

Woolworths Limited Annual General Meeting

November 16 2007 - CEO Address

Good morning everybody.

Whether you are here in Sydney in person or watching on the webcast, we appreciate you taking the time to join us today.

This morning I just want to go over a few of the key business activities that have been keeping us busy over the last 12 months

The main focus of my presentation however, is to announce our Sustainability Strategy.

This strategy is the product of considerable hard work, insight and calculation over many months and I'm looking forward to taking you through it in more detail shortly.

One key growth area for Woolworths is in the development of private label brands.

These are most prevalent in supermarkets, we also have private label brands in our liquor division and to a small degree, in BIG W as well.

During the past year we have continued the roll out of the Select brand in supermarkets with increasing customer acceptance.

There are now more than 800 products in the range and this year we also introduced Select into our New Zealand business as well.

This year has seen the introduction of glazes, biscuits, chewing gum, spices, laundry products and we've just launched a fantastic range of Christmas goods, including delicious Christmas puddings that are all handmade by a small family bakery in Marrickville.

We're very proud of this range – particularly the quality and the innovation. – and our customers seem to agree with us.

In fact 75% of customers who buy Select, buy it repeatedly.

One example of the terrific innovation is the recently launched range of infused olive oils.

They feature a uniquely designed bottle with a drip proof spout – the first of its kind in Australia.

They've been developed by our team in conjunction with a small Aussie producer in North East Victoria.

Those of you who arrived here early would have got the chance to sample some of the range, which I hope you enjoyed – if you didn't, I'm sure our private label team will appreciate your feedback!

As we fast approach a federal election I just wanted to make mention of grocery prices as there seems to be a great deal of political attention on the economics of the kitchen table.

Essentially I just want to reassure you about the efforts Woolworths is making to keep prices as low as possible for our customers,

whilst still ensuring a fair return for suppliers.

Those of you who shop with us regularly, and I hope most of you do, will have noticed our price Rollback campaigns.

During the last year we have invested hundreds of millions of dollars in delivering lower prices.

The financial commentators have been quick to point out that Woolworths could easily have taken advantage of an unstable retail environment and grabbed a 'trophy profit.'

We didn't, choosing instead to spend our money on delivering a better deal to our customers in the face of rising food prices from drought , ever increasing transport fuel costs and global supply and demand fluctuations.

But let me assure you, food retail competition in Australia is intensive.

Every one of our supermarkets competes with a broad range of retailers.

Not just our major supermarket competitor

but every independent and food retail specialist as well.

Our customers expect to be able to get the best value at Woolworths every time they shop

and we are extremely focused on maintaining that position.

However, it is important to point out that Australia,

just like most other countries around the world,

is in the grip of extreme upward pressure on food prices.

The increasing price of transport and commodities such as grain is compounding the effects of our own drought and causing widespread price rises by manufacturers. We have been warning of this for over a year now and working hard behind the scenes to mitigate and absorb cost increases to us so that they don't flow through to the customer. Again, there is some political pressure for a regulatory body to monitor the reasons for these rising prices and we would welcome this wholeheartedly. It's important for Australians to reach a more complete understanding of how the drought and global supply issues affect the food that we eat and the prices we pay.

I just want to continue on the subject of the drought in a bit more detail. It's been a constant issue for Woolworths all year, as it has for a great many of our suppliers and it shows no signs of abating anytime soon.

As I've mentioned, Woolworths works closely with our suppliers to help them deal with production issues all year round.

This can take the form of making adjustments to product specifications, financial assistance during lower yield periods, developing marketing strategies to cope with excess supply or reviewing the contract arrangements to allow for major cost increases. One example this year was when we agreed to waive our contractual obligations for drinking milk

and paid a 2c per litre levy to milk processors

on the condition that it was all returned to farmers.

This levy is continuing and is absorbed by Woolworths, not by our customers.

In January this year we also decided to send a strong signal to our suppliers that we would support them through the drought.

We also wanted to raise public awareness about the effects of drought on rural communities.

On January 23rd, we donated all our supermarket profits for the day to the Country Women's Association.

Two thirds of the money was distributed to farming families for assistance with household needs.

More than 3,000 families received grants

and the CWA did a fantastic job of administering that process.

