Event: Tesco Plc Trading Update

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Speakers: Dave Lewis and Alan Stewart

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Moderator: Good morning, ladies and gentlemen, and welcome to the Tesco Plc Trading Update. Throughout the call, all participants will be in a listen-only mode and afterwards, there will be a question and answer session. Just to remind you, this conference call is being recorded today. I'm pleased to hand over to Dave Lewis, CEO. Please begin your meeting, sir.

Dave Lewis: Thank you. Good morning, everybody and thank you for joining us. You'll have seen our announcement at 07.00 this morning. And what I wanted to do was just give you a little bit more context before I open up the call to – to any questions that you will have for us. I'm joined today with Alan, so we can take any of the questions that you – that you may have.

You'll remember that when we gave our interims on 23rd October, we chose not to give guidance as we said that the full year profitability would be impacted by actions we may choose to take. We weren't in a position back then to give the market the insights that it might need, to be able to give that guidance. And we saw a – a huge amount of volatility in our business.

And we were very clear that there were still some things that we needed to get our hands on and make some decisions about. And that's what we've been doing in the third quarter. In the last few weeks, we've implemented new policies and procedures for our commercial income activities and we've invested in the service and improving our offer to customers.

And now, as we close the – the third quarter, we have more visibility on – on our performance. And as I said in the statement, we anticipate that the Group trading profit for 2014-2015 will not exceed £1.4 billion, which is lower than the bottom-end of the consensus range and why we're giving you this update. I will share more details about our plans to improve the long-term position of the Group on 8th January.

And I suppose, before I open it up, I'll give you one – one final comment, which is, as I close the third quarter, we, as a team, faced a lot of things that we could do in our business to close the gap between the number I've given and what the consensus range was. But we've chosen not to.

And we've chosen not to because our focus remains completely on resetting our offer and our service to our customers. And we are determined to stay the course in doing that. It's expensive in the short term. But it's important that we reset that relationship in order to turn around this business. So with that, I'll open it up for questions.

Moderator: Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypads. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Our first question comes from the line of Edouard Aubin from Morgan Stanley. Please go ahead with your question. Your line is now open.

Edouard Aubin: Yeah. Good morning, guys. So you talk about about a more transparent revenue recognition in – in the release. I think, you know, Group trading profit was £3.3 billion last January for fiscal 2014. So could you just give us a rough sense of what it would have been should you have applied this – these policies last year? And do these new policies impact just the UK or international operations as well?

Dave Lewis: Good morning. So the – the – the new policies? I'll take the easy one first. The new policies apply to the Group, so they apply across. But most of the material change here is all in the UK. But any policies apply to us at a Group level. And to be frank, I haven't – I haven't gone back and – and tried to calculate, if I'd had all the policies, what the outcome would be.

I have to say we're focussed completely and utterly on – on the future, If I – if I share a little bit more detail, perhaps, on what it is we've done. What it is we've done is, I think we set the relationship with our suppliers. We talk about commercial income. But actually, it's – it's broader than that. It's about resetting a new base, for what I would call longer-term, sustainable value creation with our key suppliers.

And – and over the last month, we've retrained the entire commercial [BREAK IN AUDIO] That was a fire test at our side, so apologies for that. We've retrained the entire commercial department against the new way of – a new way that I would like them to operate. We've also started the briefing of our key suppliers. And they – for those who're interested in that detail, they revolve around a deliberate intent for us from move more towards the front-margin position than the back-margin position.

And – and looking for us to be generating and managing our margin on what we sell, and the way that we sell, rather than the way that we buy. So it's quite a material change, not just in terms of recognition of commercial income, but also in the way that we choose to reset the relationship with our key suppliers.

Edouard Aubin: Okay. Thank you.

Moderator: Our next question comes from the line of Arnaud Joly from Société Générale. Please go ahead with your question. Your line is now open.

