Sure. So look, we are confident. We won't launch it unless we're confident. All the testing is good. Look, we don't know. You never know. You never know what change in behavior you've got. But if we can get to a place. So look, very simply, GBP 7.99 a month, you can have 2 shops at 10%, and that's up to a max of a GBP 200 shops. So you could save 4 -- if you max out, you can save 4 different investment. The critical thing for us is if we capture that basket, all right, if we capture the loyalty of that basket, we think the economics of that are really quite attractive.

The big goal, Nick, and I think we said at the time is, if you convert -- the thing about Clubcard pricing and the thing about Clubcard Plus is you get to a place where your promotional investment is much more targeted and you don't have to give 50% to 75% of your promotional money to people that you didn't really need to put it in there. So the big economics are how do you adjust the mass promotion to a much more targeted promotion against a very big purchase. Now the reality will be when we launch it into the marketplace, but that's the thinking. We've got a number of models, but we don't know until we actually do it.

In Jack's, 10 stores on the original plan, 4 of them doing better than planned, 3 of them on plan, 3 of them slightly below plan. We'll open another 3 in the next period, in the next 6 months or so. We've tried a different model, big store, rolling store, it didn't go right. And by the way, completely my fault, completely my fault. Don't let me make the decision about how we try a new format. Just don't let me do that. We got it wrong. These guys are now picking it up. We will try it again somewhere. But the original small format, limited SKUs, actually learning a lot, learning a lot. And actually though, there -- in aggregate, there are thereabouts where we want them to be. No problem. We'll open another 3. And these will be the first 3 that we open when we don't say you've absolutely got to be next to everyone of them, they get a chance to pick what a free site way will be. So we'll see how that works. We will try the other big format. And these guys will tell me when they've opened so I don't get anywhere near it. Okay? Bruno?

Bruno Monteyne ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***
Actually, a similar theme as Nick. This Clubcard Plus looks almost too good to be true as a customer proposition, and a lot of way would have been talking about it enough. The -- if you had to rank all your sales growth initiatives, would that be by far the biggest one?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Well, it depends which scenario of customer uptake I take, all right? We've got 4 -- 3 or 4 different scenarios of what the reaction will be, but you never know until you go. The way to think about this, Bruno, we wouldn't be doing any of them if we didn't think they contribute to growth. We've got different outcomes for them, but I'm not going to give you a rank order of what it could be. You're going

to have to do a little bit of that for yourself. All right. Last word.

Andrew Ian Porteous ***HSBC, Research Division - Analyst, European Retail***
I have a couple of quick ones on Booker actually. Firstly, [Best Food] is going into a new area, one that was always quite exciting sort of bed and breakfast sort of area. What sales is GBP 1.1 billion of sales, what capacity does that give you? And then the second one, nobody heard much about Booker ranges within Tesco for a while. How is that going and in stores and things like that?

Dave Lewis ***Tesco PLC - Group Chief Executive & Executive Director***
Okay. I didn't do it. Good job. On one of the slides, let's talk about the 300 stores where the bullet range is in, happy with the performance, doing really very well. Next base to do the top up with catering in Tesco stores can be tested regionally before the end of our financial year.

In terms of capacity, this is where it gets really quite interesting because as part of this deal, we also buy distribution center. And now we're starting to think -- remember when I said, when we did the Booker merger, the bit of our transformation that would change would be in distribution, so we'll think about the network differently. Actually, we're already using Booker and Tesco distribution interchangeably. So actually, with this new warehouse, plus Booker existing and assets that we at Tesco already had, we give ourselves quite a bit of capacity. But it's modular. So we got a couple of sites that we have mothballed. We're using a bit for Brexit. We can use that when Brexit ever if it ever is sorted, will be capacity. So actually, we've got capacity. The critical thing for Booker though was there was a regional weakness that this acquisition fills. Okay?

Okay. Ladies and gents, thank you very much indeed. As I say, I'll finish where I started. I think it is a very good set of results for the first half year in some, yes, challenging market conditions. We've got a very strong plan for the balance of the year. Strategy, guidance, direction, nothing changes. And whilst we've talked about succession, I'm afraid you're going to see me again in April. We will be here with the full year results. We will deliver the year. And you'll get to meet Ken with John and others as we get closer to that time. But business as usual, absolutely business as usual. Thank you very much for your time.
