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Preliminary Full-Year Results 2018/2019

Wednesday, 10th April 2019

Progress So Far

Dave Lewis

CEO

Welcome

Very good. Good morning everybody. Good morning. Thank you very much for taking the time to join us this morning. You have all of the Tesco exec in the room and I actually am going to ask some of my colleagues to help me as I update where we are as a business, so you'll get to hear from some of them, but you'll also obviously get a chance to ask any questions of me or them later in the session.

Basically, we're going to try and do three things over the next hour or so. I'm going to try and take you through an update, aided by my colleagues, of the progress of Tesco so far. We'll talk specifically, obviously, about how the different businesses have performed in the year, but I'll put it into some context about how that looks over four years. Alan will then take you through the detail of the full-year results and then I'll come back, and we'll talk about what it is we're going to be doing next, to give you some context of where we go from here.

Our Six Strategic Drivers

So, without further ado, look, we said in 2016 – we shared externally what we'd been working on internally, the six drivers on which we were pursuing the turnaround of Tesco; they have guided our activity since then and by way of update, we made some significant progress on the brand.

A Differentiated Brand

We talked about the brand a lot from the nadir October 2014 and that improvement has continued. So, same chart we used back then, all the way through a number of different events but actually the brand continues to improve. It's now at the highest level on the brand index score that it's been since 2011, just to give you some context.

On a more detailed level, the improvements in both quality and in value are significant, so a near ten-point improvement in quality, a seven-point improvement in value, a very significant step up in how the brand is perceived in the minds of our customer. And under Ali's leadership, I've talked a lot in the past about some of the advertising, some of the communication and it's very nice to get creative awards for Food Love Stories. But the bit I'd like to – you might be interested to know is that the campaign keeps winning media effectiveness awards.

So one of the things that Ali has led inside Tesco for us is being really very clear in terms of the return on investment from our marketing expenditure. And winning a Cannes Lion, if you're in this industry, for creativity is great. Winning the one for effectiveness is very, very rare, I don't know of any other retailer that has but I just thought I'd call it out because whilst we talk about creativity, it's actually the effectiveness of our investment where I actually think we have a lead as well.

Reduce Operating Costs by £1.5 billion

We've done a lot on cost, £1.5 billion we said, we're about £1.4 billion, so we're tracking well on our commitment to reduce cost. And you'll remember that before we announced this we'd already taken out nearly £700 million of cost. I've given you a breakdown on the left-hand side. When we made the announcements in 2016, we broke it down in terms of store operating model, logistics and distribution and goods and service not for resale, so I've given you an update on those three buckets.

I think it's fair to say we've made more progress on the store operating model than we said at that time. The one area of our business that has changed quite significantly since we made those commitments is in logistics and distribution, partly because of Palmer & Harvey and also post-Booker, different opportunities so that actually the plan that's changed quite a lot has been in logistics and distribution and a place where we still have quite opportunity. And goods and service not for resale, we see an ongoing opportunity.

We've not done this for you before, but I thought it might be interesting for you – is to give you that broken down by geography. So about £900 million of that has flown into the UK business and £220 million, £240 million in Central Europe and in Asia. So really good progress on cost with one year still to go.

Generate £9 billion of Cash From Operations

We said we'd generate £9 billion of cash, £8.6 billion is where we've got to. There's a £200 million – £210 million impact in terms of timing which we can talk about later and I'm really very happy with what we've been doing in terms of getting ourselves to generate cash.

On the right-hand side you see the split is mainly coming from improvements in profitability but also a significant improvement in working capital. If you look over the last three years, just under £600 million has come from improvements in working capital. If you remember, we said it would be around £200 million a year, so really good progress there.

Maximise The Mix

We introduced the concept when we talked about ‘maxing the mix’, being very choiceful about what we sold, where we sold it, in order that it was actually a more profitable and a sustainable piece of our business. I just thought we look at mix through a number of lenses; geography is first. And on the left-hand side what you do is I've taken the second half of 2014–2015 and the second half of 2018–2019 and I've excluded Booker from these numbers so they're comparable. And what you see is the change in the mix by geography over that period.

So, as a Group, 3.79–3.8%, 3% in the UK and Ireland, 4% in Central Europe, 7.4% within Asia. I think the one thing that I'd say about this chart is it's always been my view that if we ran the international business effectively and properly, it could actually be quite a strength within the Group. And I think what we've seen – and we'll talk about it a little bit more – in Central Europe in particular is quite a big transformation and still a very good profitable position in our Asian business.

We've taken – by channel is the other way we look at mix, so within country by channel. Probably the biggest single and easy example there is the decision to step away from direct here in the UK. In 2017/2018, the last full year we operated, it had £400 million of sales but it lost £94 million, right, so a decision to walk away from that was not easy but again, thinking carefully about what we sell where – is it sustainable, is it profitable, is a key part of the way we make decisions inside Tesco. And you know that we've done it by product. You saw it first in the UK, you've seen it in Central Europe as well; some of the general merchandising categories are challenged and unprofitable and we've redirected our mix away from that. This is the UK number, right; over those four years we've taken 10% of the sales out of general merchandise in order to be maxing the mix in our business.

Maximise value from property

And led by Steve, we talked about how it is we maximise value from our property portfolio. We've realised and released £1.7 billion over that period. You'll have seen one of the announcements last year. We talked, for those at the Capital Markets Day, about air rights; there's been a very significant deal communicated there but we've also bought stores back. Where they are a good business opportunity at the right commercial terms, we continue to buy back; we bought three back in the UK this year.

Freehold percentage has gone up to 53%. I have to say this excludes Booker; you'll see a different number when I include the 183 leases that come from Booker, that comes down ever so slightly but from a – on a like-for-like basis freehold has increased. And I thought you'd be interested to see that we've repurposed about 3.5 million square feet during that time.

Innovation

In terms of innovation, there has been a lot. We try to get an even pace to our innovation so that we can improve for customers on a consistent basis. We look at it through a product lens, we look at it through a customer lens and we look at it through a services lens.

To give you some context and interesting for me, in the UK we've changed 15,600 products. And when I say changed, they have to have significantly improved their performance, as well as that reformulation, so not only what we've done with the own-label relaunch but elsewhere, that's a phenomenal amount of product change. Right? The investment that we've made in product over the last four years has been significant: a lot of things for customers, in terms of Little Helps plan, in terms of services an awful lot there also.

Not all of it is visible to you: the stuff we've done around grocery home shopping for route planning for our vehicles, what it is we've done with grocery home shopping online, digital apps for Clubcard, so on and so forth, all of that has been very significant. Interestingly, on Clubcard, when we simplified the operation and put the application online, Clubcard activity up 34% year on year, right? Big asset, much, much more we can do from it but we had to get it in shape and up to date in order that we did that. So there's been a lot of innovation, as that sixth thrust that we talked about.

The Bigger Picture: 2015–2019

If I put it in a slightly different context in terms of progress so far, this is what it looks like. I've excluded career from the base of sales in 2014–2015 to give you a like-for-like comparison but the group sales are up to £56.9 billion. Profit has gone from £1 billion to £2.2 billion and if I take that second-half margin in 2014–2015 of the group at 0.8%, we're nearly 4% including Booker and we're 3.8% in the second half year excluding Booker, so good progress on those.

We've done quite a lot in terms of the portfolio, significantly Booker joining the Tesco group but obviously Home Plus and Kipa leaving and a number of other businesses disposed or exited. So there's been actually quite a lot of work in the portfolio.

From a balance sheet point of view, we were £22 billion of total indebtedness, we're now down at £12 billion pre-any IFRS 16 changes.