Arnaud Joly: Yes. Good morning, guys. I have three questions. The first one, can you give us an – an update on your – your new sales trends in the UK over recent weeks? Second question, in the long-term view, what is the trading margin that you can deliver in the UK? And the last question, the balance sheet appears stretched. Is it today – is it – is the capital increase an option today or not?

Dave Lewis: Okay. Thank you, Arnaud. Look, in terms of the – in terms of the sales trends, I'm going to give you a lot more detail when we get to 8th January. And that'll be for Q3 and it'll be for, obviously, the Christmas trading. What I would say about the sales trend is if you look in Q3, there's no deterioration in trading.

So the thing that you need to appreciate is that if I look at Q3 versus the first half of the year, it's in line, if ever so slightly better than where we were in the first half of the year. So it's not deterioration in trading. And I'll give you the – the update of Christmas when we get to 8th – 8th January.

In terms of the trading margin and – and indeed the balance sheet, again, looking to 8th January, Alan and I will give you all the detail on what it is we want to do to improve both, the trading margin longer term and, indeed, shore up the balance sheet.

And we'll give you that detail on – on 8th January. And as – as regard the capital injection, I – I just stand behind what I said at the interims around what all the options are that we're – we're currently considering.

Arnaud Joly: And Dave, maybe one last question. Is it fair to assume that you're loss-making in the UK in the second half of this year?

Dave Lewis: I think give – given the guidance, it's – it's clearly – it's clearly an outcome. We don't give the segmental breakdown. But it is clearly one of the possible outcomes in – in the second half of the year. But Arnaud, I stress, the critical thing for me and for us is that we reset the relationship we have with our customers in the UK and elsewhere. That's what we're doing.

We've invested in the offer. We've invested in service availability and – and that's what we continue to do. It's the most important thing in terms of turning around the business performance at Tesco.

Arnaud Joly: Thank you very much.

Moderator: Our next question comes from the line of John Kershaw from Exane. Please go ahead with your question. Your line is now open.

John Kershaw: Yeah. Good morning, guys. All right, tell me something. First, could you – it sounds like you're being terribly nice to suppliers. But we can't really believe that that's the case longer term. So assure us that you can still get better terms or is this a net deterioration in terms of suppliers? Because I don't think you'd have taken the job if that was the case.

Second, I know you're deferring a lot to 8th January. But cutting another hole in profitability, whether it's shorter term or more structural, we will see. But what have you said to the credit rating agencies? What – why won't things sort of unravel to put more pressure on you in the coming weeks and months?

Dave Lewis: Okay, John. Look, it's – it's not about – to use – and I quote your words, it's not about being unduly nice to suppliers. But what it is about is resetting the way that we want to engage with them. And the reason I used the word I did before, which is about re-establishing a foundation – a foundation on which we can create new value together. I think that's very important.

And as I say, the number of things that come from that are, you know, building a relationship where there's more front-margin than back-margin, that where it is we make the money on how we sell, not on how we buy. And our willingness to work end-to-end with suppliers so that we can jointly take cost down. So I think big opportunities.

I was with 30 of our top suppliers at the end of last week, explaining to them directly – myself with Jason, what it is we are attempting to do and what it is we want to do and inviting them to be a part of it. So I see it as a – as a foundation – a foundation on which I would want to grow and improve, going forward. But I want it to be on a mutual basis so that they feel they are truly in a partnership with Tesco.

And when it comes to your questions about – you know, I will – I will give you more detail on – on 8th January. But let me share with you a few of the things that we've been doing, John, because it's – it's important to the question you ask. And then, I'll come on to the credit rating.

So since we spoke on [23rd]* October, I think we've been involved in five things, really, that are material to the statement that we made this morning. The first one is we – restating and repositioning the relationship we have – we have with our suppliers. And that brings some – quite considerable change to us.

The second thing we've done is we've invested in service. I told you I was going – I saw an opportunity to do that when we met in October. And we put a little more than 6,000 new colleagues in-store since we last spoke. That's a hell of an addition to our – to our workforce.

