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Brad Banducci: Good morning everyone. Thank you for joining us this morning for Woolworths Group's third quarter sales results for F17. Joining me on the call this morning are David Marr, our Chief Financial Officer; Martin Smith, Managing Director of Endeavour Drinks; Dave Chambers, the Managing Director of Progressive Enterprises in New Zealand; Dave Walker, our newly appointed Managing Director of BIG W; and Richard Dammery, our Chief Legal Officer.

Today we are reporting Group sales from continuing operations for Q3 of F17 of $13.8 billion, up 3.7% or 4.4% on an Easter adjusted basis on the same period last year.

Australian Food sales for the quarter increased by 5.1% on a statutory basis and 5.6% on an Easter adjusted basis. Easter adjusted comparable sales increased by 4.5% showing pleasing momentum following comp sales growth of 3.1% in the second quarter of 2017.

Growth continues to be driven by an increase in customer numbers with Easter adjusted transaction growth of 4.1% and comparable items per basket increasing by 0.6%. This is consistent with our Voice of the Customer scores which improved significantly on the same quarter last year and were broadly in line with the peak levels we experienced in December of 2016.

Our reported inflation for the quarter was broadly in line with the second quarter at negative 2.5%. While we did see inflation return ever so slightly to fruit and veg most other major categories, with the exception of tobacco, remained in deflation.

In terms of the progress we are making in Australian Food I wanted to point out three areas of progress for the quarter. All states and stores in supermarkets are now live with our new customer led rostering tool which works to help better match team hours to customer shopping times and patterns. This is increasingly important given the disproportionate sales growth we are seeing on weekends, particularly on Sundays.

We are also making good progress with our supermarket renewals with 49 planned for the second half and a target of 75 for the year. We have a number of stores, close to 40 stores, right now in some form of disruption with renewal. In addition to the standard renewal process we're also in the process of extending our light upgrade process and we plan to do another 50 light upgrades in the next three months or 100 for the year.

The third highlight I wanted to call out was the progress we're making in our own brand transformation. This is now well progressed with over 50% of Woolworths Select products now rebranded to [unclear] Woolworths brand and 70% of home brand now rebranded to Essentials. We've also had the launch of some exciting category brands in the last quarter and the one I'd like to call out there is our new value cosmetics range, Voeu, which we launched in the quarter.

Endeavour Drinks continued good momentum in a low growth market with Easter adjusted sales growth of 3.9% in the quarter and Easter adjusted comp growth of 2.2%. Pleasingly, both Dan Murphy's and BWS achieved positive Easter adjusted comp growth and this was largely driven by strong execution of this critical event.

Trading across Endeavour Drinks was significantly impacted by the weather with sales in January and February, particularly our beer sales, benefitting from the warm weather but March significantly weaker due to wet weather, particularly in New South Wales.

Turning to New Zealand, New Zealand Food sales for the quarter were NZ$1.6 billion, an increase of 2.1% on the previous year. Easter adjusted comp sales increased by 2.2%, only a very modest increase and just to pre-empt the question, that's because we don't have trading on Easter Sunday in New Zealand so you don't get quite the same seasonality.

This 2.2% is our strongest comp sales for two years when you adjust out for some bulk [unclear] sales we experienced in the previous year and was very pleasing. Growth was driven by continued investment in price, service and local range in conjunction with the relaunch of our Onecard loyalty program in partnership with AA Smartfuel.

BIG W sales of $757 million for the quarter decreased 8.6% on the previous year with the Easter adjusted comp sales decreasing by 6.1%. Comparable sales were impacted by clearance activity of summer inventory. We do now however have a turnaround plan in place for the business and are in the process of finalising the executive team to implement that plan and very importantly today, I wanted to announce that Dave Walker had taken on the permanent role as the Managing Director of BIG W.

While we have the plan and will in the next few weeks have the right team in place I should call out that the turnaround of BIG W will be a multi-year journey.

Hotels sales for the quarter were up 1.9% on an Easter adjusted basis. Sales growth was driven by pleasing growth in Bars and to a lesser extent in Accommodation.

While we don't talk a lot about our petrol business our petrol business actually had a very pleasing quarter as well with sales growth up 14% on the previous year with Easter adjusted comp sales declining by 2.5%.

Exit from Home Improvement is in its final stages post the recent arbitration decision and we have begun the process of engaging with our joint venture partner, Lowes, to appoint an independent third party to perform the valuation required to move towards complete exit.

We continued to deliver on our key priorities for the quarter and are encouraged by momentum across the business particularly in Australian Food. However, we have a long way to go and are very focused on the many opportunities we have to build on this progress and further improve our business both in the rest of this financial year and then into F18.

Turning to outlook we are focused as I just said on maintaining current momentum in the business. However, in Australian Food the second half has been, as we talked about at the half, a period of continued investment for us in areas such as team incentives, training and depreciation. Offsetting this to some extent will be improvements we continue to experience in stock loss, however, I should call out that some of this has been and will continue to be invested where required in offsetting higher input costs in particular in meat and responding to ongoing competitor promotional activity.