And in terms of engagement in the business, 'great place to work' up from 70% to 83%; 'supplier viewpoint' from 55% to 81%, again leading on all of the feedback from suppliers, be it Advantage, be it our own supplier survey or be it the GSCOP feedback in terms of most improvement grocery retailer here in the UK. And I'm pleased to see that those numbers – and you'll see some examples in a bit – are across the group in terms of how it is we want to build the right engagement with stakeholders in everything that we're doing as Tesco.

Significant Growth Opportunities For Our Grocery Suppliers

We talk a lot about growth opportunity. I shared this with you before. So when we talk with our suppliers, we're talking about the growth, so £1.1 billion of growth opportunity that comes from Tesco. I don't have all the number for – the blue lines for others implied from Kantar. I've added to Morrison's what it is they also declare from a wholesale point of view so it's comparable, but we do present an industry-leading growth opportunity for our suppliers.

Four Years of Progress: Margin Progression

And finally and very importantly, because you've asked us questions around this, is how do you chart a turnaround? How do you chart such a big turnaround over such a period of time? And top left, we've seen this chart before, first half, second half margins over that four-year period and the annual is obviously the number in the bubble.

A couple of things I would say about this is, first of all, I'm pretty happy with the shape and I'm pretty happy with where we've got to this year. We do have a trend where the first half is lower than the second half. That's been because, as you start that turnaround, most of any restructuring would be announced in the first half and delivered in the second. There's obviously a little bit of seasonality given that Christmas is such a big period, so there's always been a little bit. But as you go through a turnaround, I think that shape is completely understandable. We never said that there would be a straight line but the progress throughout that is exactly as we would want it to be.

When you look at the UK and Ireland, we got ourselves to 3% excluding Booker in the second half and 3.3% including Booker. For those who'll remember, when we talked about margins back in 2015 I said I can't tell you what the market will be, but I do think that Tesco can get back to being industry-leading margins in food grocery retail. And I think at a group level we're there and actually if I look at it within each of the different segments, we exited the year in a pretty competitive place versus industry margins in all the geographies that we operate in.

So more to do, we'll deliver on the commitment we made of 3.5–4% this year, pre-IFRS changes but the progression across is significant. I'll call out particularly Central Europe. Matt will talk in a second, briefly, about the two years of transformation but really coming home to roost. And the one thing, the one fact which is, I think, significant for us is we think – we don't have perfect records, right – we think that in the second half of this year, i.e., last financial year, is the first time since we've been an international business that every international business for Tesco has been profitable together. We don't have a single business in Tesco now that's not making a profit. Poland made a positive profit contribution in the second half of last year. Every international business is now making a positive contribution.

UK & ROI

So that's the bigger picture. We'll now come on and talk about the individual segments and this is where I'm going to ask my colleagues to help.

Look, the UK has had a huge amount of change through this year: Booker, Palmer & Harvey, lots of resets, lots going on. I'm delighted with the performance but rather than me talk about it, Jason, do you want to say a few words about the UK and Ireland?

UK & ROI

Jason Tarry

CEO, UK & ROI

Okay. Morning all. So, sales up 16.1%, if you looked at like-for-like, up 2.9%; if you exclude Booker, UK Core was +1.7%, Ireland was +1.3%. Profit up 45%, including Booker, excluding Booker over 19% and the margin up 62 bps and in the second half, as you saw from the previous chart, we exited at 3.3% operating margin. So good progress and really strengthening in the second half. We had our best Christmas since 2009 and beat the market, followed up by our January event celebrating a centenary, so some good momentum into the year.

But I think the most pleasing thing was this was done through strong engagement with our key stakeholders. So I think about our colleagues, our 81% 'great place to work' score; that's market-leading and that's despite all of the change that we put through, whether it be structure change, whether it be the extra workload that we put into the stores around our offer, particularly our own-brand offer, whether it be the tough business decisions we made around things like closing Tesco Direct. So, in truth, our colleagues are awesome and that's 81% in the UK, 86% in Ireland.

And if I look at supplier viewpoint, again an awful – we've asked an awful lot of our suppliers this year. We've delivered them growth but we've asked them to change the ranges with the own-brand launches, we've undertaken sourcing reset, focusing on fewer, better suppliers and we've worked with them on Carrefour and with Booker and that's the best set of results that we've achieved. The UK was just under 80% and Ireland was actually at 84%. So a great performance, so well done, Andrew, much better than the previous guy, very good.

And then last but by no means least, if we turn around attention to customers, so we – our Net Promoter Score, fans over critics at +27%, that's up 6% on the year. Really pleased because they appreciated our focus on the core shopping trip. Tony wouldn't forgive me if I didn't talk about our stores being full, clean and the prices being right, so price, quality, range, service a real focus for us, as well as introducing new things that they appreciated as well. So we talked about our own-brand launch but if I – Exclusive at Tesco, the eight brands that we launched there, 84% of our customers have bought them, they've been very successful and underpinned our second-half volume and value performance, as well as the relaunch of our app, grocery home shopping app; it's now the number-one rated app for grocery home shopping; we've had over ten million people download it, as well as our relaunch of Clubcard, Digital Clubcard and Faster Vouchers.

So all very good and then finally we've launched – we opened eight stores, Jack's stores, last year, one more last week and we're really pleased with it, great customer feedback. Our Net Promoter Score there is over 50%, 53%, prompted awareness at 64% and great customer – so great customer feedback.

So, in summary, I think good progress from a financial perspective, built on strong engagement with our key stakeholders and focus on core shopping trip plus meaningful innovation.

Dave Lewis: Right, very good indeed. And moving to Booker, personally delighted but rather than me talk about Booker, Charles, do you want to talk about your first year inside the Tesco group?

Booker

Charles Wilson

CEO, Booker

Yeah, thanks Dave and morning all. In terms of Booker, we said we were going to do business as usual; it's been good business as usual. Customer satisfaction 86%. That drove the sales, £5.8 billion, we were up +11% like for like and put on over £0.5 billion of growth and that drove through to the profit of £196 million of profit, so we're pleased with how that came through.

In terms of joining forces with Tesco, it's going really well. Together Booker and Tesco are building a really good supply chain. So we've now got, for example, the Magor Distribution Centre in – which is Tesco's – delivering to Booker cash and carries and also Booker is delivering to the Tesco petrol forecourts and to the One Stops, so that building a supply chain that really delivers is working well. We're passing the benefits back to the customers and so for the retailers we've been doing big group, better for all. That's helping customers improve the choice, quality, price and service they sell. That is helping a typical Londis improve profits by about £6,000 this year and that will step up over time and we're bringing that out to the caterers as well. And then you're also seeing some of the benefit coming through into the Tesco stores, so the bulk packs you see in Tesco, that's now in 70 Tesco stores, that's coming from Booker, really pleased with how they're performing.

As a result of that, we're ahead of guidance on the synergies, the joining forces synergies, we've delivered £79 million, pleased with how that's come through. And because we're going for this sort of more progress, less disruption approach, it's meant that rather than the one-offs being about £145 million associated with the change, it's closer to £50–75 million. So overall, one year in, Dave, it's going very well.

Dave Lewis: Thank you Charles. Now, Matt, you're two years in. This is the second year of your leadership of Central Europe and the transformation. Do you want to share what you've been up to?

Central Europe

Matt Simister

CEO, Central Europe, Tesco PLC

Yeah. Morning everyone. So, as Dave was saying, we had – the level of profitability in Central Europe was too low, performance was too volatile, we were losing a lot of money in Poland as well, which was kind of dragging the whole region down. So when we had a hard look at ourselves, we can see that they were basically out of shape. We had too much space and we were filling that space with too much range and that was bringing too much complexity and too much working capital, too much cost into the business. So in a market that really values value for money, we were too costly basically.