In addition, we've invested in availability. I told you we would target the 1,000 most important lines and we've done that. We've increased the availability and I can see the response of that. And that's positive. We've made – fourthly, we've made selective investments in price. That's around the availability improvement but also around some of the Christmas offering. And the final one's the important one, which is, as I've got into the job and Alan and I have got into the job, and we see what it is that Tesco can do, and has done sometimes, in the very end of the year to help manage the margin and manage the profit – and a number of you have shared this with me as part of my induction – is we made a very clear decision that we will not be doing that this year.

So any of those things which affect – might affect the customer offering in the very end of this year we will not be doing. We're going to – we want consistency. We want the relationship with our customers to be long term and consistent and therefore we will not do things in the end of this year which would undermine that relationship. And that's a significant change versus the last couple of years.

*Amended from 22nd after delivery at the company's request

Finally, when it comes to the credit agencies, we will share with them everything we're sharing with you and we'll engage with them on the plans that we've got and we'll share with them as we share with you on 8th January what our strategy is going forward. And we respect the decision that they have to make but the most important thing for me at the minute is that we do the right thing for – for Tesco and that means taking some short term – short term pain for longer term improvement.

John Kershaw: If I can just quickly follow. So you haven't discussed any of this yet with the credit rating agencies to be clear on the balance sheet and this reset? And finally, just in terms of shape because that's obviously what I'm trying to understand, do you expect profitability to rebound reasonably quickly in the UK or is this a sort of five-year plan?

Alan Stewart: John, good morning, Alan here. As regards the engagement ahead of this announcement, no we haven't. We're actively engaged with them now but it would have been inappropriate to engage with the credit agencies ahead of engaging with the market. So, no we haven't done that, but as I say we're doing it now. As regards long term profitability we'll talk about next year when we get to it and I think it's too early at this stage to get into that discussion. Dave, I don't know if you want to add more?

Dave Lewis: No, I think – look, the opportunity – we believe that there's a big opportunity to improve the profitability of Tesco from where we are. We need to make sure we do that by doing the right things in – and sustainably right things. So it's not that I don't see big opportunity. I do. I think the hardest thing for us is to – is to predict when those improvements flow through in a way that, you know, we can measure and be confident. Because one of the things I don't want to do is have a short term improvement and call it too soon.

But I would say to you that, you know, internally some of the underlying measures that we see show that we're getting a return from the investment. So we're encouraged by what we do and so encouraged that we want to – we want to stay the course. And we'll give you our best view of what impact that will have on profitability as we unveil a longer term view for the business.

John Kershaw: Very clear, thank you very much.

Moderator: Our next question comes from the line of James Tracey from Redburn Partners. Please go ahead with your question; your line is now open.

James Tracey: Yes, good morning guys. First – first question for me is on your – your price position. Where do you see your price gap with Asda and Sainsbury? All of your competitors have announced price cuts. Are you planning big price cuts, or do you have anything in the pipeline to sort of address what your competitors have been doing? Thanks.

Dave Lewis: Great question. Thank you James. I think you can see in the market what's happened. I think – I think the two things I would say is that versus where we were on – in October, we're more competitive now than we were then. Are there opportunities for us to be yet more competitive? Yes I believe they are. How and when I choose to address those will be felt by my customers before I make any – any statements. So forgive me, I won't be revealing what my pricing plans might be.

James Tracey: And also, just on the – do you have a medium term UK margin target because it seems as though the guidance is implying second half profits are slightly negative. If like-for-likes remain negative would you expect profit to remain in that territory or is there a pathway for – for some margin improvement other than like for like sales improving? Thanks.

Dave Lewis: I won't give – I won't give a number for a UK margin expectation at this point. I think what we – what we all recognise though is in resetting our business and resetting the relationship we have with our suppliers and reinvesting in the customer proposition that short term, that means some financial pain for the company. It's good news for customers and it's difficult news in the very short term for shareholders. I completely get that.