In regards to BIG W we now expect the BIG W loss before interest and tax in the second half to be between $115 million and $135 million. While we've got the plan and increasing the team in place it's going to take a while for this to deliver traction for us in a financial sense.

I will now turn the call over to questions and can I please ask that you limit your questions to two per person.

Operator: Thank you. If you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you are using a speaker phone please make sure your mute function is turned off to allow for the signal to reach our equipment. Please limit your questions to two per person. If you have any additional questions you will need to press star one to re-queue.

The first question today comes from Shaun Cousins from JPMorgan. Please go ahead.

Shaun Cousins: (JPMorgan, Analyst) Sorry, apologies for that. Sorry. Thanks very much. Just a question regarding BIG W. Can you just talk a little bit about what's driving the increased size of the loss? Because if we look at the sales for the third quarter the driver of your comp decline seems to largely be deflation so there's no sort of volume impact there but it doesn't look as though you've called out big inventory write-downs. I'm just curious, can you break down what has driven the increase in the second half 2017 loss over the last few months please?

Brad Banducci: Thanks, Shaun, for the question. I think we called out at the half that we did not expect to see a better result in BIG W going into the second half. We've been a lot more granular in this in terms of looking at what the bookends of that result that we expect. The impact we're seeing here is us starting to implement the turnaround plan so you'll see some of that flow through, in particular the importance of us investing in price in some areas of the store.

Price obviously is a critical factor in discount department stores. You'll also see us continue to be prudent, as we should be, on managing inventory. Clearance is very much - it should be a part of how you do business in a discount department store and we're very focused on making sure we don't exit this financial year with any inventory that should have been cleared through.

Shaun Cousins: (JPMorgan, Analyst) Brad, to be fair, is the big issue the decision to make sure that you exit fiscal 2017 with clean inventory and that may have not been something at the first half result you were able to quantify sufficiently? Is that the delta?

Brad Banducci: That's part of it plus our focus back on our price agenda and making sure that we have got the right prices on our key value lines, Shaun, which will be critical to us building momentum as we get into 2018. Really it goes back to what we found with Australian Food. We've been very focused in the turnaround plan and what we think we need to do for our customers. Clearly price on key value lines is a pre-condition on us getting the momentum we need in this business.

Shaun Cousins: (JPMorgan, Analyst) Great, okay. My second question just relates to you've made some mixed comments in regards to second half 2017 margin. If we think about - obviously the one you haven't called out is comp growth of 4.5% provides significant operating leverage. Then you've called out the continuation of the shrinkage opportunity but then some of the other factors on the negative side that weighed on first half 2017 and weighed on second half 2017. Are you able to combine those? Do you think your margins are actually an opportunity to expand given the significant compression that you incurred in the second half 2016 please?

Brad Banducci: Shaun, as you know this is a sales call versus a profit call and we'll certainly be talking to that at the end of the year. A couple of things though I would call out that we're experiencing, we are continuing to experience material input cost pressures in meat. We've talked a lot about what's happened in beef but in more recent times actually the cost of lamb has gone up. Materially in fact the cost of lamb on an equivalent per kilo basis is now higher than beef for us so we've got material cost pressures there.

We also need to be quite careful in some of the cost pressures we have in some categories in fruit and veg and how we pass those through. We know that fruit and veg consumption or purchases is very sensitive to price so we've got to be quite cautious on how we think about price pass-through there.

The other ones we called out in the half, of course we're finishing [cycling a] restoration of team incentive at the store level for our business, team training, which is something we're really in catch up mode on given previous years of cutting that investment and some flow through of depreciation.

The last category I guess is the unknown question, is how much additional promotional activity we would expect to see in the fourth quarter. It would be fair to say in Q3 we did see some increased promotional activity from our key competitor which we responded to and particularly in the area of fruit and veg. There's a bit of uncertainty of course around how that plays out in the last eight weeks of the financial year.

Shaun Cousins: (JPMorgan, Analyst) Okay. Thanks for that, Brad.

Operator: Thank you. The next question comes from David Errington from Merrill Lynch. Please go ahead.

David Errington: (Merrill Lynch, Analyst) Morning, Brad. Yes, two questions, one on BIG W and one on supermarkets particularly following on from Shaun's question on pricing and relative to the cost increases. But the first one on BIG W, this probably - I don't want to make statements but it's probably the best sales release Woolworths have printed probably for three or four years. It's terrific, well done and hats tipped to you for being able to restore strong business momentum across all businesses but of course I don't want to harp on the negative, BIG W is, without being too dramatic, is like a boil now. You can either lance it or you can withstand the pain.

Now the strategic plan, you've had about four strategic plans in the last three or four years and none of them seem to be able to turn this business around. What's different about this particular strategic plan? Because it's just a shame to see - you're leaking $100 million every half or every year and taking away from the great work you're doing in the core businesses which is your food, grocery, liquor and hotels businesses. What's different this time I suppose? Are you just delaying the inevitable or what is plan B here I suppose?

