

Friday, 22 November 2002

## **2002 Annual General Meeting, Chairman's Address**

### **The Year In Review**

Throughout the past year Woolworths has again made great progress across its whole business.

During the financial year 2001/02 Woolworths recorded robust growth in all of our key measures of wealth creation – Sales, Profits, Return On Funds Employed and Shareholder Returns.

The benefits of the compounding cost savings and efficiencies generated by "Project Refresh", now in its fourth year, continued to flow through to the bottom line and rewarded shareholders and customers alike - through higher earnings and dividends per share and through lower prices at the checkout.

The Company's Chief Executive, Roger Corbett, will address shareholders shortly and will provide more detail on last year's results, on the Company's growth strategies to deliver value to shareholders and customers and on the ongoing benefits of "Project Refresh".

Post September 11 the world has become a more uncertain place. We have all come to realise that Australia is not isolated from global events, as the recent tragedy in Bali has demonstrated.

The Australian economy, calibrated against those of comparable countries, has fared well but now faces the challenge of an entrenched drought which may slow the healthy rate of growth the economy has enjoyed in recent years. While the drought may over time increase the cost of some farm produce, we do not expect it to impact Woolworths' full year earnings.

Given the competitive business environment, Woolworths' achievement in the year just past of double digit growth in sales, with even stronger growth in profitability, was a remarkable accomplishment and a real credit to all of the 145,000 people who work for Woolies.

As just mentioned, Roger will talk to our 2001/02 performance in some detail. However let me highlight some key points which may be of particular interest to shareholders.

In 2001/02 the average return on shareholders' funds employed rose to 38.07% and average return on equity rose to 48.13%.

Both of these indicators are very satisfactory.

The final dividend payment of 18 cents per share lifted the annual dividend per share to 33 cents per share, fully franked, an increase of 22.2%. This was a great result.

The Company manages carefully both the recognition of revenue and expenses and the value of inventory. We seek to ensure that the Company's earnings are of the highest quality and therefore adopt a highly conservative approach in our accounting treatment of these two key issues for retailers.

Our systems are rigorously applied and we fully recognise obsolete stock.

### **Sources of Future Growth**

The Board has recently reviewed the company's growth plans for the next five years. Directors have approved management's plans for adding further value to Woolworths' shareholders through the many opportunities that exist for both organic and acquisition growth.

Roger will speak to the organic opportunities in more detail but suffice to say that our core businesses of supermarkets, discount department stores and consumer electronics have major plans for further growth. Our newer businesses of petrol and liquor have only begun to realise their growth potential.

Woolworths' balance sheet is strong and the Company has the ability to acquire "bolt-on" businesses, or other major expansion opportunities, with preference for domestic growth. Acquisitions will be made as opportunities arise but Woolworths will not purchase any assets at inflated prices.

### **Management**

Shareholders can be confident that their company is being ably led by an exceptional management team, headed by Roger Corbett, who is recognised widely as one of Australia's most experienced and competent business leaders.

The Woolworths management bench is strong and the improvement in the company's results year-on-year testifies to the high calibre and hands-on approach of the management group. Let me pay particular tribute to Bill Wavish, who as CFO has worked with Roger to improve the company's performance so markedly over the past several years.

As part of our program of management development, Bill has been appointed Director of Supermarkets and is now focussed on the development of this key business division.

We welcome as our company CFO, Tom Pockett, who has wide experience as a senior finance executive in Australian business, most recently as Deputy CFO of the Commonwealth Bank.

Woolworths is characterised by a constructive working relationship between management and directors.

This effective relationship, coupled with a high degree of management stability, has contributed much to the Company's continuing success and to the achievement of rewards for all stakeholders, including management.

### **Remuneration Policies**

Three years ago the company committed to a long-term growth plan which envisaged sustained improvement in shareholder returns over time. The achievement of this objective was predicated on the maintenance of a steady and stable management structure and a Long-Term Incentive Plan was introduced, aimed at retaining key senior executives whose commitment and dedication were viewed as essential to the realisation of our business goals.

The Board considers that the Incentive Plan, based on issuing options to senior executives, has been a major contributor to Woolworths' success, given the plan has been:

- Rigorously constructed with aggressive performance targets
- Approved by shareholders
- Continuously disclosed and reported
- Broadly-based to include a wide range of management

Over the past three years, the increase in the capital value of the company has exceeded \$7 billion, driven by sustainable top line sales growth and bottom line earnings per share growth. (It was pleasing to see this achievement publicly recognised this week by the Australian Financial Review which included Woolworths among a small group of companies which have achieved the greatest levels of total shareholder return over the past three years.)

While the Board intends to continue the Long-Term Incentive Plan we have applied even more stringent targets and performance hurdles to take account of the success achieved to date. We are, of course, monitoring the current debate

on forms of remuneration and will take these into account when determining future policy.

## **Corporate Governance**

Woolworths has a strong commitment to effective governance, aimed at achieving best practice, as acknowledged by external independent surveys. In the past year the Board has determined to enhance this commitment including taking action in relation to audit arrangements earlier this year. This action is described in detail in the Annual Report.

## **CEO's Address**

From time to time Roger and his team participate in local and international investment conferences but other shareholders have few opportunities to hear these presentations live.

Today I have asked Roger to deliver a version of the address he has given recently at investment conferences in New York and Europe. The material is, therefore, already in the public domain. I know you will enjoy hearing this review of the Woolworths ' growth story directly from our Chief Executive.

### **(Roger Corbett's address.)**

Thank you Roger for that stimulating review. We know the future of the business is in good hands.

## **Outlook**

Roger has made some detailed comments on the outlook for the company for the current financial year. I confirm his advice and note that it is an important element of Woolworths' corporate strategy to effectively communicate with the market as frequently and as fully as we are able. I believe the company can claim some credit for increased disclosure in recent years.

Therefore it is concerning that in the past few months there has been some adverse market reaction to company earnings and sales announcements. In fact what we have predicted has been precisely what we have delivered.

Today's guidance that normalised (52 week) sales growth for the financial year 2002/03 (from Continuing Operations) will be of the order of 10.5% to 11% and that Earnings Per Share will improve by 1% or 0.5 cent at the bottom end of the range is given in a context completely consistent with our previous approach. The guidance is, as usual, given subject to a continuation of current business and trading conditions and to the achievement of satisfactory results during the

important Christmas trading period.

Thank you ladies and gentlemen.

**James Strong**  
**Chairman**