So what we've done is we've set about really two big things in the region. One is stripping a lot of cost out, particularly sorting out our challenges in Poland but also flowing some of those benefits into the other countries that are significantly more profitable and also rebuilding the trust and the pride in the business amongst colleagues and getting people working out of their siloes and really looking at these challenges end to end because that's the only way you can solve space, range and stock, in particular.

So we've put in a plan that would reduce sales, we've been focussing on the hypermarkets where there's too much space, we've been focusing on general merchandise where there's too much stock filling that space and we've been exiting those categories and closing the space down. We've exited department stores across the region and we've closed a lot of unprofitable stores in Poland in particular. So 62 of the 66 stores that we've closed have been in Poland this year and we've made a significant change to the profitability of Poland but also more broadly through the region.

So that's driven 56% profits this year but that's over 140% profit in the last two years and now we've got a business which is much more sustainable. And as well as significantly changing the metrics in Poland, that's meant that we can – we've actually got to a profitable position where we can start to turn the growth back on in the other three countries.

So it's been focused on cost reduction but also I wanted to call out stock, because our cash cycle was in the wrong place. We've taken a lot of stock out of the back rooms of the business and a lot of stock out of the front of the stores as well and closed that space down and what that's meant is that the colleagues that we have – we have less colleagues but actually serving customers and not routing through stock in the back of the store. So actually, the availability as our systems bed down and as colleagues have got more time to concentrate on availability in the stores, we've put emphasis on availability and pricing. That's meant that the value for money has improved, so while we've been cutting the tail we've been increasing the core. And that's really meant that the core food business and the core formats are all in growth already. So we've got a really good base to work from.

The thing I'm most proud about, to be honest, is the way that we're changing the culture. You know, we have people who didn't believe in a plan, we've got a longer-term plan, really good three-year plan and really clear one year objectives that are set by a longer-term cost repositioning strategy. And the team really believe in it, they're really working together and as you can see, we've seen really significant improvements in colleagues believing that Tesco's a great place to work and a great place to shop and we've been making investments behind that net of all the savings that we've been making. So in a much more sustainable place going forward.

Dave Lewis: Very good. Thanks very much Matt. And finally, Alison, first year in Asia. Do you want to update everybody on how it's going?

Asia

Alison Horner

CEO, Asia

Yeah, hello everyone. So the story in Asia is continued good performance in Malaysia but a much better second half performance in Thailand. So you'll see from the chart that sales are still negative, but what that hides is a reduction in the rate of decline. So in quarter four, like for like was -3% and we had market leading seasonal performance in both countries. Profit at 206 million. Again, in the second half, we were stronger than the first half in Thailand and stronger than last year. And there's two main reasons for this.

So the first is that we accelerated a material restructure in the stores and office in Thailand and simplified the operating model in our large stores. In quarter four, the operating costs in large stores were 20.3% compared to 23.3% before the restructure. The second reason was that we concluded our renegotiations with suppliers. So we've moved 50% of the back margin in Thailand to the front, the split is now 87 front, 13 back. We think that is right for the market. And the second half margin, as you saw, 7.4% now in Asia.

I think a bit like Matt and Jason, what we're most pleased about is the fact that customer, colleague and supplier metrics all remain strong and in fact, for customer with satisfaction at 90%, that is two points higher than it was at the beginning of 2018.

The Thai team talk to colleagues about reset for growth. So we're carrying on with the large store simplification. We've now stopped 89 processes in the large stores and again, much like Matt, we've got fewer colleagues but 93% of those colleagues say that their job is simpler to do this year than it was last year. We've got trials of new customer propositions in 27 convenience stores in Thailand and 16 large stores. Early signs are promising. So sales, margin and customer sentiment all ahead of our control. And again, like the others, using our global own brand to, again, give us opportunities for growth in our own stores but also in wholesale and in export too.

Dave Lewis: Very good. Thank you all very much indeed. Look, I think finally from me, in addition to what's going on in each of the geographies in the retail point of view, there's an awful lot going on in Group, and I'll come back to this when we talk about the way ahead. Because actually, some of the things you've heard the CEOs talk about is a leverage of Group capability. The three I'll pull out is all the work – we always talk about brand in the UK for understandable reasons but if you were to walk into any Tesco market today, they all follow the same brand thinking, brand architecture in terms of design. So we're leveraging the work that Ali and her team lead for the Group based here in the UK into all of the regions we have retail business. The other thing, you know, it was talked about – I don't think many people really picked up the significance, and you'll get it more when we talk in the capital markets day, of the change in Tony's job. By creating a group chief operations officer, yeah, also responsible for running the UK, we leverage operational capability across all of our geographies. So our thinking about store operating model, our thinking around supply chain, all of that is driven through one global operations team that Tony leads.

Matt talked about it. One of the initiatives, if you remember, early on in the UK, we introduced this concept of star lines from an availability point of view. Star lines is being rolled out in each of the other geographies; Matt's used in the way talked about in terms of focussing the range and the value we're creating but also driving up availability. We're taking those capabilities and driving them across the Group.

The other thing that's significant for us is what's been going on in the bit of the business we don't see, which is business services. So we have a centre in Bengaluru, we've recruited new people that've been working with us now for more than a year, getting real simplification, doing it once, doing it for all the Group, automating AI, it's all happening in India and that's allowed us to focus the operations much, much more. So these are three Group capabilities that behind the scenes are actually helping the CEOs who've just talked about their business operate more effectively.

So look, that was it. That was my update on what's been happening the last four years, a little bit more detail in terms of each of the segments over the last year or so and with that I'll ask Alan to take us through the actually full year results.

Full Year Results

Alan Stewart

CFO

Group Performance

Thanks Dave. Thank you very much. Morning everybody. As usual, I'll begin with the performance of the Group. And as Dave has said, I'm pleased to say we've delivered broad based improvements across all the business.

Momentum in our sales growth has continued, up 11.5% at actual exchange rates with 2018/19 representing our third full year of sales growth for the Group. Our results include 51 weeks of the Booker business, as we completed the merger on 5th March 2018.

Once again, we delivered strong profit growth, up 34% year on year to £2.206 billion, representing a full year group margin of 3.45%. Excluding Booker and synergies, the Group margin was 3.79% for the second half, as Dave has said.

Our retail operating cash flow was £2.502 billion. This reflects a strong movement in underlying cash profitability; however, our year on year progress was held back by approximately £490 million of working capital timing impacts, which I'll discuss in detail alter.

Reflecting our confidence in the ongoing cash generation, we're proposing to pay a final dividend of £0.041 per share, taking the full year dividend to £0.0577 per share, up 92.3% year on year.

Group Income Statement

Including fuel, our group revenue of £63.9 billion was up 11.2%. Looking briefly at the income statement that I haven't yet mentioned, our share of income from JV and associates increased this year to £24 million, reflecting a further reduction of losses in our associate in China. Our net finance costs decreased by 23.6% year on year, due primarily to lower levels of interest-bearing debt, following the further debt repayments and the bond buybacks during last year. Profit before tax before exceptional items, amortisation of acquired intangibles, net pension finance costs and before the fair value re-measurements of the financial instruments – gosh, that's a mouthful – rose 52.5% to £1.958 billion for the year, which in turn led to an increased tax charge. As a result of all of these, our diluted earnings per share on the same measure as before increased by 29.4% year on year to 15.4%. Our annual EPS growth has averaged 40% per annum in the last three years.

Segmental Performance

This year we've included a slide showing our performance by segment, given that my colleagues have already spoken about it. I'm pleased with the performance from each region, with all areas on an improved trajectory since our last update in October. If we briefly focus on the UK and ROI segment, we've seen the strong like for like sales growth of 2.9%, as we completed the exclusively at Tesco own brand rollout and in the fourth quarter, our UK sales outperformed the market.