Brad Banducci: Thanks for the question, David. At a very high level it's essential that we get some momentum in the business to give us optionality as to whether we see it as part of the portfolio going forward. It's just a no regrets kind of conversation. I know Dave and the team would like to think that if they perform well they can become a key part of the portfolio going forward but irrespective of whether that’s the case or not we need momentum to get optionality in the business.

In terms of what we've tried to change this time and I'm acutely aware that there's been quite a few cracks at this one, what we've really tried to do is engage the whole team in developing the plan, been very clear on what we need to do for the core BIG W customer so it's been a very collaborative customer driven but also team engagement plan and then we've gone back to appointing the team that we think is best placed to deliver on the plan.

What we've been somewhat at fault from in the past is appointing the team and then working on the plan. We've tried to do it the other way around and we've tried to be a lot more collaborative and deliberate in that. We've also to the best we can tried to take the learnings we've found in Australian Food in terms of what are the layers and the sequences you need to go through. The problem I find in mass market retailing whether it's food or discount department stores is there's a whole ton of stuff to be done and sequence is actually more important than actually what you need to do.

We've really tried to learn from past experience, been more collaborative and focused more on getting the right team rather than the right individual - that's not a negative comment on Dave and he would agree that we've worked very hard on that - to put us in the position to hopefully - and it's not a transformation plan I should say. It's very deliberately called a turnaround plan but we do need momentum to have optionality as to how we think about the business going forward. That's what our focus is.

David Errington: (Merrill Lynch, Analyst) How much time do you want? That's the key leading into my second question but how much time do you want for BIG W?

Brad Banducci: David, it would be dangerous for me to…

David Errington: (Merrill Lynch, Analyst) You don't want to put a time limit on it. I understand.

Brad Banducci: …give you a definitive timeframe but it would be misleading for me also to say that this will not be anything but a multi-year turnaround.

David Errington: (Merrill Lynch, Analyst) Okay.

Brad Banducci: The big issue we have as you well know better than me in discount department stores is the lead and lag time on product. It just takes you a year to reposition your inventory at minimum so that's really the challenge here.

David Errington: (Merrill Lynch, Analyst) On supermarkets, Brad, you mentioned to Shaun and you mentioned on the call that you're seeing cost increases in meat, lamb and beef and other produce but you're making the decision to keep pricing down. Now that's - what you've left out and I can understand it but you've left out what volume impact that's having because I'm seeing a lot of butchers going out of business and I'm seeing a lot of green grocers going out of business. They can't carry the inventory, the cost is high and they're really struggling.

What sort of volume increases are you seeing? Because the independents - you must be really starting to take share from those independents. What sort of volume pickups are you getting in meat through undertaking the strategy to hold pricing down in the face of cost increases?

Brad Banducci: The real challenge for us in meat is that it's so central to families and the way they shop and the way that they eat so we've been very focused on trying to be cautious in passing on price increases for that reason if nothing else, even outside of the competitive context. It's so central to the family weekly shop so that's really driven us in terms of trying to be as cautious and as prudent as possible on pass-through.

We're particularly focused as you may be aware on the real staples around mince and sausages. It would be fair to say that we've had quite pleasing volume growth in those categories and what we've done for our customers we think gives us - hopefully they recognise what we've been doing for them there. We have had quite pleasing volume growth there but there's no question that it's at the expense in the short term of our P&L.

David Errington: (Merrill Lynch, Analyst) Yes, great. Great sales number, Brad.

Operator: Thank you. The next question comes from Michael Simotas from Deutsche Bank. Please go ahead.

Michael Simotas: (Deutsche Bank, Analyst) Good morning guys. Brad, you touched on seeing some increased promotion from your key competitor during the quarter and they certainly spoke about that last week. Could you comment on how you see your price position right now versus Coles? I think you've said in the past that you've got a goal to be no more expensive. Is that still the mantra going forward?

Brad Banducci: Thanks, Michael. Yes, it is. We on an index basis are broadly where we were at the half but we feel and I've called out a number of times that we need to work on the shape of the index. It's not only have the right index but it's also making sure that you've got the right mix of promotions and EDLP.

We've made quite a lot of progress on the shape of the index which is our big call out so we feel a lot better about the number of products we've got in our everyday low price or Prices Dropped and Always program which has materially increased for the same quarter a year ago.

We have, despite responding to competitive activity around promotions, reduced the amount of promotions we run in our store by about 9%. We haven't seen the same reduction in the amount of product sold on promotion and that's because we're doing a better job of less promotions right now, particularly around making sure we're in stock on promotional lines. We've got in the order of one million less out of stocks per week in our store, mainly on promotional lines.

While we've shrunk the number of promotions as we've increased the number of EDLP lines in our store that hasn't shrunk to quite the same extent.

