

# 2016

*at a glance*

## CUSTOMER

CUSTOMERS SERVED  
PER WEEK

**29.6M**

OVERALL CUSTOMER  
SATISFACTION AS AT  
JUNE 2016\*

**75%**

VOICE OF THE CUSTOMER  
SCORE FOR TEAM ATTITUDE\*

**85%**

INVESTMENT IN LOWER  
PRICES IN FY16\*

**\$500M+**

WOOLWORTHS RENEWAL  
STORES OPENED IN JUNE

**6**

## TEAM

EMPLOYEES

**205,000+**

WOMEN IN MANAGEMENT  
POSITIONS

**38.9%**

INDIGENOUS EMPLOYEES

**2,200+**

ALL NEW SUPPORT  
STAFF EMPLOYEES  
SPEND A WEEK IN STORE

**Woolies  
Welcome**

YOUNG EMPLOYEES

**79,000+**

## COMMUNITY

VALUE OF EMPLOYEE TIME  
DEVOTED TO COMMUNITY  
INVESTMENT

**\$7.4M**

MATERIAL RECYCLED OR  
DIVERTED FROM LANDFILL  
(TONNES)

**274,930t**

FOOD SAVED FOR MEALS  
(MILLION MEALS)

**6.4M**

SOLAR POWER GENERATION

**1,560Mwh**

WOOLWORTHS OWN  
BRAND PRODUCTS WITH  
THE HEALTH STAR RATING

**1,300**

## SHAREHOLDERS

FULL YEAR FULLY FRANKED  
DIVIDEND PER SHARE

**77¢**

↓ 44.6% from 2015

ORDINARY EARNINGS  
PER SHARE FROM CONTINUING  
OPERATIONS BEFORE  
SIGNIFICANT ITEMS<sup>2</sup>

**123.3¢**

↓ 39.5% from 2015

TOTAL DIVIDEND PAYOUT  
IN RELATION TO FY16

**\$1.0B**

↓ 44.2% from 2015

## GROUP FINANCIAL

NET PROFIT ATTRIBUTABLE  
TO SHAREHOLDERS OF  
WOOLWORTHS FROM  
CONTINUING OPERATIONS  
BEFORE SIGNIFICANT ITEMS<sup>2</sup>

**\$1,558M**

↓ 39.2% from 2015

TOTAL GROUP NET  
LOSS ATTRIBUTABLE  
TO SHAREHOLDERS  
OF WOOLWORTHS

**\$1,235M**

↓ 157.5% from 2015

EARNINGS BEFORE  
INTEREST AND TAX FROM  
CONTINUING OPERATIONS  
BEFORE SIGNIFICANT ITEMS<sup>2</sup>

**\$2,564M**

↓ 35.5% from 2015

OPERATING CAPITAL  
EXPENDITURE

**\$1,484M**

↑ 2.8% from 2015

## SALES

SALES FROM CONTINUING  
OPERATIONS



↓ 1.2% from 2015

AUSTRALIAN FOOD AND PETROL

**\$39,410M**

ENDEAVOUR DRINKS GROUP

**\$7,589M**

NEW ZEALAND FOOD

**\$5,592M**

BIGW

**\$3,820M**

HOTELS

**\$1,512M**

\* Represents Australian Food only.

# Chairman's Report



## The past year has been very important in the transformation of Woolworths, by laying down a sound foundation.

We are building a strong management team, led by Brad, with some key hires across the business. This has been complemented by a renewal of the Board with 50% gender diversity, and key skills added in retailing, international and private equity. Together we will help shape an achievement culture.

We have introduced a new operating model with greater focus on our core businesses of supermarkets and liquor retailing, and an improved governance structure for our portfolio businesses. We announced the closure of Masters and separated EziBuy from BIGW and are exploring sale options for EziBuy.