Operating profit was up 45% at actual exchange rates to £1.537 billion, including the consolidation of Booker. This also reflects good progress on the cost savings programme, as Dave has highlighted, and our continued focus on more sustainable and profitable ranges, including the decision to close Tesco Direct. We also saw in the year, benefit of £2 million from the change in Clubcard accounting estimates. We delivered £79 million of Booker synergies, as Charles has said and we're on track to deliver our target 200 million per annum by the end of year three. We now expect integration costs, again as Charles has said, between £50 and £75 million over the three years, lower than the £145 million we originally expected.

Our central European operating profit before exceptional items was £186 million, up 56.3% year on year. We're improving the quality of the business by focussing on more sustainable product categories, as well as reducing the operating costs and simplifying the store service model. We closed the 62 loss making stores in Poland during the year and made a small profit there in the second half.

As you know, in the first half, the Asia operating profit was impacted by the combined effect of sales deleverage, price investment and the renegotiation of promotional investment in Thailand. I'm pleased to say that the second half performance improved significantly, and we've been able to cover our operating margin more fully and quickly than we'd anticipated at the half year.

Tesco Bank continues to deliver strong growth in both sales and profits, and I'll cover this in more detail in the next slide.

So overall, the Group like for like sales growth of 1.4% and the operating profit of 2.206 billion up 34%.

Tesco Bank

If we focus now on the Bank, we've continued to deliver great customer experience for our banking and our insurance customers. We've made significant improvements to our customers online credit card journeys and we've relaunched the banking app, making it easier for customers to access and manage their accounts. Our operating profits before exceptional items increased by 16.6% year on year to £197 million. This includes a strong retail banking performance with both cards and loans continuing to perform well. The insurance contribution fell year on year, due to competitive market conditions, partly offset by a 13 million one of benefit relating to up front recognition of insurance renewals with the introduction of IFRS 15. Our lending balance is up 7.8% year on year, primarily driven by the secured lending up 25% year on year in a highly competitive market. This now accounts for 30% of the loan book. Our own secured lending of 8.7% grew – of 8.7 billion grew by 1.8%. The balance sheet remains strong and well positioned from both a capital and a liquidity perspective, with a risk asset ratio of 18.4%.

Now I'd like to ask Gerry, who coined as CEO of the Bank in August 2018 to give his perspectives on the year.

Gerry Mallon: Thanks very much, Alan and good morning everybody. Alan, I think you've summarised it very well. First of all, the underlying income growth was driven very heavily by really good growth in cards and loans and lending. The fall in the net interest margin, which is relatively small, I think was driven by the mix. I.e., we grew mortgages and mortgages are much lower yielding overall. It was a really competitive year in insurance and we did focus very heavily on renewals and we managed to increase our renewals percentage quite significantly, so that will have loyalty benefits for future years. Our – the cost income ratio improvement was really quite significant. There's a lot more to do on cost income ratio but not only was it driven by increased income, but it was also underpinned by really strong cost control. And the final thing that I'd say is that while the bad debt asset ratio headline has deteriorated, if you strip out the bad debt sales which we had, it's actually constant on a year on year basis. It's low by historical comparisons – if you go back to prior – if you go back to pre the financial crisis, it was significantly higher than that and I have to say I've got myself into a position where I'm very comfortable with the quality of our overall lending book now.

Alan Stewart: Thanks Gerry.

Sources and uses of cash

If we now look and move to the sources and uses of cash, I've used the usual waterfall which represents how we think about cash within the business. We generated £3.051 billion of cash from retail operations, up £579 million on last year, excluding the working capital movements. I've split the working capital outflow out 312 million into two component and in year timing impact of £349 million and an underlying outflow – and an underlying inflow of £37 million. I'll come back to these on the next slide. The exceptional cash items resulted in outflow of £237 million. Around half of this related to restructuring costs. Also included are owner's lease payments and final payment sunder the shareholder compensation scheme.

Overall, this leads to a retail operating cash flow of £2.502 billion. We spent CAPEX of 1.126 billion. I'll take you through a more detailed breakdown of this later. Our net interest and tax costs amounted to £585 million. We paid less interest year on year due to lower levels of debt, partly offset by the timing of a coupon repayment and our largest earning denominated bond.

Our tax payments of £302 million were higher than last year, as our profitability improvised. We had net property transactions of £149 million, including £285 million proceeds from the property sales across the Group. As Dave mentioned, this includes the disposal of a site in Kennington, three retail sites in Central Europe and two booker properties. The proceeds were offset by the three property buybacks in the UK, which total £136 million. The net impact of acquisitions disposals and dividends received was £112 million. This excludes £747 million total costs of combining with Booker, which is reflected, of course, in our net indebtedness.

And finally, our commitment to offset any dilution to satisfy any new share issuance for share schemes, resulted in the net cash outflow of £146 million this year, with the bulk of the outflow in the first half of the year. This led to overall free cash flow of £906 million.

Retail Operating Cash Movement Year

If we look at the retail operating cash flow, we've delivered a strong increase in underlying cash profitability of £579 million. We've had that held back by around 490 million of working capital timing impacts, which can be split into two elements. First, this year's working capital net outflow includes payments of £139 million, which were delayed form the last financial year following the administration of Palmer & Harvey. You remember that we spoke about this this time last year. Together with the benefit that we had last year, this creates a £278 million year on year timing impact.

And then secondly, there's a further £210 million arising at the end of the year. The majority of this relates to the implementation of a new general ledger system in the UK, which went live in November, a few months later than originally planned and which temporarily delayed the collection of some receivables into the beginning of the 2019/20 financial year. In addition, in order to safeguard availability and service levels of customers at a time of political uncertainty, we de-prioritised some ongoing working capital initiatives. In the prior year, we also saw a particularly high inflow of £354 million from working capital and this level of incremental initiatives has not been repeated. As Dave said, over the last three years, we've generated around £160 million from working capital improvements, an average of around £200 million a year. In the current year, we expect the £210 million timing impact to reverse and we will maintain our focus on generating sustainable improvements in working capital. These movements result in the total retail operating cash flow of 2.502 billion, down £271 million year-on-year.

Capital expenditure for the full year at £1.1 billion remains at a similar level to last year as we continue to exercise discipline in our investment decisions. In the UK and ROI, capital spend of £709 million relates largely to maintenance and refresh of the existing stores as well as the opening of 13 new convenience stores and eight new Jack's stores. We also closed 20 stores in the UK. The £113 million spend in Central Europe relates mainly to the repurposing of existing stores. As anticipated, we saw a net reduction driven by the closure of the 62 stores in Poland.

Looking at Asia, the spend of £235 million remained at similar level to last year and includes the opening of 17 new convenience stores in Thailand. Going forward, we continue to expect our annual capital to remain within the range of £1.1 billion to £1.4 billion.

Balance Sheet Progress

We continue to make good progress with our balance sheet. Looking at net debt, we did see an increase of £238 million, which is after the net cash out flow of £766 million relating to the Booker combination. Our lease commitments were down £292 million on an underlying basis and up £68 million when we include £360 million of additional Booker operating leases we took on.

Our pension deficit reduced from £2.7 billion to £2.3 billion with continued deficit contributions and strong asset performance over the period. As a result, our total indebtedness reduced by £84 million to £12.2 billion. Of course, this slide is reported on a pre-IFRS 16 basis. We start reporting on an IFRS 16 basis in this financial year and we'll be issuing the full 2018/19 financial statements on this basis on Monday, 29th April.

Debt Reduction

This next slide gives some more colour on the progress with gross debt. During the year, we repaid £750 million of euros in the November and we also prepaid a total of £1.2 billion across two bond tenders which took place in April and October last year.

