

WOOLWORTHS LIMITED

27 November 2014

Woolworth Limited Annual General Meeting 2014 Shareholder Questions

[Script from Ralph Waters, Chairman. Check against delivery]

I will now address a number of the most frequently asked questions that we have already received from shareholders in advance of today's meeting.

Local Sourcing

Woolworths' commitment to sourcing Australian products has been raised by many shareholders.

We know our customers and shareholders want to see Australian products on our shelves, and we deliver this.

In financial year 2014, we sourced 100% of our fresh meat and 96% of our fruit and vegetables from Australia. We only source offshore when produce is not in season, or supply is not available from Australian farms.

We also have a good record of supporting Australian suppliers in our own brand grocery products. By sales volume, 71% of Homebrand, 76% of Select, and 86% of Macro products are sourced from Australian suppliers.

I would like to mention two particular initiatives.

Firstly, we decided to source all our Own Brand deciduous canned fruit products from SPC Ardmona. This directly benefited 118 local fruit growers in and around Shepparton in Victoria, and has resulted in a 40 per cent increase in sales. It was a great result for the growers, SPC Ardmona and Woolworths shareholders.

The second initiative is Farmers' Own Milk, where we directly source milk from local dairy farmers.

Farmers' Own is now for sale in more than 270 stores in NSW, and sales have more than doubled in the past two months.

In October, we launched Farmers' Own in WA, with milk produced in the Margaret River region, across our 89 stores. Farmers' Own will be launched in Victoria and Queensland soon.

Structural Changes in the Australian Retail Market

I have received a number of questions asking for Woolworths' views on structural changes in the retail landscape.

It is no secret that Australian retailing is fiercely competitive and this has been delivering lower prices, better quality and better service for consumers. Last year in our Australian Food and Liquor business there was deflation in average prices of 3.1%.

Globally, retail is changing fast, and we know that we are not immune from these changes. But care is needed in any comparisons between Australia and other jurisdictions.

Take the United Kingdom. If you compare Australian supermarkets to those in the United Kingdom, there are some very important differences, such as the rate of space growth, store formats and sizes and market structure.

With the international expertise on our Board, we will continue to monitor international trends very carefully. We caution against shareholders using international comparisons to draw conclusions about what might, or might not, happen in the Australian market.

Supplier Relations

Woolworths' good working relationship with our suppliers was another topic frequently raised by shareholders. In the independent survey of suppliers this year, we have risen in the rankings, and are again in the top quartile. As Grant mentioned, last year we agreed in principle to a voluntary Food and Grocery Code with the Australian Food and Grocery Council and Coles.

An industry driven, voluntary Code will always be preferable to heavy-handed Government regulation. The voluntary code was developed and executed by the people who best understand the industry – suppliers and retailers themselves.

We think the best outcome for the sector would be for the other major retailers such as Aldi, IGA/Metcash and Costco to also sign up to the Code – it's hardly an industry code if only a handful of industry participants sign up to it.

Home Improvement

Many shareholders wanted to hear from us about the performance of the Home Improvement business.

Regrettably, we advised the market that Home Improvement will not break even during 2016.

We are disappointed we will not achieve this goal; however, we are confident that we were right to set challenging targets for the business and we will continue to do so.

We remain confident that the Home Improvement business will be a material profit contributor for Woolworths over time. The rationale for entering this market remains strong. It is a \$45 billion market, with 5% annual growth and only one significant retailer with approximately 17% market share.

Masters delivered 42% sales growth (totalling \$752 million sales) in financial year 2014. We enjoy ongoing support from our Joint Venture partner, Lowe's, which has reaffirmed its ongoing commitment to the Joint Venture through amending the terms of their put option.

In a fragmented market dominated by one player, our Home Improvement business is entering its next phase of growth, from start-up to a scalable business. That is why we recruited Matt Tyson, an outstanding home improvement retailer, for his direct experience in building young big box format businesses to maturity.

Customer feedback on our offer is strong. The recent campaign, "Australia you've been paying too much" has certainly resonated with customers, who welcome the competition we are bringing to the Home Improvement market.

We have a proven track record building new businesses, of which our Liquor business is a stand-out example.

The next stage of our development will include a refocused store roll out plan, and an enhanced store format and range. We will continue to learn and adapt and will take the steps necessary to ensure we create a compelling customer offer and profitable business.

Executive remuneration

We have been asked about our executive remuneration policies and in particular the decision to reduce the Long Term Incentive Plan (LTIP) to 3 years to align it with our 3 year business strategy.

You will hear from Christine Cross, as Chairman of the People Policy Committee on these issues later in the meeting. I would simply say that the changes the Board made to the remuneration structure for financial year 2015 followed a comprehensive review and benchmarking exercise undertaken by Ernst and Young.

The changes are intended to create incentives for management to deliver in timeframes long enough to align with shareholders' interests, but short enough to act as sensible drivers of management behaviours and outcomes. They also recognise the need to facilitate the ongoing attraction of key talent, whilst being consistent with the majority of ASX 100 companies.

These decisions require careful judgement, but you can rest assured that the Board's focus is on ensuring alignment between shareholders' and management's interests. That is why we introduced a minimum shareholding requirement for Management Board members from 1 July 2014:

- the CEO is required to build a shareholding equal to 100% base salary over five years, and
- other Management Board members are to build shareholding of 50% base salary over five years.

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