

Woolworths Limited AGM 2010 - CEO Address

Introduction

Good morning ladies and gentlemen. I'm delighted to welcome you all here to our AGM in Brisbane. It's a pleasure being here in this fantastic facility on the Southbank and a pleasure to be back in Brisbane for our AGM again.

My role in today's proceedings is to give you a flavour of the year that has passed and outline the achievements and the hurdles that contributed to our results for the 2010 financial year. But primarily, I want to look ahead at our future plans to deliver shareholder value and maintain Woolworths's position as one of the world's leading retailers.

Year in Review

At last year's meeting, I commented on the extraordinary economic events of the prior year which saw billions of dollars in stimulus payments flow into the economy. A fair portion of it flowed into our cash registers and for the 2009 financial year Woolworths reported virtually two years worth of growth in one.

But of course every silver lining has a cloud and for Australian retailers, the all important comparable sales results in 2010 were going to be a high hurdle to jump over. And thanks to the very long tail of those stimulus payments, we're still jumping those hurdles – probably right through to the end of this calendar year. In addition, we've also experienced some of the lowest levels of food inflation I've ever seen in my career and a rising Australian dollar resulting in deflationary pressure on general merchandise as well.

All in all, it's been an interesting couple of years. But more than 30 years in retailing have taught me there will always be highs and lows and maintaining a sustainable and robust business model is critical. I often remind our team that we didn't have that in the 1980s when Woolworths went through many financial challenges and was bought and sold several times over. We didn't have a sustainable business model in those days, but we do have it today and we're making sure that we're putting the bricks in place to have a sustainable business for the future.

- **Value**

In the midst of this economic rollercoaster, consumers have naturally expressed a great deal of uncertainty. Faced with rising energy costs, healthcare costs, school fees and recent interest rate hikes, spending has been somewhat constrained as Australians seek out maximum value for their shopping dollar. While austerity measures are thankfully not on our Government's agenda, they do seem to be on the agenda of the average family's budget and we are witnessing a real shift towards value.

And value is something that we try to deliver on everyday, in every single one of our brands. In the last year we've reduced the shelf prices of more than 4,500 grocery items. Most recently we extended this program to include around 30 popular cuts of beef. In BIG W, we've worked really hard to be the price leader and maintain a position as the best value discount department store in the country.

But delivering real value requires a long term commitment to your customers, not a short term grab for market share. You have to deliver it day in day out across every basket and every trolley. That's how you earn customer trust and a lifetime of loyalty.

- **Loyalty**

Loyalty is a subject that Woolworths is becoming ever more conversant with, thanks to the huge success of our Everyday Rewards Program and its alliance with Qantas Frequent Flyer. Building deep and connected loyalty with our customers across multiple brands is a journey that we're only just beginning but it has tremendous potential to redefine many aspects of our business and take our relationship with our customers to a whole new level.

Already there are 5.4 million EDR card holders, of whom 2.3 million are linked to Qantas Frequent Flyer. Already, members have earned approx 7 billion points which is enough to take nearly half a million Brisbanites on a round trip to Sydney or to give 1.1million people a \$50 gift card.

And of course, we've also just added another plank to the program with the launch of the affiliated credit card – at 1 point for \$1, it's probably the best value frequent flyer rewards card currently in the market.

Loyalty is something that very much works both ways with mutual reward. What this scheme does is allow us to get closer to our customers and to reward their loyalty with value, range and a little something extra.

Financial Performance & Guidance

As I've mentioned, 2010 was a tough trading year, particularly the second half, as we cycled over the bulk of the impact of the Government's stimulus packages, watched the dollar rise and watched inflation fall. Faced with unprecedented macro economic circumstances, we really put our guys and girls to the test and they truly did deliver.

1. Sales
2. Cost of Doing Business
3. Gross Profit Margin
4. EBIT
5. Net Profit After Tax
6. Shareholder Payouts
7. Share Price Performance over 10 years
8. Q1 Sales

Without a doubt, the last two years have brought remarkable trading conditions for retailers in Australia with remarkable peaks and troughs. The true test of a sustainable company though is how well you perform through the highs and the lows over the long term and over a lifetime. That's why you as a shareholder have entrusted us with your money, your retirement, your children's inheritance. That's not a responsibility we take lightly at all and why we don't only focus on the next quarter or the next half, but the next ten, twenty and fifty years.

More than anything, the fact that we did deliver and continue to deliver, speaks to the sheer resilience and strength of the business model we've built.

A decade of sustainable growth is behind us but many more decades of sustainable growth lie ahead of us.