As you can see, we continued to target bonds with high coupon rates to maximise the return. We also issued a new bond this year at a lower coupon rate of 1.375%. That's the light blue on the chart. We've achieved almost £100 million of annualised interest savings with liability management exercises over the last two years and we will continue to look for opportunities here.

Improving Debt Metrics

Looking now at our debt metrics, we've made continued progress on the balance sheet with both our key metrics crossing the threshold levels. Our total indebtedness ratio has reduced to 2.8 times from 3.3 times last year and our fixed charge cover has increased to 3.2 times from 2.7 times. These are all on a pre-IFRS 16 basis.

We've today confirmed that we intend to operate with a total indebtedness ratio between a range of three and 2.5 times on a post-IFRS 16 basis. We expect fixed charge cover to remain at around three times going forward.

Dividend

Our proposed final dividend of 4.1 pence per share will be paid on 21st June subject to the approval of shareholders at the AGM. This will result in a cash cost of around £400 million payable in the current year.

Our proposed full year dividend of 5.7% is, as I've said, up 92.3% reflecting our continued improvement in the performance and the confidence in the future cash generation. And I'm also pleased to confirm that we're now expecting to reach a dividend cover of around two times earnings in the current financial year.

Guidance

Before I conclude, as usual, I have a slide summarising our guidance for our key financial metrics. As you're aware, the margin and cost-saving targets are directly linked to our six strategic drivers. The guidance for working capital, pension contributions, CAPEX, finance costs and tax remain unchanged from October. You can see here that we've updated our debt metrics guidance as I've just mentioned.

Financial Summary

So to conclude – if we can move to the next slide please – so to conclude, we've met or about to meet the vast majority of our medium-term targets. Sales grew by 11.5% and we saw a significant increase in operating profit of 34% year-on-year. We delivered a second half margin of 3.79% for the group excluding Booker.

Our Booker joining forces programme delivered £79 million of synergies for the year and we now expect the integration costs over the three years to total between £50 and £75 million while still expecting to deliver at least £200 million of synergies.

We delivered retail operating cash flow of £2.5 billion as our underlying improvements in cash profitability was impacted by working capital timing including the decisions we made in the second half.

We've made further substantial progress on our cost savings programme leaving us firmly on track to deliver our £1.5 billion cost saving target. And we continue to reduce total indebtedness, strengthening our debt metrics and reaching our threshold targets.

And finally, our proposed dividend and the confirmation that we intend to reach two times dividend cover in the current year once again demonstrates the board's confidence in our ongoing recovery. Thank you for your time. I'll now hand back to Dave.

What's Next?

Dave Lewis

CEO

Capital Market Days

Thanks, Alan, cheers. Okay, final section for me then is what's next. We said in the announcement that in June – 18th June, we intend to hold a capital markets day in Welwyn Garden City. And on that time, we're going to talk to you about what we still see as untapped value opportunities inside the Tesco business. We're also, on the 26th, going to run a slightly different day. We've done some work over the last 18 months with investors and shareholders who are interested particularly in the ESG agenda Inside Tesco. So we're going to run a very specific day around that agenda too. There's an awful lot going on with Inside Tesco that we're particularly proud of and we'll share that on 26th June.

Three Pillars

To give you a sense though or what we're going to talk about, there'll be some things which will be familiar to you and there'll be some things that are new to you. Let's start with some of the things that are familiar to you.

You'll remember – I hope you remember – if you look back, you'll see in 15/16, I talked to you about how it is we thought about the business model of Tesco. And in this very simplistic diagram is actually quite a lot of what we've been doing over the last four years. If you remember, in the first quarter of 2015, we reorganised the Group. We organised the Group around having a Chief Product Officer, an Operations Officer and a Customer Officer. We talked about three pillars in our business – product, channel and customer. It's simplified an awful lot of what we do. It's exactly how we run all of the business today. And so we're going to use those three pillars. One of the ways that I'm going to share – we're going to share with the market, what we see as still untapped value opportunities.

Untapped Value Opportunities

Now, if he's in the room – I can't see him – I've borrowed this – the phrase of untapped value opportunities actually from one of our investors. When I explained that sometimes when I talk about improvements, it's always difficult because it can sometimes criticise the past. And he said, 'Don't worry about that. For us as investors, they're untapped value opportunities.' So what we're going to do is share with you where those exist across three pillars.

And that will mean that Andrew in terms of product will lead a session where we'll – and Tony will lead on channels and Alessandra on customer – those three pillars. And for each of them, we'll share where the opportunities exist for us – improving the offer for customers because I think there's a lot we can do, further reducing our cost and the focus on cash.

So through each of those pillars, you'll get to see what it means for customers, cost and cash in terms of where we see untapped value opportunities. So that'll be one of the things on the day.

Max the Mix

The other things you'll see on the day is again, a little bit more from each of the operating CEOs is that element of mix. You'll remember this matrix, it got slightly bigger now because it's got wholesale and professional on it given the Booker addition to the group. But Jason, Charles, Matt and Alison will share with you the untapped value opportunities that still exist for Tesco through that lens of mix. What do we sell, where, with what operating model supporting it?

Transformation

And the third thing we'll share on that day is a little bit around transformation. We've had a transformation programme running in the business for the last four years. We've talked about some of it as it's become relevant. There's more that we can do. We'll share with you what Alan has been leading for in terms of finance transformation. We talked about the general ledger that was introduced in the UK in – before Christmas. There's an awful lot more that we can do to actually simplify our financial systems – an area that historically, we'd not invested much in but we have been latterly. And likewise, what Natasha can share with you in terms of people transformation. Again, this point of leverage across the group, there's an awful lot that we can do. And we'll share with you more what we're doing in business services.

So it's going to be a pretty full day on that capital markets day. We're going to look through three lenses, the three pillars of the business model, the geographies in terms of the max and the mix and then the functions within our business about how it is they can add value to the total Tesco operation. So that's the way that we're going to talk about it.

Sustainable Value Creation for Shareholders

The things that we're going to do in terms of – the things that won't surprise you is I won't be talking about like-for-like. I won't be talking about percentage margin. Now again, you know this because we've talked about it before, in all my time in Tesco, I've never set a like-for-like target and I'm not going to. I've never set a percentage margin target and I'm not going to.

Everything we've done has been about customer satisfaction, cash profitability, cash flow, earning expansion. We've been sharing that chart with you since 2017/2018 as our underlying business philosophy. We gave you some medium-term ambitions in order that people could chart where our turnaround is. And I'm really very confident that we'll deliver on that. So this year, 3.5 to four as an outcome in the margin, absolutely. We're very confident about it. But it's actually, that's just an expression of the cash profitability that we've set for ourselves, right?

Now, the really interesting thing about this plan and for me, the reflective point is if I look at the plan on which we set the medium-term ambitions, probably every single assumption has changed. We forecast deflation; 18 months in, inflation. We had one exchange rate. Brexit changed that quite considerably. We've had different cost inflation than we saw at the time. Loads have changed.

But actually through all of that – and I think this says something about the resilience and the adaptability of the Tesco business – we've been able to deal with that, adapt and still got ourselves to a place where actually, the cash profitability is ahead of where we said we would be and it is already in the second half within the aspirational range of margin. We'll finish that job during the course of this year.

But when we talk to you in June, we'll talk to you much more about – you've heard me say put the customer at the centre of everything we do. That's in every business, every geography and will not change.

Around that, we'll talk about those untapped value opportunities in terms of how we add value to customers, how it is we drive the cash profitability, the free cash flow and earnings expansion. That's how we're going to talk about our business going forward, okay?