The remaining \$1.6 million was earmarked for a project that promoted agricultural sustainability.

We've spent a few months reviewing proposals and I'm pleased to announce that we've decided to enter into a partnership with Landcare to fund a series of regional projects and grant programmes that will also include opportunities for our staff and their families to get involved in a voluntary capacity.

This morning I also just wanted to touch on the subject of compliance as it's something we've really been investing in, in terms of process, training and resources.

As you know, Woolworths received a substantial fine from the ACCC last year for contraventions under the Trade Practices Act in relation to applications made between 1997 and 2000, before the NSW Liquor Licensing Court.

Our Trade Practices Compliance Program received endorsement from the Court and we have expanded this to include a Group Compliance Program to safeguard against potential breaches of our regulatory responsibilities.

This major initiative has received strong support from the ACCC, with whom we have developed an ongoing relationship to ensure our corporate conduct is maintained at the highest standard.

With thousands of people making decisions every single day right across our business, it's important for us to ensure that we maintain a continuous improvement approach to compliance.

This includes extensive training for our employees to embed a compliance culture across all of our 180,00 people as well as a rigorous process of audit and review.

Which brings me to another important matter regarding corporate responsibility – the action Woolworths is taking to address our environmental footprint.

The strategy that I'm launching today is not one that you can throw together overnight. It takes a long time to get the right auditing and measurement processes in place before you can even start to analyse your impact and develop corrective strategies.

With such a diverse and fragmented store network, this is not a straightforward process.

But what we've done is to really take a long hard look at our operations and practices across energy, waste, packaging, sourcing and store development in order to evaluate what we do and develop practical, commercially viable strategies for change.

There are retailers around the world who have made bold claims about their environmental performance targets.

However Woolworths certainly doesn't seek to grandstand what we're doing as I genuinely believe that the real value in taking this action is because it's the right thing to do.

Our goal is to set targets that are a real stretch for us, that force us to rethink how we do things and to actually foster real behavioural change.

For a major retailer, our impact comes from the aggregated small actions of many, many people.

So it stands to reason that our ability to change will also emanate from the small actions of many, many people.

The first and most significant area of impact is our carbon emissions and their impact on climate change.

We've calculated our emissions from all operations except our joint ventures, at around 3.7 million tonnes of CO2 equivalent. That is certainly high, but you need to remember that food retailing in particular is a very energy intensive business, primarily because we're extremely dependent on transportation, air conditioning and refrigeration.

By way of comparison, we are one of Australia's largest non-manufacturing energy users

and we would account for around 0.66% of Australia's total emissions.

In fact almost half of our carbon emissions are actually generated from refrigeration systems in our stores and distribution centres. Now we can't do away with refrigerators

- otherwise we'd have a serious food safety issue on our hands.

But what we can do is to invest in better, more efficient technology and manage our operations more effectively so that we're not wasting energy.

The target that we've set ourselves is a tough one

- a 40% reduction in CO2 from our facilities by 2015 on a business as usual basis.

And we're going to achieve this by applying the same attention to detail, the same rigour and the same tenacity

as we did during Project Refresh when we took over \$1 billion in costs out of our supply chain.

In a practical way, this means that every store that we build from now on will be designed to meet specific green principles.

It means that we will be changing our company car fleet to a more energy efficient alternative with the aim of reducing emissions from that source by 30%..

Our logistics transport target is to reduce our carbon emissions by 25% per carton delivered by Woolworths trucks, by 2012.

This means working with our transport suppliers to develop a low carbon strategy and evaluating the opportunities for alternative fuels.

We often use the phrase that our people are our most important asset but when it comes to environmental change, this has never been more relevant.

Engaging our people, educating them and encouraging them to make small behavioural changes at home and in the workplace is the vital lynchpin of this strategy.

We've already embarked on a programme to recruit and train hundreds of 'Eco Ambassadors' in our stores and support offices – ordinary, yet influential staff members who are tasked with nothing more than setting the best possible example to their colleagues.

Energy is critical, but there are other pieces of the jigsaw that we must address. As I've already mentioned in my discussion about the drought, water is fast becoming Australia's most precious resource.