And with that in mind and of course, subject to a number of economic uncertainties, I would today like to reaffirm our guidance as follows:

- Net Profit After Tax is expected to grow in the range of 8% to 11%

Quantum

If you've been following our financial results closely, you might have come across an initiative called Quantum. Quantum follows on from Project Refresh in so far as it embodies the next phase of efficiency gains for Woolworths. Quantum will realise benefits in CODB and Gross Margin by driving greater efficiencies in support structures, end to end supply chain, non-trading procurement, direct sourcing and operational work practices.

Corporate Responsibility

But financial results really only tell a portion of the story. If you really want to understand how a company like Woolworths ticks, you need to look not just at the results we post, but at the values, behaviours and ethics that drive our business culture. And this is the best place to start – our new Corporate Responsibility report for 2010, launched here today. I know it's something many shareholders and investors read with increasing interest and I would encourage you to take a look and find out about many and varied ways in which this company, your company, is making a very positive contribution to the world we live in.

For the record, this report is just as rigorous, just as independently scrutinised and just as meaningful as our Annual Financial Report and truly reflects our commitment to being a highly accountable and highly transparent organisation that sets new standards of leadership in every discipline – from safety to diversity and from carbon management to community investment.

There are many highlights and initiatives to take great pride in;

- \$36.3 million in community investment
- 34% decrease in lost time injury frequency rates

- 153 indigenous appointments this year – more than half as a result of pre-employment training programs
- 53 green stores up and running including the first green BIG W at Inverell and the first green BWS at Turramurra in Sydney
- Solar panels installed on petrol sites in the ACT

There are a couple of highlights that I'm personally very proud of. Firstly, I'm thrilled that Woolworths was rated as a leading company globally on the Carbon Disclosure Project's Carbon Leadership Index.

The second highlight is our Fresh Food Rescue program where our individual stores work closely with local food relief charities to donate food that for one reason or another, is edible but cannot be sold. What we've created is a wonderful example of a total sustainability solution that's good for the environment, good for the community and good for our bottom line. As well as food, we've also just donated \$2 million in grants to food relief charities to help expand their capacity to collect more food and feed more people who simply need a square meal. Full details of that program and many others are in the report and I would really encourage you to read it.

Growth Plans

Growth across our core businesses remains central to our future plans and there are many avenues to explore whilst still remaining alert to acquisition opportunities.

This year we launched our brand new store format – the 2015 marketplace. This takes our store format to a new phase of evolution based around a truly fresh food focused offer.

The first one in Queensland will be the refurbished Mt Ommaney store, followed by a brand new store at Richlands - both due to open just before Christmas.

Our online strategy has taken great leaps forward this year with the revamp of the Dick Smith website, the launch of BIG W online and the continued expansion of Woolworths.com.au into regional Australia. Looking ahead, online will play a significant part in our business, particularly when Dan Murphy's launches its offer later this year.

And of course, last but by no means least, our much anticipated home improvement business will throw open its doors in less than a year's time. To say that we're excited about this is something of an understatement. By our estimation, the market is worth some \$36 billion and with just one single dominant big box player, so you can certainly appreciate the opportunity that lies ahead of us. We're way ahead of our schedule to have 150 sites secured by 2014 and I can honestly say, the team is just doing an outstanding job in bringing this opportunity to fruition.

As you can see from this next slide – construction is well underway on some sites. This one is at Braybrook in Victoria.

I would also like to acknowledge the recent decision of the Victorian Government to fast track planning approvals on ten stores. From day one, they really grasped the extent of the investment in jobs and infrastructure and conducted a very diligent and thorough process to review the development applications. So from ranging to recruitment to training and pricing, every single detail is being meticulously worked out to ensure that it's the best it can possibly be. It's already my favourite store in the world and we haven't even opened one yet.

We have obviously conducted a lot of research into the home improvement sector and talked to a lot of customers about what they like and don't like. What they told us, repeatedly, is that they would like to see more emphasis on customer service when they're shopping for their home improvement needs. Well lucky for us, customer service is something that our joint venture partner, Lowe's, is very well known for.

When you walk into a Lowe's store, the level of attention and assistance you receive is really outstanding and it's something we're going to emulate here in Australia. This means training our team very thoroughly so they can help customers solve their home improvement problems. We're committing 10,000 hours worth of training to customer service alone in order to build a culture of service that's second to none so that our customers will be able to find what they need and get the help they want quickly.

Conclusion

So all in all, we are looking forward to a great year ahead. We have a wonderful and committed team of 188,000 staff, a dedicated board of directors, hundreds of thousands of passionate shareholders and a community of customers who are increasingly wanting us to deliver more than just sales and profit. That's a lot of people who really do care about this company, who care about making it great and keeping it great. And that's got to be a winning combination.

Thank you.