Our Priorities For Allocation Capital

Now, finally – and Alan touched on this – but just to sort of put it in a very simple – you should have worked probably from all of the things that we've talked about before, but we'll talk it more when we get to 18th June.

When we think about allocating capital, first and foremost, we'll reinvest back in the business and the customer offer. We will not change the capital discipline that we brought to the business over the last four years, but the first call is always reinvesting back in the business.

As Alan talked about, we want to maintain leverage at three times or 2.5 times total indebtedness to EBITDA on a post-IFRS basis. We're going to grow the dividend to around two times cover in this financial year. And then ongoing, we see ourselves maintaining around a 50% pay-out ratio as a principal.

We will continue to look at opportunities if they're commercially attractive around inorganic growth. And when we've exhausted all of those, we obviously have the wonderful opportunity to return any surplus cash to shareholders. And there are a number of ways that we can do that and you're familiar with.

But that's how we think about it and we'll share more of that as you go. Alan's touched on it in his presentation as well. But just to be sort of clear and transparent for those who ask us the question, this is the way as a business we're thinking.

2019/20: Celebrating 100 years of Great Value

So the final thing for me to say before questions is it's our birthday. It's a hundred years of Jack Cohen starting his business we're celebrating. We're celebrating but only in one way. We're celebrating by going back to what he was all about and what Tesco is all about which is investing and giving customers great value. We did the first activity in January. Jason touched on it – prices that take you back, a very successful activity as far as customers are concerned. We'll carry on doing that.

We will continue to invest in exclusivity at Tesco. It's working for us. You'll see a little bit more and so the 400 SKUs will get a little bit broader as customers say and we see opportunities for us to do that but a small broadening. But what you will see is the distribution deepening. We replaced all the value SKUs that we had plus a little bit more. It's working well. We'll extend the distribution in order to offer greater value throughout the estate.

And you'll see much more from us in the area of loyalty. I touched on some of the impacts of the changes that Ali and the team are making and the engagement that that's driving. We think there's an awful lot more to come. And that's something that we should be doing particularly in our centenary year as a way of saying thank you to our most loyal customers.

Summary

So in summary, it's been a good year. It's certainly been a lot of hard work and it gives me a chance to thank not just the colleagues in the room but the colleagues more broadly. A lot of very hard work, a lot of change in our business. But it's nice to stand here and be ahead of people's expectations for the full year.

There's been a significant increase in the profitability. The strategic drivers have worked for us. Actually, having that navigation with everything else changing around has been really very good in aligning our business.

The second half margin is within the range. We, you know, the way that we think about it is we got there quicker. It doesn't mean you set another higher target, it means you got there quicker and then we'll deliver through the course of this year while still being able to invest proactively in the offer for customers expressing our competitiveness – very important for us.

We'll celebrate a hundred years and we look forward to seeing you at the capital markets day. So with that, I'll stop presenting and take questions. Usual rules apply though, by the way. Detailed model questions for Mr Griffith afterwards, if you may. And I will give him the feedback, ask you to limit to one question – I'm looking at you, mate – one question. And either myself and Alan will ask you – given I've got the exec in the room, if there's more – a person better than me, ask and I'll invite them to comment as hell. How's that? Do you want to – Andrew, why don't you go first given you're nearest.

Q&A

Andrew Gwynn (Exane BNP Paribas): Yeah, good morning. So it's Andrew Gwynn, Exane. A big-picture question which is UK market, obviously been for a period of intense disruption, obviously now feeling like it won't get disrupted by a merger, how would you think about the market? How should we think about the market going forward?

Dave Lewis: The way – if by the market, you're thinking predominantly a UK market.

Andrew Gwynn: Yeah, sorry.

Dave Lewis: Yeah, so no, I think what we've said is, you know, notwithstanding something that's completely outside of our control and that's, I think, in the words – political uncertainty I think are the words that we use to avoid any others – is actually quite a stable picture, right? So we don't see any sort of dramatic change. So whilst we see the sentiment numbers that you would see and the concern that people have, we're not seeing that in a change in buying behaviour. We're not.

So levels of inflation that we've had before, and it's been that two, 2.5 is what we're assuming going forward. And we're not – we don't have an assumption that there is some sort of external event that would fundamentally change that. So Andrew, that's our picture now. And that's the programme that particularly Charles and James – Jason is working at in terms of the UK position. Do you want to pass the microphone along and then we'll come down to David after?

Xavier Le Mené (Bank of America Merrill Lynch): Okay, thank you. Xavier Le Mené from Bank of America Merrill Lynch. When you joined a few years ago, the first thing you said or mentioned was that you removed too much cost, you know, from the shop floor especially in the UK. So a big part of your improvement has been actually about removing cost still and initially, you also mentioned actually quite recently the fact that you are removing also some people from the shop floor, you are removing some services. So I'm trying to square the circle here.

Dave Lewis: Okay, let me help. I'll help and then I'm going to ask Tony to add on to that. So look, it is true we have taken some costs out, but we've changed the operation. The way that we talk about it inside our business is how do we simplify first, take the work away and then that allows us to redistribute the work. And that's really important.

So everything we did in terms of cost reduction, 24-hour stores, not profitable. We stopped. Overnight replenishment in a lot of stores and certainly for general merchandising, we stopped. So we allowed ourselves to repurpose and actually increase the amount of colleague hours that we had serving people as opposed to – Matt talked about in Central Europe – actually running the shop. So that's been a big part of what's driven that cost there.

I think the latest round is around counters, right, and I'll ask Tony to talk specifically in a second. But before he does, let me give you one fact that never gets reported, right? This never gets reported. We did say in the announcement or Jason's announcement earlier this year that we would close some counters, very unprofitable counters and that actually as we went through that change, we would put 9,000 colleagues at risk of consultation. We also said at the time that we think by redeployment that that would be net-net about 4,500 roles reduced, okay?

Now, the fact that nobody talks about even though it is out there – and I checked this with Natasha only this week – is if you go back to September 2014 – you made the point when I started – and you look at where we are now, we have more than 10,000 more colleagues on the shop floor than we did in September 2014. We are not taking cost out of customer service but we have taken cost out of non-added value complexity or routines. Tony, do you want to add something to that?

Tony Hoggett: Yeah, a couple of points I guess. One would be on the specific of the counters. The vast majority of our stores will still have counters in some way shape or form. So 800 large stores, it's less than 100 that are closing all the counters.

The second I would say is that it was fundamentally customer-driven, so our customers are being retrained over the last decade. If you think about the growing channels, discounters, online, convenience, none of which have counters, so customers are telling us in their behaviours. They're not shopping counters as much as they did in the past and then you've seen our product development and that particularly in the convenience ranges has improved hugely over time and therefore customers again are, from a convenience perspective, picking up pre-packed food and we've seen a load of that.

So counters was a customer-driven decision. It's not the majority of stores and we're pretty confident it will be successful in the way through the year.

The other bit I'd add is we've put ten points of productivity into our stores, same point Dave has made in the 10,000 colleagues, but since 2014, ten points of productivity investment in our store colleagues, and every one of those stores, colleagues paid more now than they were then. And we've got same plans for the next three years which you'll hear about at the Capital Markets Day.

Dave Lewis: Okay. Do you want to pass to David?

Dave McCarthy (HSBC): Yeah, good morning. It's Dave McCarthy, HSBC. You haven't talked today about your relationship with Carrefour and we've been reading about the negotiations and – CWT have been doing. Can you tell us a bit on that? Give us some kind of scope? Can you tell us how many suppliers were involved on the international override a bit?

Dave Lewis: Can do. Why don't I start and then I'll ask Andrew to add to it given that he is intimated involved in it.