Broadly the same index but we feel a lot better about the shape of it and making sure we have great everyday prices on routine or important items for all of our customers but in particular for families.

Michael Simotas: (Deutsche Bank, Analyst) Okay so obviously there's room to move on the shape of the index but if you look at the absolute level of the index are you telling me that your prices are broadly in line with Coles?

Brad Banducci: Yep, absolutely. Absolutely I'm saying but much better shape than it was a year ago. We've gone from 900 items on EDLP to 3300 if you just look at like-for-like quarters.

Michael Simotas: (Deutsche Bank, Analyst) Great and then second question for me, there were a number of stores that were earmarked for closure some time ago. I think you'd said in the past that most of those are likely to be closed during second half. Is that still the intention and could you just give us some update on where you're up to in that process?

Brad Banducci: Yes, it is. Dave, did you want to answer the specifics? You've got them in front of you. Absolutely we wanted to get that done by the end of Q4.

David Marr: Sure. Hi, Michael. Yes, we're on track. We would expect to close a number in this final quarter but the number we called out at the last result we would expect to deliver. On a net basis we will open very few new stores this year, one or two.

Brad Banducci: I think we've closed 17 year-to-date just looking at where we are now and we would expect to close about 27, recognising in the fiscal year we were opening a number of stores so we won't go backwards in store numbers. We'll go - we'll only have a net one increase in store numbers for the year.

Michael Simotas: (Deutsche Bank, Analyst) That'll be a net one increase?

Brad Banducci: Yes, so we're opening 28, we're closing 27. At this stage we've actually opened more than we've closed but that'll change as we get to the end of the quarter.

Michael Simotas: (Deutsche Bank, Analyst) Okay and then moving into next year you just expect to be at the sort of normal run rate of opening stores on a net basis?

Brad Banducci: Well Yes, our target is to open between 10 and 20 a year as you know so we'll get into hopefully the middle of that range.

Michael Simotas: (Deutsche Bank, Analyst) Okay, wonderful. Thank you.

Operator: Thank you. The next question comes from Adam Alexander from Goldman Sachs. Please go ahead.

Adam Alexander: (Goldman Sachs, Analyst) Good morning, Brad and team. Brad, I just wanted to - you talked about on-shelf availability and fruit and vegetables being the biggest opportunity for improvement. Could you just update us on what's still to be done here and maybe some comment about the timing on when you think you'll get to where you want to be?

Brad Banducci: Yes, thank you, Adam. Certainly when you look at our Voice of the Customer scores we still have a lot of room to improve in fruit and veg and in fact our fruit and veg Voice of the Customer went back in Q3 versus Q2. That's why you actually see our overall Voice of the Customer go back between Q3 and Q2. The rest of our numbers either were flat or improved in terms of customer scores.

Now part of the decrease in Voice of the Customer for fruit and veg was driven by seasonality and as you cycle out of seasonal fruit it's quite a challenge. Looking quarter-on-quarter in fruit and veg the Voice of the Customer can be somewhat misleading but it does highlight we've still got more work to do in fruit and veg.

It's a combination of things really. We need to make sure we provide the right staffing level for team hours in fruit and veg, in particular on weekends. We've had strong growth in the category but our hours haven't always kept up with the growth. It's a real area of focus and vigilance for us, getting that product flow-through to continue working and making sure the supply chain's as fast as possible.

We also need to do a better job of communicating for our customers what's good at the moment, what's great eating, what's great value? We've really not done a great job as of now of communicating the quality of our product. We run a very extensive quality comparative process behind the scenes and our quality's as good as anyone in the market on average but we still have some perceptual issues there.

A lot of work to be done just on continuing to improve fruit and veg. We're very happy with what we have done but still a lot more to be done.

On availability, we are materially better than we were a year ago, a million less out of stocks. We measure what's called your store service level which is what per cent of the products are in the store. We're running at about 98% right now. It's the best number. It doesn't tell you how many are on shelf but it gives you a sense of whether product's in the store. That's up over 100 basis points of where it was the same time last year.

We are much better on average at availability. The key issue there is there are in the order of 30 lines in the store that you should never be out of stock on. A number of those lines I might add are actually managed by our supply partners via DSD and we simply need to be better at those. Customers understandably are absolutely unforgiving on milk, bread, basic daily essentials so there's just a big opportunity that we need to work on there together with our supply partners.

We're a lot better in availability but it's the core lines that we should always be in stock and fruit and veg, it is still continuing to pull a whole series of levers, hours in store plus as I say flow-through of product and also better communication around what's good at the moment.

Adam Alexander: (Goldman Sachs, Analyst) Great, thanks Brad. Maybe just a second one, a quick one for David, just on the BIG W loss range of $115 million to $135 million. How much of that would you think could be considered one-off restructuring type charges?

David Marr: Very little, Adam. That's effectively a trading result as Brad called out. What we said at the half was we expected a loss of no better than the last year. Since then we've seen obviously self-trading as well as the investments we've started to make so effectively it's a trade result.