Whilst we're not actually a significant user of water for our operations, our business is indirectly dependent on water as part of the food supply chain. Not every Woolworths store has a water meter, which has made it difficult to assess our consumption levels. However best estimates calculate it to be in the region of 2.2 gigalitres per year in our supermarkets.

Our aim is to slash our usage of water by 200 million litres a year by 2010, which is the equivalent of 200 Olympic swimming pools. Again, it's the small, aggregated changes that will enable us to achieve this target such as the installation of flow restrictors on every tap or dual flush toilets. This is a \$1 million investment for us.

When it comes to waste, our primary aim is to reduce the amount of waste that we send to landfill. This makes economic sense as well as environmental sense as there is a significant cost attached to landfill levies.

Although we're already very good at recycling cardboard and plastic from our stores, we still send around 140,000 tonnes of waste to landfill each year.

Last year we launched a green waste recycling programme in Sydney whereby organic matter was collected by stores and delivered to the Earthpower bio-digester where it was converted to green energy.

It's been a tremendous success and we want to rollout this scheme to as many other locations as we can.

We hope that by 2015 we will be able to recycle 100% of our green waste.

But this is dependent on the availability of those specialist facilities

In addition, it's important for us to be extra vigilant

about our existing cardboard and plastic recycling activities

so we're going to increase our staff training

to make sure that nothing gets into the waste stream that shouldn't.

Clearly as a major buyer of consumer goods,

our sourcing practices need to be mindful

of the environmental impact of particular products.

Obviously with around 32,000 products lines in an average supermarket,

keeping a track of this is quite a challenge.

Where we can have an impact however, is with our private label sourcing.

Now many of you will be aware that we recently had a situation

whereby our Select paper products came under scrutiny

because of allegedly misleading claims about sustainability.

This was not an attempt to hoodwink the public

or to 'greenwash' our products.

The claims were made with the best of intentions

and based on a great deal of documentation provided by our supplier.

However, we realised that we clearly did not understand enough about this complex issue and needed more comprehensive guidance about the various levels of forestry certification.

We made a mistake, but the important thing is how you learn from it and how you improve your business from this point forward.

As well as conducting a thorough review of our paper products supply chain, we are going to undertake a major risk analysis of all our buying and sourcing policies so we can identify any areas that we need to work on.

We also intend to develop specialist training programmes for our buying teams so that they can manage issues relating to sustainable sourcing.

Packaging for Woolworths encompasses many areas

- the packaging that products are delivered in, the on-shelf packaging and the packaging that customers use to carry their goods home.

Packaging is largely part of the supply chain which is why it's vital for us to work closely with our vendors in order to develop more sustainable packaging.

We intend to convene a supplier forum to give some structure to this process.

Woolworths is a signatory to the National Packaging Covenant and is working line with its action plan.

We're also undertaking a major review of our private label packaging in conjunction with the Sustainable Packaging Alliance in order to identify how we can minimise the use of packaging materials and improve the recycling information provided to consumers.

A major initiative to reduce packaging is the increased use of plastic reusable crates. These eliminate the need for cardboard and polystyrene boxes and enable more efficient and cost effective handling and transportation. We're going to double the use of these crates in the next couple of years.

I've already talked a little bit about our green store development programme but I just wanted to give you a few more details about them.

We have just opened the first one at Rouse Hill in Sydney and I'd encourage you to go and pay a visit and see it for yourself.

Not only is it energy efficient, it's also a great example of our new 2010 store design format with wider aisles, a larger fresh department and a more contemporary look and feel.

Every new Woolworths or Safeway supermarket built after September next year will conform to our sustainable design principles .

We're estimating that on average, they will use around 25% less energy than a traditional store.

They'll all feature state of the art lighting, refrigeration and air-conditioning. They'll use natural gas where possible and less harmful building materials. We are also working with the Green Building Council in order to develop a formal star rating for supermarket interiors.

There's a lot more detail in the strategy document that you've been given so I'd encourage you to read it at your own leisure and by all means please give us your feedback.

I'm very proud of the way in which Woolworths has embraced its environmental responsibility over the last year and I'm excited and encouraged by the enthusiasm, innovation and ideas that are bubbling up from our own people.

So my thanks go to them and to our shareholders for continually nudging us in the right direction.

And on that note, I'll move on to talk about the financial performance.