We have optimised our store network with the planned closure of 30\* stores, and a further 34\* stores impaired due to the uncertainty surrounding lease renewals. As a result of the above restructuring, we booked significant items from continuing operations before interest and tax of \$958.6 million. We have also pivoted our capex spending on stores towards refurbishing our existing network, with over 80 Australian Supermarkets planned for the upcoming year.

To complement the above, a revitalised incentive structure was introduced for our core businesses which focuses on the key drivers of the business, both short and long term, and rewards management for transformation. These incentive schemes apply uniformly down to store management.

The financial results for the year were disappointing, with sales from continuing operations down marginally to \$58.1 billion and net profit after tax from continuing operations attributable to shareholders of Woolworths before significant items down 39.2% to \$1.6 billion. As a result, the Board have announced a reduced final dividend of 33 cents per share, down 54.2% on prior year.

Whilst this has been a year of significant progress, there is much to do, and we appreciate your understanding. We are determined to truly transform our business into one that puts the customer at the centre of everything we do.

**Gordon Cairns**  
CHAIRMAN

\* Excludes BIGW.

# Our five priorities

1

## CUSTOMER AND STORE-LED CULTURE AND TEAM

- Customer and store KPIs in incentive plans
- New operating model
- “Woolies Welcome”
- Key new hires
- New store feedback loops



2

## GENERATING SUSTAINABLE SALES MOMENTUM IN FOOD

- Record VOC in June
- Transaction and item momentum
- Lower prices across the store
- Investment in team hours, particularly on the weekend
- Own brand progress



3

## EVOLVING OUR DRINKS BUSINESS

- 11 new Dan Murphy's stores
- Dan Murphy's model continuing to evolve
- Strong online growth
- BWS local store empowerment



4

## EMPOWERING OUR PORTFOLIO BUSINESSES

- New Group Portfolio Director appointed
- Group functions integrated back into businesses
- Exploring options for the sale of EziBuy
- Home Improvement exit



5

## BECOMING A LEAN RETAILER

- Merchandising platform now stable
- Human Capital Management system now live
- End-to-end process improvement underway
- >500 roles to be removed



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# Managing Director's Report



**Since taking on the role as Woolworths Group CEO at the end of February 2016, the Woolworths team and I have acted quickly to address the issues facing the Group so that we can once again generate strong returns for our shareholders.**

My first priority as Group CEO was to focus our team on our customers. It's pleasing to see that across our brands our customers are beginning to notice improvements. Our team is focused on providing a great shopping experience for our customers, and this has been reinforced with customer metrics. Over the last six months, we have also faced up to exiting businesses that are underperforming or loss making, changing the operating model to drive more accountability and focus on our core Food and Drinks businesses.

During the year we announced:

- A new operating model with 1,000 team members moved from the Group support functions into our businesses where they are closer to our stores and customers
- The separation of BIGW and EziBuy and exploring options for the sale of EziBuy
- Our planned exit from Home Improvement

We have taken the hard decisions to address underperforming businesses this year. This has resulted in significant items which have contributed to a very disappointing financial result and reduced dividends. In order to restore shareholder value we are focussed on a three to five year transformation of our business.

Our transformation is being guided by five key priorities:

1. Building a customer and store-led culture and team
2. Generating sustainable sales momentum in Food
3. Evolving our Drinks business to provide even more value and convenience to customers
4. Empowering our portfolio businesses to pursue strategies to deliver shareholder value
5. Becoming a lean retailer through end-to-end process and systems excellence

The decisions we have taken and investments we have made have had a material impact on our financial results and returns to shareholders but they have been necessary to begin the rebuilding of Woolworths. All of us are committed to restoring value for you, the owners of our business.

Our Food and Drinks businesses are the centre of the Woolworths Group. They are the primary drivers of our earnings.

We are seeing the early signs of progress as we improve our offer and culture in Australian Food. Our top priority is to get customers to put us 1st and making the right decisions to make this happen. Customer metrics are improving with transactions, and more recently, sales growth, demonstrating that our customers are recognising our lower prices, better service, higher quality fresh fruit and vegetables and the improved store experience in existing and newly refurbished stores. Our new Own Brand ranges, Essentials and Woolworths, are also resonating well.