So look, the strategic rationale here is that we don't overlap in any market other than Poland that actually there is quite a complementary nature to our two businesses. There are three opportunities that we identified, which was, yes, buying brands together, so the international override a bit that David talks about.

But actually very significantly goods and service not for resale and also in own label product development. So there are there big opportunities, the one that everybody talks about is always the branded one for reasons that are there. Do you want to update everybody on where you are?

Andrew Yaxley: Yeah. I mean, I think you probably covered it. It's three areas we're looking at. The real opportunities, goods and services and not for resale. The second big opportunity we're working at the Carrefour brand and Tesco brand. And it's actually bigger than the food opportunity. When you look at our factories and general merchandising clothing, we're using many of the same factories, so there's some real opportunity there and the third areas is obviously the global branded suppliers.

The global branded suppliers, there's probably about 30 of them. We've had some great conversations with them with some very early stages. In terms of our alliance with Carrefour, we're kind of sharing responsibilities. On the global branded is being dealt without Carrefour in Geneva. I've been out there. We've put international team on it from Tesco out there and we're really pleased with the way the sort of conversations and negotiations are going.

So it's very early stages on all three elements. We think there's lots of opportunities to work together and we're sort of working with Carrefour and forming the relationship and the priorities with them, sort of week-in, week-out.

Dave Lewis: So, so far so good. It wouldn't surprise me, David, the noise that's in the marketplace about having these conversations doesn't surprise me. Very confident where we are with – comfortable with where we are with the 30. I suppose when you hear people – I suppose the bit of insight I would give you is when you hear people sort of challenge why it is as Carrefour and Tesco we may do this. Do me a favour just ask one question in the other direction which is, as an international FMCG player, do you have a global purchasing function?

And the answer to that is invariably yes. So why wouldn't we, as two complementary businesses, also seek to have a global purchasing function, where there is alignment in the way Andrew says? That's all we're trying to do. But we'll do it in the right way. [Inaudible] got comply and all the things. Yeah.

Dave McCarthy: I mean, all makes sense, no problem. I was just trying to get a scale.

Dave Lewis: I know you are.

Dave McCarthy: The long-term potential.

Dave Lewis: And we're not going to give it to you.

Dave McCarthy: How many hundred millions?

Dave Lewis: We'll talk about untapped value opportunities, I might give you a stare, but we're not giving you a number. Do you want to – I'll go to there and I'll go backwards. All right. Yeah, Bruno.

Bruno Monteyne (Bernstein): Good morning. Bruno Monteyne from Bernstein. If I look at your leverage target, Alan, 3.7% on the new metric post diverse 16%, going down to 2.5%. And at the rate or reduction, it looks like you're two years away from being comfortably within the range. Is it therefore fair to assume that a discussion about any excess cash returns on that last slide or two years away?

Alan Stewart: Well, I haven't seen your model the way that I think about it, Bruno, is that there are two changes that are happening within that metric. One is total indebtedness. One is the EBITDA. I know that each of those change in the right direction, the rate of change is pretty quick and that can move quite quickly, and we are focused on it. I think the important thing is having shown the threshold last year, we are going to be operating in an IFRS 16 world. That's the basis in which we need to look at things, and the metrics that we have set out on that range then gives people the opportunity to work through off your own model what it is.

But we're getting pretty close to the point that we are able to operate in that. We know that that then that tracks into a stable capital structure and the ability to deliver sustainable business dividend twice covered, cash generation of the business is very strong. So at the right time and whether it's one year, two years or whatever your model shows, we will get to be able to talk about if – within the capital allocation hierarchy, if there's money to be returned to shareholders, that's a great position to be in.

Bruno Monteyne: I wasn't really referring to my model. I just noticed we had great EBITDA improvement this year. I mean, it was amazing profit growth and it came down by 0.5%, so given 3.7%, I needed no modelling.

Alan Stewart: We'll talk about it every six months and we'll get to the place which may be sooner than you think in terms of where we're in a position that we're talking about something, which is real rather than hypothetic but it's very clear the framework that we're now operating in.

Bruno Monteyne: Thank you, Alan.

Maria-Laura Adurno (Morgan Stanley): So Maria-Laura from Morgan Stanley. So you're at a point where you're almost completing the £1.5 billion cost saving plan. Just wondering how you're thinking about it beyond that and in particular wanted to understand whether we could expect the same scale of cost reductions in international markets?

Dave Lewis: So I think, look, we will talk about the untapped value opportunities that I touched on through the lens of how we can reduce our cost. I suppose just to avoid any – in the same way going forward, I'm not going to set another margin target. I'm not going to set another quantum cost target either.

We're going to be talking through how it is we can change the operation in a way which lowers the cost, so things about how it is we can invest back into the customer. So we are definitely sure that there are other opportunities to lower the cost but we won't be setting another quantum number. It's going to be much more about within the individual businesses how it is we can be much more productive and efficient. Okay.

Alan Stewart: And I'd add that the cost base, the addressable cost base remains large and appealing.

Dave Lewis: Indeed.

Rob Joyce (Goldman Sachs): Thanks very much. Rob Joyce from Goldman Sachs.

Dave Lewis: I can see that.

Rob Joyce: So just a question on cash. So this year you reported about £900 million of retail free cash on about 2.2 of trading profit – sorry, EBIT now. I think you confirm consensus are 2.4. You're happy with that in terms of EBIT for FY20. What should we be expecting in terms of retail free cash and should we be expecting improvements in the cash conversion going forward? Thanks a lot.

Alan Stewart: So look, I think the drivers, Rob, are pretty clear from what I spoke about in terms of the working capital impact that we saw this year, the £210 million we see that reversing back. We continue to focus on working capital generation opportunities within that and we've got guidance out there. The two big deltas in terms of free cash this year year-on-year are ones which we flagged and were expected as we make more profits, we pay more tax. There's just over £100 million of tax impact. We also, for the first year, had the £150 million or so of share buyback, which year-in year-out we expect that to be broadly stable.

One of the consequences is the better we do as a business, the more valuable those rewards become, and those awards become. So that number may creep up over time but for the moment we expect it above £150 million. CAPEX is stable year-on-year. So really from my mind, it's the increase in profitability, the working capital which we'll focus on and we'll get the reverse of what we saw this year plus whatever we generate and then it will flow through to free cash.

Rob Joyce: Okay, thanks. So exceptionals?

Alan Stewart: Well, there is some exceptionals, you will see the exceptionals, the – and we can take it and give you some detail. But if you look at the detail behind what we've charged through the exceptional and the provisions, it's pretty clear that there is some cash, which will go out as exceptionals. The one thing I haven't mentioned, of course, is property which remains an opportunity to generate cash and frankly sometimes to spend cash.

Rob Joyce: Thanks very much.

Dave Lewis: Okay. Rob, do you want to pass down and then I'll just work back this way please.

Sreedhar Mahamkali (Macquarie): Thank you. Sreedhar Mahamkali, Macquarie. One question and just one follow-up on what Rob was asking, please, if that's okay. Just on working capital, the reversal you've talked about, we get it but you've also historically talked about £200 million underlying improvement. Should we be expecting some of that to come through this year on top of the reversal [inaudible].

Alan Stewart: So, look, yeah, absolutely. We continue to see opportunity in working capital. I've also been clear that over time the opportunity becomes less because we are operating, part of it is just within the business. We would expect as we grow our business to be generating positive working capital. Matt touched on that in terms of the way that the stock opportunity in Central Europe.

So there is a natural working capital benefit providing we run the business in the right way. And on top of that, there will be some. So the £200 million that we've targeted that remains to be target but over time I would expect that potentially to drop away. But right now that's still what we're targeting.

Sreedhar Mahamkali: Okay, so that's £200 million plus –

Alan Stewart: That's on top of the £200 million reversal this year.