Adam Alexander: (Goldman Sachs, Analyst) Okay.

Operator: Thank you. The next question comes from Bryan Raymond from Citi. Please go ahead.

Bryan Raymond: (Citi, Analyst) Good morning, Brad and team. My first question is just on the drivers of transaction growth in the supermarkets business. That's accelerated quarter-on-quarter from 2.7% to 4.1% without an overly meaningful change in the baseline that you're cycling. Could you give us a feel for what factors you think have contributed to that growth? I think that’s the key driver in your comp uplift this quarter.

Brad Banducci: Thanks, Bryan. We have seen continued growth in transactions and in truth we actually transaction growth start in our business all the way back in December 2016 and it's been a gradual build month-on-month. It really has been in many cases customers returning to the business and finding that hopefully they have a better shopping experience now than they had before they chose to shop elsewhere.

It's been a very pleasing trend. It actually started more interestingly with our value customers coming back into our business but more recently it has been across value, mainstream and premium and across most of our customer segments. We still have some issues attracting young families in particular young value families back into our business but it's become more widespread which is why you see the number continue to growth.

It's been a consistent trend. There's been no one thing that I can attribute to it except just a better everyday experience in our stores whether it's the service or the prices or the quality of the fresh food.

Bryan Raymond: (Citi, Analyst) Okay, great, thanks. My second question's on…

Brad Banducci: Sorry, Bryan, I should add as a rider that shoppers are tending to shop more frequently anyway so you should expect to see a little bit of a wind behind you on that. That's particularly true on couples and especially the older couple.

Sorry, what was your second question?

Bryan Raymond: (Citi, Analyst) Alright, yes. Thanks for that. The second question's on BIG W and I appreciate the background on how you formed the strategy and the collaboration is important but I guess what we tend to look for is any detail you can give us around some of the key levers that are going to drive this turnaround. Typically we'll tend to focus on things like SKU count, range, price, staffing intensity, sourcing, supply chain. Is there anything you can tell us around the strategy through those lenses? Is there any metrics you can give us around what you're targeting and how you plan to do it?

Brad Banducci: Bryan, I think that's exactly the right question and of course the same question our Board has. That's something which we'll provide in a lot more detail at the full year.

Bryan Raymond: (Citi, Analyst) Okay so you're not going to give any information at the moment as to how you're planning to turn that around?

Brad Banducci: No, we'll come back though and as we did with Food be much clearer as to the metrics and the early indicators versus the long-term success factor.

Bryan Raymond: (Citi, Analyst) Okay, thank you.

Operator: Thank you. The next question comes from Tom Kierath from Morgan Stanley. Please go ahead.

Tom Kierath: (Morgan Stanley, Analyst) Morning guys. Could you give us an update on where stock loss is at the end of the quarter just maybe relative to the first half? I'm just trying to understand the language there on that. Is the stock loss benefit likely to be more in the second half than the first half?

Brad Banducci: Tom, in the first half we had a really good result but you could also say it was the quick wins if you know what I mean. We still have an opportunity in the second half as we've called out and we have an opportunity not only in the second half but going into F18. The stock loss for us is running in very much the very low threes right now and of course we would like to exit the three or under.

We do continue to see it improve. We've got some short-term volatility as we move to [unclear] and DVDs and a few things like that which will drive stock loss up short term but actually be better for our business long term. It continues to improve but it's not going to improve at the same rate. We're not going to get another 80 basis points in the half out of it of course.

Tom Kierath: (Morgan Stanley, Analyst) Sure, sure. That's great, thank you. The second one is just can you comment on where sales per square metre is in the food business? I couldn't see a comment there and I presume it's pretty close now to the like-for-like sales of 4.5% given the store closures?

Brad Banducci: Yes, it's trending up. As you know it's a rolling 12-month basis so it's going to be a lag effect. You'll see it at the full year. Fair to say it's trending up but because we still opened a number of stores and we haven't yet closed the number of stores we just talked to you've got a lag effect there. We'll certainly provide the detail at the full year. Of course, it's trending up given the sales result you just saw from the business.

Tom Kierath: (Morgan Stanley, Analyst) Great, thank you.

Operator: Thank you. The next question comes from Grant Saligari from Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Thank you. Good morning. With BIG W, are you able to or willing do I guess, Brad, elaborate at least directionally what the major planks of the new plan are without necessarily quantifying it but just to give us a feel where your thinking is heading with BIG W?

Brad Banducci: Grant, as I said we will come back at the full year. It's going to be - we've really tried to think deeply about the learnings we got off Australian Food and trying to apply them to BIG W. It's a very customer focused plan, focused on what customers find important about choosing to shop at BIG W and leveraging off that.

Of course right now there's just a lot of work on the basics just as there was in supers on the foundations. We still have enormous opportunities on getting stock on show, providing a good experience in our stores, energy in the store. There's a lot of work on the basics on which we can then layer on what's important by category for a customer inside a BIG W store. I'd rather come back and show it in more detail otherwise it becomes at risk of being a cliché.