Do I think that there's an opportunity for us to improve the UK margin from where it is now? Absolutely I do. I see huge amounts of opportunity to do that. But it needs to be from a foundation that is stable and sustainable. And that's what we're about establishing. We're not looking for some quick win here. We're looking for a sustainable reset of the whole Tesco business model and that's what we've said about doing and that's what we'll do. And I believe that if we play to our strengths then the opportunity to make competitive margins in the UK is definitely there for Tesco.

James Tracey: [Inaudible].

Moderator: Would you like to go to the next question, sir?

Dave Lewis: Yes please.

Moderator: Okay. Before I open up the next line, just to let you know ladies and gentlemen, it's 01 to ask a question. Our next question comes from the line of Rickin Thakrar from BESI. Please go ahead with your question. Your line is now open.

Rickin Thakrar: Yes, hi Dave. I've got a couple of questions. The first is you said you – that you thought you were a little bit more competitive on price. Some of the surveys that are out there show that, you know, Asda has cut prices in December, that your price position is still in quite a – still adrift versus Asda recently and still very much adrift versus the discounters. Is this – is this update today reflective of you doing price cuts already, or what you plan to do near term, just to understand if this is proactive or sort of reactive to the market place?

Secondly, can you give us any updates on asset sales if you can? And third – sorry, I missed the first part of the call – is this primarily the – the profit downgrade related to the UK trading profit?

Dave Lewis: Okay.

Rickin Thakrar: Thanks.

Dave Lewis: So in terms of – so price position – so what you see in this announcement the result of actions we've already taken. So we're very specific. This is already taken. There's still three months to go in the year and again if I feel that we need to do things to be competitive then I reserve the right to – to do that.

When I talk about the investments in price, we've been selective about how we've done it. We've done it about – around the most important lines and the ones that we're raising the availability on. So we've done it in a way that is consistent with the strategy that we're trying to run. So it's not a reactive investment in the way that you say. But I'm fully recognising that there's – there are still some questions for us on the area of pricing in the same way I mentioned on 23rd October.

Second question, no update on asset sales for the reasons that you would – you would know as well as I do. And third, in terms of – we did talk about the UK. This is principally driven by a – a revision of the UK profit and what you missed at the start was, this is not about a deterioration in sales in the UK. Actually, trading top line in the UK is in line with the first half year, if anything ever so slightly better. But it's more about resetting the profitability based on the things that I talked about, suppliers, service, availability, price and not doing things in the fourth quarter which would be detrimental to our offer but would be beneficial to the profit line.

Rickin Thakrar: Alright, thanks.

Dave Lewis: Okay.

Moderator: Our next question comes from the line of Bruno Monteyne from Sanford Bernstein. Please go ahead with your question; your line is now open.

Bruno Monteyne: Good morning Dave, Alan. If I understand sort of two new elements in the update. One is the where you record commercial income and the second was about – nobody was diving for the line towards year end. Now, on the first one you obviously want [inaudible] profitability of supply so I would expect largely that's a matter of timing; that's on the ways you'll go from back margin to front margin. You'd expect that to unwind but want to be at the same starting point.

And on the second one if you indeed stop diving for the line towards year-end that should be resulting in better trading results than usual previous years because you don't do the sort of naughty things [inaudible] do towards year end. Would you agree on those two things? So the timing and better [inaudible] towards year end, therefore?

Dave Lewis: Look I think – I think certainly on the first one, we would agree. As you quite rightly say, the movement from a back margin position to a front margin position is quite a significant change for us and for the suppliers and there's a time lag involved in moving from one set of arrangements to the other. And that's what we've been working through in the third quarter. And Bruno, as you would know, it's incredibly difficult to predict exactly how that unwinds. It will be – it very much is deal-by-deal that things change. But it would be a matter of timing and we would look to unwind those positions and benefit from a different way of operating with our suppliers. The timing is definitely a factor.