Sreedhar Mahamkali: Okay, very good. Thank you. Just second one on £2.5 billion incremental revenues that you set out with Booker. We haven't had an update today. Just curious to see where you are in that and what are your thoughts are?

Alan Stewart: It's definitely in the release. We still have the same aspiration of £2.5 billion. Charles was talking about more than £500 million already in the first year, same opportunities, same aspirations. Charles, do you want to add anything to that?

Charles Wilson: Yeah, I think the only addition is that great slide of showing Booker-Tesco in the UK growing at over £1 billion with some of the competitors, so you're getting back to the biggest player growing at the fastest rate. And we're experimenting and certainly when we're doing the Capital Markets Day, we'll be able to show you just some of the developments taking place there.

Alan Stewart: And as the market changes last year Booker did pick up a pretty unexpected the 11.1% increase did include some business, which over time Booker and we might have expected to be winning in different circumstances. So it's not that it hasn't happened. As we look forward, there are real opportunities there.

Dave Lewis: Can we pass back? Yeah, Clive is in the next row, the only hand. We'll go by rows. Do you want to pass it down, if you wouldn't mind? There you go. Down there. We just got one microphone and we can get back.

Clive Black (Shore Capital): Thanks. Clive Black from Shore Capital.

Dave Lewis: Can't really get away with that. Go ahead.

Clive Black: You've reached most of your ambitions quite early, Dave, and I just wondered what your ambitions are for the business going forward at the high level and where you see yourself on that basis?

Dave Lewis: Personal questions. Look, I – the aspirations for the business haven't changed, right. I've said to you before that I think Tesco is at its best when it is thinking only about customers, right. And I know some of you said he's always talking about putting customers at the centre of the business. He never stops. I will never stop. We talk about going forward. Customers first, second and third, okay. I've always believed that particularly from an investment point of view, a capital-efficient, disciplined business generates cash profitability, generates free cash flow, grows earnings and is a very good attractive investment and I'm committed that Tesco will be there.

Getting there earlier than we said is thanks to a huge number of people for whom I'm indebted and grateful and we've got aspirations for that going forward. So that's what we're doing. That's what I'm doing, and as until the board say business as usual. Pass it back.

Nick Coulter (Citi): Thanks. It's Nick Coulter from Citi. If I may, could I follow-up on Booker and the underlying run rate. If you strip away Palmer & Harvey, Matthew Clark, have you actually seen a step-up in the underlying run rate, and more specifically, within catering which, I guess, is where the rewards really are? Thank you.

Dave Lewis: Charles, do you want to?

Charles Wilson: Yeah. Please. So you saw 11% like-for-like overall. In the last quarter, it has come down to 4% actually; non-tobacco's done a bit better than that. So we're pleased and we're pleased in terms of the way the catering mix is coming through, Nick. So in terms of the growth, it's as we signalled on Booker.

Nick Coulter: But you've historically done 3% to 4%. Have you – do you expect that to step-up with the greater opportunity as part of the group or how do you –

Charles Wilson: I think we're happy in terms of the growth because the growth comes sometimes you've seen us do double-digit, sometimes you've seen us, so that's sort of range is the right range to be.

Alan Stewart: Nick, if I can just add and maybe Charles it's a bit difficult for you to say, Charles never ran Booker for sales. Booker was always focused on the cash and the profitability and the customer. So in that sense, the number is there and there is – and for reasons, which are helpful to understand, that's been split between tobacco and non-tobacco, but it's all about improving the customer experience and improving the business performance so the sales is there and encouraged. Q4 underlying was stronger than the number that is there, because of the non-tobacco element - is stronger than there, but it is all about running an efficient business.

Moderator: Thank you. Is that it? There's not a question in the room. You can't have two, Nick. You can't. Go on, have another one. I'll give Andrew the last one, and then we'll finish.

Nick Coulter: If I may then, thank you very much. Just on the promotional environment in the UK, I think you are perhaps having more fun than everyone else at the moment. Could I perhaps venture as to why you have a heavier promotional intensity, aside from centenary, etc., etc. You obviously have a strategy there that's delivering effectiveness, RAY, etc.

Dave Lewis: I think, so let's just get the numbers straight because different people quote promotional intensity. We've been giving you a number that we've given you all the way through. Last year, promotional intensity was 35.545, this year it's 35.9. It's not changed in total. So, be careful that some of the numbers that either exclude or include some of the different geography, and do include permanent price reductions as part of their promotions.

We've not changed promotional intensity at all. We've changed the type of promotion, we have. We are getting a better return, that's for sure, but actually, on a continuous basis it's moved from 35.4 to 35.9, which is a rounding area in terms of the way we look at it. And that 35.9 is down from 46 when I joined in '14. Okay? So, that's the trend in terms of promotion. But the type of activity we're running is very different, and that's why I'm happier with the returns that we're getting from the type of activity we're doing. Do you want to pass it to Andrew for me?

Andrew Gwynn: Yes, it may be a question for Alan, but Andrew Gwynn from Exane again. The international profit obviously stepped up significantly in the second half. As we think forward into next year, how should we think? I mean, should we think maybe you'll be able to catch up from the first half and the second half maybe isn't fully representative, or – just trying to help –

Alan Stewart: Andrew, I can see you populating your model as you ask the question. I think the way I'd answer this is fundamental. If you go back to the way that we think and talk about the business, the customer is at the core. The competitiveness of our business is at the core of it, and in order to deliver that increased competitiveness, whether it's in the UK market, in the Thai market, in any other market, it's all been about improving the costs of the business, improving the product in order to deliver a better customer experience.

That then, we do believe, will flow through into better returns and we went through the specifics of the changes that Alison spoke about in that market. Really comfortable where we've ended up with suppliers. Really comfortable with the way that the business has phased into some very significant changes in the store operations model and the costs, but that primarily, customer focused, and that's the way we think about it.

Dave Lewis: Why don't I add something? A slightly different perspective in that sense, which is – I mentioned when I talked about it, which is, I see no reason at all that our international business should be dilutive to the group. You saw where we were in the second half. What I want us to think about though is that we get ourselves to the margin ranges that we talked about, and then we free up ourselves to be investing back in the business. And we know that, you know, our own internal modelling, when we get there – and if we invest in the right things, the impact of that investment on sales and on cash are exactly where we would want it to be. And that's the balance we're always managing.

So, I'm really delighted with where we got to in the international businesses. I think there's more that we can do, you know, there's more that we can do and we should do. But the only thing I would say to you is, as we get ourselves into that range, we give ourselves the permission to be able to invest back in the customer in the way that Alan says, and that, I think, is the right balance in the retail model. The important thing though, as you look at the portfolio, and actually, the portfolio is an advantage for Tesco when we run all of the bits in the way that we manage to run it, particularly in the second half of last year. Okay?

So, with that, and slightly ahead of time, I will say thank you very much. I think the two things I'd say at the end is, I am delighted with where we are. It gives me a chance – you've got all of the Tesco team in the room here. They've been very, very busy over the last four years, but they've also been very effective. I think, not only in terms of business performance, but also what you saw, and very important for all of us is, and why I wanted the teams to bring it out is, building the engagement of the people that work in Tesco for what it is Tesco does has been a key part of everything we've done.

So, I hope you are pleased with some of the financial performance. We are where we said we would be. We will finish that job this year. We'll share with you where we're going to take the business to the next few years, but not so much with the point specificity that we gave you last time. But very importantly, keeping our colleagues and our other stakeholders engaged, positively engaged with our business. So, thank you very much for your time and your attention. Have a good day. Happy Easter by the way, yeah, when it comes.

[END OF TRANSCRIPT]