Grant Saligari: (Credit Suisse, Analyst) Okay, so trust me, I've got a plan at this stage but come back at the full year I guess.

Brad Banducci: Well as I say it'll give us more time to talk about where it's at. We've just signed off the plan with the Board in the last week and we'll have finished appointing the team by the end of this week.

Grant Saligari: (Credit Suisse, Analyst) Okay and with your price investment in Australian Food taking into account also obviously cost of goods increasing, sequentially has that investment increased in the third quarter compared with the second quarter or is it a fairly similar sort of rate?

Brad Banducci: Sorry, can you rephrase that to make sure I understand it?

Grant Saligari: (Credit Suisse, Analyst) Well if we think about the competitive environment of the third quarter I think you mentioned that Coles had increased its competitive in fruit and vegetable. Obviously you've responded. I guess are you finding that you're having to put more money into price in the third quarter than you had in the first half or is a similar run rate that you're putting in in the third quarter?

Brad Banducci: It is a similar run rate and you see that with consistency across how we measure deflation and how we measure deflation is a topic of some interest even to me. It's very complex as you may know with the linked Fisher method that we use but if you look at consistency between quarters you'll see it's pretty consistent. Where it's grown of course is dependent on what we're responding to but yes, it's pretty consistent.

Increasingly we feel - we're quite clear on where we need to get to with price trust with our customers. Most of our agenda is really being run by ourselves and then of course there's the tactical response required on promotions.

Grant Saligari: (Credit Suisse, Analyst) Okay, thank you.

Operator: Thank you. The next question comes from Richard Barwick from CLSA. Please go ahead.

Richard Barwick: (CLSA, Analyst) Good morning, Brad. Can I just follow up on clarifying some of the response you gave to Michael earlier? You talked about opening 10 to 20 stores per annum from FY18. Could you just clarify how many closures if any you're planning across FY18 and also FY19?

Brad Banducci: Thanks, Richard. David, you've got the…

David Marr: Yes, hi Richard. We haven't called out a number for 2018 or 2019. The only number we called out for closure was 18 supermarkets. We're on track to close that. We'll have those pretty well all closed this year. There's one or two smaller metros as well but we haven't called out beyond that.

There will be no doubt - on an ongoing basis we'll continue to review all of our stores so that the numbers we call out between 10 and 20 are net of any closures. We would expect to close some stores but we haven't called out a specific number in either 2018 or 2019.

Richard Barwick: (CLSA, Analyst) Right so that 10 to 20 you said is a net number in any case?

David Marr: Yes.

Richard Barwick: (CLSA, Analyst) Okay and can I just talk about fruit and veg? For a long time both yourselves and Coles have called that out as an opportunity to increase penetration. It's still obviously very common to see a fruit and veg store out the front of a Coles or a Woolworths. Can you talk to the penetration or even proportion of sales perhaps that fruit and veg represents today and where you see that might be able to go to as an opportunity?

Brad Banducci: We don't share details on exact penetration of fruit and veg. It would be fair to say it has been growing strongly for us and we have been growing share. It's not clear where our share has come from but I suspect it at least has come as much from the independents as it has from our major competitor, probably more from independents. It is an area of growth for us and of course for Coles. It is central to the way someone thinks about Woolworths and the Fresh Food People. It's important in a brand sense as well as in a pure category sense.

We see customers wanting to eat more healthy product and fruit and veg is the starting point for that so we can see over the long term more customer demand for fresh products or fruit and veg products in particular so we can see the situation where that part of our business or that part of the market continues to experience pleasingly high growth.

The key issue for us in fruit and veg is that there is material price elasticity to the range. You've just got to be very careful. People want to eat it but it needs to be affordable. We've just all got to be cautious, in particular ourselves, in making sure that what we do is affordable. While we talked about some move to inflation in fruit and veg we've been very cautious about passing on true inflation there just given the impact on our customers and whether therefore they stop just buying healthy products.

We do see growth. We are growing share. We think it's unbelievably important because it's part of a broader customer trend but in terms of the specific we don't share those at this stage.

Richard Barwick: (CLSA, Analyst) The expectation, Brad, of the bit of a lift in cost prices, presumably that was cyclone/flood related and if so what visibility do you have in terms of - is this a temporary spike in prices you're expecting?

Brad Banducci: Well, the interesting thing about comping anything is you don't know whether the last time was a spike or the alternative. It's hard to tell. The thing that strikes us for example we called out in the quarter that we saw grapes, tomatoes and potatoes have real price increases. Potatoes was actually a South Australian issues. Grapes and tomatoes were somewhat impacted, particularly tomatoes, by what happened in the floods up in Bowen. We saw major price increases. Tomatoes went from - truss tomatoes from $3.90 to $5.50 a kilo so material price increases there. By the way demand slowed materially which is why it's a cautionary tale.