Look, I've not been – I've not been in Tesco in the year-end. You use a phrase which is used in Tesco and I recognise it. I think the critical thing for us is that we stay focused on what's important and what's important is the proposition to customers is consistent. The service to customers is consistent. And to be honest we will see what the reaction to that is because it's difficult to model what not doing what you suggest is going to do both the top line or indeed the profit line. But I'll – I'll share it with you as it unfolds.

Bruno Monteyne: Thank you.

Dave Lewis: Any more questions?

Moderator: Okay, our next question comes from the line of Rob Joyce from Goldman Sachs. Please go ahead with your question; your line is now open.

Rob Joyce: Hi, good morning, just a couple from me thanks. So just – just to confirm actually what – to make sure I understood. In terms of price in this guidance for the full year, there is no further price investment ahead of where we are implied in that number. And the second one is just to – could you tell us how much price investment there is in that number?

Dave Lewis: Okay, so I can confirm that we're not talking about further price investment in the number. What I will say rather than breaking out all the different elements, if I take the five things that I've talked about. My ability to see through the impact of changing the relationship with the suppliers in the way we just talked about with Bruno. The investment in service and the 6,000 extra colleagues. The availability and what it is we've done about improving our offering there and the price. And not 'diving for the line' to use Bruno's quote. We're talking about number in excess of £500 million. And that's the sort of the magnitude of what – of what it is we have to share.

Rob Joyce: Okay, thank you. And I guess if you do – you've mentioned that you may see the need to invest further in prices, is that a possibility you're still considering or…?

Dave Lewis: As I say, you know, we've still got three months of our financial year to run and – and we won't run the business just to [inaudible] the end of the financial year. And if I and we think that we need to change in any way the proposition then we will obviously do that and we'll do it in a way that is responsible for shareholders. But we must – we establish the proposition and the relationship with customers for the business.

Rob Joyce: Okay, thank you.

Moderator: Our next question comes from the line of David McCarthy from HSBC. Please go ahead with your question; your line is now open.

David McCarthy: Yes, good morning. Just a quick question regarding on this movement from the back margin to the front margin. I would have thought that you would be quite keen to maintain a high over-rider schedule on the basis that it's a nice negotiating ploy with suppliers to say, 'Look, you know, support us now. We'll get this growth. We'll share the benefit.' And unless I'm misunderstanding you seem to be moving away from over-riders in moving from back to front margin just as one example of your – you know, what you're doing on this. And when a company does that, it usually signals to me that the company is not confident of delivering sales growth going forward. So can you comment on that?

And the second quick question is 6,000 employees in addition to last time – you're giving us that in a different currency to last time. You know, last time you said two million hours. Now you're saying 6,000 employees. Can you talk in the same currency so we can get a balance of what that incremental investment is, please?

Dave Lewis: Okay. I can. I can. So look David, it's really – as always, it's a really good question. I think the critical thing here is we're not talking about absolute moves. I'm not talking about 100% front margin. I think what we're looking at is a selective rebalancing of where we are. And, you know, the – the use of over-riders in the way you suggest is still absolutely appropriate and legitimate in certain categories and in certain relationships. So I suppose what I reassure you about, David, is we will continue to use a suite of – a suite of mechanics with our supplier base, but ones which are much more mutual in the way that we share the value that we create together.

And the one thing you should definitely take out of my statement is that there's any lack of confidence in delivery. And if anything, and I will share this detail with you when we get to 8th January, the volume impact that we've seen from the changes in the select categories to the service, availability and price that I talked about has been really very encouraging. And if you talk to the supplier base as you guys do you'll pick up some of that. It's too early to call anything but we'll share with you where we've got to on 8th January but there's no lack of – and no lack of confidence in our ability to deliver.

Your second point – I apologise for giving you two different things. So when we talked before – and I will go back and I will convert it into man hours exactly and do it. But from my memory, the investment that I told you about, two million hours, we've put a third on that; so I think we're talking about in the original plan – in the original plan it was either – so I put another 750,000 hours on top of that two million. A rough number David, if that helps you?

David McCarthy: Yes, that's fine. Yes, that's great. Alright, thank you very much. I appreciate it.

Moderator: Our next question comes from the line of Charlie Storey from Macquarie. Please go ahead with your question; your line is now open.

Charlie Storey: Hi Dave, Alan. Just one question on the – you mentioned you would – there would be an element of Commercial income overstatement and that then would affect the second half result. So today there's clearly been a resetting of profit expectation. In the first half that reverse was £118 million. Are we to assume the same for the second half roughly and therefore get to an underlying number? Or within that £118 million is there a bit of actual underlying in the sense that you're not going to be booking that? It's just lower profitability in terms of gross margin.

Dave Lewis: So, what it is, is a reset of our expectations going forward. We've not gone back and tried to do the work that you're talking about. We addressed the issue which is – was in the first half of the year. That issue is now completely and utterly closed to us in terms of the way we're managing the business. We've now reset expectations in the Commercial department about how it is I want them to do.

We've drawn a very clear framework. We've looked at that framework. We've looked at the timing of its delivery. We've looked at the impact of that being unwound in the relationship with our – we have with our suppliers and we factored that into the number that we've – we've given you along with the other investments that we've made.

Charlie Storey: Okay, but just to sort of – sorry to labour the point but just to absolutely pin down what you mean by the Commercial overstatement would affect second half results. You know, you're saying that's the unwinding of the relationship with the suppliers?

Dave Lewis: Correct.

Charlie Storey: Rather than unwinding the acceleration of revenue that you would expect? Or that's the same thing you're saying?

Dave Lewis: It's the same thing. It's what it's saying is, you know, we – we didn't' know when we gave the – you know, as at [23rd]* October our focus was completely on closing the first half year and explaining what had happened. We didn't know what the impact of that would be on the Commercial income going forward and we needed with the new team to go through that. We've done that. We've reset the policy. We've reset the guidelines. We've retrained every single person that works for us in Commercial and we've cascaded that to our suppliers. And that has a flow through, as the timings flow through in the way that both Bruno and David have talked about. But it's an important resetting in the relationship to a foundation from which I think both our suppliers and ourselves can create future value together. But it's an important reset for us.

Charlie Storey: Yes. I guess I was trying to get at what is the quantum of that sort of lag? Is it – is 118 sort of roughly there, so we try and get to an underlying number or you're not [inaudible] –

Dave Lewis: No, Charlie. Charlie. Charlie to be honest I understand why you would want – you might a specific number but honestly, that for us would be a delusion of accuracy. I think the important thing here is – and it really is contract-by-contract that we're changing the nature of the relationship that we have with our suppliers. And we'll see that and we'll share that with you as we go forward. You know, as we said, we want to be transparent about how it is we – we run the investment model for Tesco and I have no problem with that. But trying to get to the – the exact relationship that you're looking for is not something we're seeking to do. We're more import in terms of resetting the base.

Charlie Storey: Okay, sorry just in terms of timing, you would expect either first half or second half next year to be a more normal margin? Would it be first half when it all flows through?

Dave Lewis: Well look – well look let's – leave it with me until we get to 8th January. We'll update you then. You'll see some more detail and when we close the year we'll be able to give you a better picture. It's one of those pictures that will evolve. It will take – you know, it takes – you know, some of these contracts are annual. Some of them are actually multi years so we need to renegotiate and we need to sort of work that through but that's what we're doing.

Charlie Storey: Okay, thanks very much, Dave.

*Amended from 22nd after delivery at the company's request

Dave Lewis: Alright mate.

Moderator: Our next question comes from the line of James Grzinic from Jefferies. Please go ahead with your question; your line is now open.

James Grzinic: Yes, thank you good morning. I appreciate there'll be a lot more detail on 8th January, but I was wondering whether you can help us try and understand exactly what you're saying today? So there's been a 500 basis point swing in the second half UK retail margin give or take. Can you please tell us how much is down to negative operational leverage? How much the changes in supplier arrangements and how much is investment in the offer, very specifically please?