On the other side, interestingly enough we also had price deflation in two very important lines, avocados and strawberries. The price of avos, to give you a sense, down from $3.32 to $2.94 an avocado. You get swings and roundabouts. It's a hard one to be very precise on because it is so dependent on the growing seasons and cycles.

Richard Barwick: (CLSA, Analyst) Thank you and the second question for me, just if I'm reading this right it sounds like you are satisfied when you talk about your price index basis, satisfied where you are albeit the shape of it you may continue to improve but you are prepared to respond as and when required to competitive activity.

Brad Banducci: I think that's right. I don't think you can ever be fully satisfied on price. We're focused on our customers and providing price trust with our customers and we need to continue. That's the real focus. A good measure is our price index relative to our competitor's but the real issue is price trust with our customers.

I think the thematic for us is we're out of major dramatic across the board activity and more forensic precise activity to address our customers' needs. Of course, we need to be also ready to respond to what competitors do. We've invested a whole ton of money and time in building price trust with customers and we've got to be careful that that's not undone going forward.

Richard Barwick: (CLSA, Analyst) Okay, understood. Thank you.

Operator: Thank you. Once again to ask a question please press star one on your telephone.

The next question comes from Ben Gilbert from UBS. Please go ahead.

Ben Gilbert: (UBS, Analyst) Morning, Brad and team. Just interested in the feel internally at the moment, if there's any sort of metrics or anything you can give us around that, maybe whether it's turnover within the group or buying and just sort of how people are feeling within the Group from a cultural perspective?

Brad Banducci: Thanks, Ben. It's a good question. We do measure it every two months, where we are from Voice of the Team. We measure Voice of the Supplier, Voice of the Team and of course Voice of the Customers. We have three measures that we track. Our team scores actually continue to improve and recommending Woolworths as the place to shop has doubled actually interestingly in the last year.

We continue to improve on Woolworths as a place to work but not quite as quickly so that's a real area of focus for us. Morale is a lot better. Teams feel a lot more energised as you can well imagine. You do see that, by the way, manifest itself in actually better safety statistics. We've seen dramatic improvements, over 40% improvement in our safety stats, whether it's TRIFR or LTIFR and you do also see it in turnover stats. As your morale and team engagement goes up you see safety measures improve and team turnover reduce.

We have, as you know, deliberately worked very hard to bring some talent into our business a couple of levels down to reinforce what we had but that phase I'm hoping is also slowly coming to an end and we can then get back to focusing on training and developing our current team.

Ben Gilbert: (UBS, Analyst) That probably leads on to the second one for me just around the customer led rostering benefit. Is the focus there more so around allocating staff levels better through the week because you probably were a little bit blunt in terms of how you did it originally so it's more around - as opposed to cutting labour costs it's more about making them more productive then to drive sales productivity? I'm just wondering how we should think about that - I'm conscious this is a sales call - from a cost perspective versus sales.

Brad Banducci: No, I think that's a great question. As you know we run our stores to an industrial standard, an SMS standard so we know what the standard is and the way that we should improve or reduce cost is by improving process and therefore being able to reduce the standard. Our productivity focus is all about how long different activities take or how a process works and can we improve it and therefore reduce cost? We're working on that. It takes a long time to land that but that is the area of focus for us, on standards and improving every standard that we look at.

The key standards we need to focus on of course are checkout and replenishment. That is somewhat separate to then saying okay the standard ends up with the number of hours we should put into the store. What customer led rostering does is give the store managers or department managers transparency over whether they have scheduled the right number of team members per day or per part of the day. It's sort of a freedom with the framework type approach of helping them understand whether they've actually put the right hours in on the right day. They do come together but they're different areas of work if you know what I mean.

The issue we've had with customer led rostering is we know that we still continue to put too many hours into the middle of the week and not enough into the weekend. You can tell people what to do but the best way to actually achieve a sustainable result is to give them the tools to make their own decisions. That's what they do right now. A store manager - and you should check this for yourself - can look out six weeks, know how many hours they've put in per day or per part of a day and can come back at the end of the week and know whether they rostered enough hours or too few hours.

We are still under-rostering hours on a Sunday no matter what we tell our team. This gives them the learning process to understand that and also quite frankly get to see the Voice of the Customer score and see that when they put too few hours in, guess what happens? The customers don't have as good a shopping experience.

It's very much like a learning tool and we feel that's what we need to do. You try and drive these things from the centre down into a thousand stores as you know across the country, you get it right on average but you get it wrong specifically in virtually every store. That's why we're doing that but as I say our productivity agenda which is around standards then fits into rostering which is just about making sure you optimise against the standard.

Ben Gilbert: (UBS, Analyst) That's great. Thanks, Brad.

Operator: Thank you. The next question comes from Phil Kimber from Evans and Partners. Please go ahead.

Phil Kimber: (Evans and Partners, Analyst) Good day, Brad. I was just wondering if you could talk to any changes you're noticing on your fuel discount redemptions. You're doing a great job with fuel volumes in what's a tough market, much better than your competitor.