Dave Lewis: James, I'm not going to give you the breakdown in that sense. I've given you the totality of it. The investment across all of it is a little bit more than £500 million.

Alan Stewart: That's 500 bps.

Dave Lewis: Yes, £500 million.

James Grzinic: Yes. I think [inaudible] is also about 500 bps for the second half, but can you perhaps confirm, then, the majority of that is down to changes in supply arrangements, or just – I mean, you're talking about a number of factors at the same time, so I need –

Dave Lewis: Yeah, no, I appreciate that, but obviously – look, the – in quantum, the two most material are changing the relationships with the suppliers and trying to predict what the outcome of that will be in our full-year number. But also, not doing some of the activity in the fourth quarter which historically we've done to help manage the profit is also a significant number. The investment in service availability and price, come together, are material but not as big as the other two. That's about as far as I can go.

James Grzinic: Great. Thanks.

Moderator: Our next question comes from the line of Aitken Ross, Alliance Trust. Please go ahead with your question. Your line is now open.

Aitken Ross: Hi. Morning, Dave, Alan. It's just a quick question. Your comments seem very sort of customer-centric and all about the value proposition for the consumer – if it hurts shareholders in the short term, then that's absolutely fine. Can you just say a few words commenting on your commitment to your investment grade rating, please, and if that's, again, something that you're prepared to sacrifice in the short term?

Dave Lewis: Thank you. Look, let me be really clear. I don't think it is fine for the shareholders. I think what they would expect of me is that I do the right thing in the short term for the medium term and for the long term. So I don't think it's fine. I just think it's an important understanding that I think the best way that I serve our shareholders is that I get the proposition right and consistent for customers. And that means investing in both the proposition and the service. And in doing that, given the situation we find ourselves in, that does require us to invest in the short term to re-establish a foundation for the future. So it's not that it's okay. I'll let Alan talk about the investment grade, because that's something – you know, I understand the question, and it is important to us, but why doesn't Alan cover it?

Alan Stewart: It is important, and what we've said – and would repeat again today – is that we value the investment grade rating, and it's something that we look at with a great degree – and we understand the importance of it. And there's no change in that view at all. Equally, we are in discussion with the agencies, and as Dave said earlier, we respect their view and the important role they play, and we will engage with them.

Ultimately they will form their view, and what we've said is that we believe that the business has great opportunity – that there is a road through this. We need to reset, we need to work through that, and in the short term there will be some actions with impact our profitability, but we will engage with the ratings as we go through that process.

Aitken Ross: Okay. Thanks very much.

Moderator: Once again, ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypads. There will now be a short pause while questions are being registered by the telephone participants.

Once again, ladies and gentlemen, it's 01 to ask a question.

Dave Lewis: Does that mean we have no more questions on the line?

Moderator: That is correct. We appear to have no further questions at this time, so I hand the conference back to you, sir.

Dave Lewis: Very good. Thank you. Well, look. Again, thank you very much for joining us, and for your questions. I suppose the final comment from me would be – I do appreciate that we had a situation in October where we weren't able to give you everything that you needed to have full insight into Tesco. That's why we didn't give any guidance. As we've run the business through the third quarter we've made some decisions, both in terms of the way that strategically we want to manage commercial income but also investing in our offering and investing in our colleagues and investing in the overall proposition of Tesco. We believe that that's the right thing to be doing. It does reset the business, but we stay really very confident about what the future competitiveness of Tesco can be in the UK and indeed internationally.

So we've set ourselves a particular course. We intend to stay that course. We believe that long-term shareholder value is best served by doing our best job for customers, and that's what we are doing. And we continue to invest in exactly that. Doesn't take away the short-term pain that comes from doing that, but we believe that's in the right interests of the shareholders, both medium and long term. We'll give you more details as to the trading update, and some more detail on the questions you've asked us today, when we see you on 8th January. So, until then, and however you choose to celebrate the holidays, have a good holiday season.

Moderator: This now concludes our conference call. Thank you all for attending. You may now disconnect your lines. Thank you.