I wasn't sure if you're seeing any reflection of that from a supermarket perspective that you're seeing more redemptions?

Brad Banducci: No, I think it's a really interesting question actually. It's one that we don't even talk about enough inside Woolworths.

In truth, since we launched Woolworths Rewards you'll know that we made it a much simpler program including that when you buy fuel at the pump price you get a point for every dollar spent and there's no doubt that Woolworths Rewards has really helped our petrol business. The fuel discount redemption rate is pretty flat actually but Woolworths Rewards provides a much simpler additional benefit right now into our fuel business and that has clearly helped when we look at swipe rates on Rewards cards.

Woolworths Rewards and the repositioning on Woolworths Rewards has helped supermarkets but it has also helped our petrol business.

Phil Kimber: (Evans and Partners, Analyst) Then one last one from me was just - I think you said it at the half and I just want to make sure I've got the right numbers - some of those issues that you called out, short term incentives, D&A from memory was an extra $20 million. Could you just remind us if you can what impact we should be expecting in the second half from those?

Brad Banducci: Thanks, Phil. I'll ask David Marr to talk to that.

David Marr: Hi, Phil. Yes, I'll just reconfirm what we said at the half. There were three major callouts two of which we quantified. On incentives we said versus what we had forecasted for the half versus where we ended up we were in the order of $20 million to $30 million more so you could assume roughly that sort of flow through to the second half versus the prior year, $20 million to $30 million on incentives.

It's the same level actually in depreciation. You'll have seen in the first half in food along the incremental depreciation was $20 million, about $30 million across the Group and again I think you could safely expect that to flow through.

In terms of team training and other points we didn't quantify a number. It's a little lower than those numbers though it's fair to say.

Phil Kimber: (Evans and Partners, Analyst) Okay, that's great. When we think about it obviously we need to factor those in, stock losses and you've said it's not going to be another 80 basis points but obviously you're getting fantastic increase in GP dollars with the great sales that you're delivering. That's sort of the logic. Am I missing anything in how we should think about it?

David Marr: No, I think they're the key points. The other couple I think just to flag, one is obviously we said the market remains very competitive. We saw that in the quarter and therefore we would expect that to continue in the second quarter.

The second one really is just around obviously given we're seeing very good volume growth, with volume growth as opposed to price led growth there's an additional flow through of costs as you would expect, particularly around store wages and supply chain but I think that they're self-evident.

Phil Kimber: (Evans and Partners, Analyst) Yes, that's great. Thank you.

Operator: Thank you. The last question today is from Bryan Raymond from Citi. Please go ahead.

Bryan Raymond: (Citi, Analyst) Sorry, just a follow up. On the renewals you talked about 49 for the second half and that equates to 35 in the fourth quarter. I understand it's slightly dangerous to annualise that given seasonality and you're not going to do as many in the second quarter given Christmas disruption and so on. What sort of annual run rate do you think you can get to on the renewals now in FY18 and FY19 once you are broadly happy with the new format? It may not be that 40 that the fourth quarter implies but is there a run rate you could provide that's realistic?

Brad Banducci: Yes, thanks, Brian. We're not happy with the way we've back-ended renewals this year. It was just a by-product of us learning and iterating across the - you'd rather do the renewals as you know in Q1 and then scale back into Q2, get back into Q3. Back-ending is not a great long term strategy I think we'd all agree. We have I think 39 stores in disruption right now in renewal and that is holding us back as we run to the end of the year in a sales sense. We're doing too many in one quarter in a way to catch up.

We'd like to get a bit more spread in. We'd like to be much more front footed into Q1 of next year with renewals. We're looking at 80. We wanted to get it higher than 80 but we're around the 80 mark right now for next year. We really keep having this conversation around 80 well done is better than 100 not well done so we're grappling with that.

The other thing which we're working on which has given us quite nice resonance is what are called - we started calling upgrade 50s and we just call a basic upgrade which is really a front end - addressing our front end and the logic and flow of our front end, the number of [SKUs] as well as some tactical improvements in fruit and veg. We found that program really is very useful to us and we will have done 100 of those this year. We will actually - while we might only do 80 renewals next year we'll also continue to do probably in the same order of upgrades on stores that we wouldn't get to for five or six years in the normal program.

I don't think you'll see a massive ramp next year. You'll see a minor increase in numbers earlier in the year and also more spread out across the year.

Bryan Raymond: (Citi, Analyst) Okay and just to confirm, are you still getting high single digit sales uplift from those renewals that you've already done?

Brad Banducci: Yes, we are and we're getting in the order of a 10 point increase in Voice of the Customer.

Bryan Raymond: (Citi, Analyst) Great. Alright, thank you.

Operator: Thank you. At this time we're showing no further questions. I'll hand back to Mr Banducci for closing remarks.

Brad Banducci: Thank you everyone for joining us on the call today. There's eight weeks to the end of the financial year so I know we'll be talking all too soon about that result including the financial outcomes. Have a good day.

End of Transcript