Our improving team engagement scores show we are changing our culture for the better. Supporting our store teams is key to getting customers to put us 1st and delivering improved financial results. We have invested significantly to increase store team hours to enable them to serve our customers better.

We have had a very positive response to our new brand advertising, 'That's why I pick Woolies', and our sponsorship of the Olympic and Paralympic Games. Retail is about detail and we are fixing the basic, from signage upgrades to new trolleys. Importantly, we made improvements to our Woolworths Rewards program in response to feedback from our customers.

As a team we are focused on driving long-term performance through improved sales productivity in our stores, which has been reflected as a key metric in our long-term incentive plan. To achieve this, we have slowed down the rollout of new stores, and are investing in a Store Renewal program. We recognise we are at the early stages of our transformation. We are confident that the first steps we have taken have been the right ones.

We have much more to do in Food, including improving our relationships with suppliers.

Our Drinks business grew strongly. We opened 43 net new stores, established Langton's East Asia, and our Pinnacle Wines won international platinum, gold and silver awards.

Countdown New Zealand performed well. Better prices, new stores and improved customer service drove sales higher with store team engagement and net promoter scores up.

At BIGW new CEO, Sally Macdonald, and her team are turning around one of Australia's heritage retailers. They are refreshing stores, focusing on design-led products and improving efficiency.

The joint venture in ALH is progressing well with a new Board, a stronger discipline around capital management and a clear strategy for growth.

BIGW, ALH and Quantum now all have separate governance and are overseen by their own boards. This structure will increase transparency and better enable them to pursue the strategies and organisation structures best suited for their businesses and for unlocking shareholder value.

We operate from over 3,800 locations in Australia and New Zealand. In every one of those operations we aim to be an integral part of the community, just as we aim to be an important part of the broader national communities.

Our purpose is to 'bring a little good to everyone, every day' and our team members really take this seriously. As a company we support OzHarvest, Foodbank, SecondBite, FareShare, Churchlands, House of Hope and The Salvation Army.

This year we donated more than 400,000 items of new school equipment to 13,148 schools and early learning centres across the country. In bushfires and floods, our stores mobilise in-kind support and resources for their communities. The Countdown team in New Zealand, with the help of customers and suppliers, raised \$1.2 million (NZD) for children's hospital wards around the country.

We continue to focus on making Woolworths a safe place to work and shop. Our workplace safety and health performance significantly improved with Total Recordable Injury Frequency Rate (TRIFR) down 23.54%.

We employ over 200,000 people who serve over 29 million customers a week. We have an extraordinary team who have worked hard for our customers in a difficult time for their company and we are very proud of our people.

We are building a culture where we are listening to our customers, our team members and our suppliers. Through our Voice of the Customer program, we are listening every month to 55,000 shoppers. We hope that you continue to experience improvements in your local store.

Thank you for picking Woolies.



**Brad Banducci**  
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

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# The Results in Brief

## GROUP SALES - FULL YEAR

	FY16 (52 WEEKS) \$M	FY15 (52 WEEKS) \$M	CHANGE
<b>Continuing Operations</b>			
Australian Food	34,798	34,881	(0.2)%
Petrol (dollars) <sup>1</sup>	4,612	5,632	(18.1)%
Petrol (litres) <sup>1</sup>	3,843	4,229	(9.1)%
Australian Food and Petrol <sup>1</sup>	39,410	40,513	(2.7)%
Endeavour Drinks Group	7,589	7,251	4.7%
<b>Australian Food, Petrol and Endeavour Drinks Group</b>	<b>46,999</b>	<b>47,764</b>	<b>(1.6)%</b>
New Zealand Food (AUD)	5,592	5,467	2.3%
New Zealand Food (NZD)	6,101	5,878	3.8%
BIGW	3,820	3,929	(2.8)%
Hotels	1,512	1,475	2.5%
EziBuy (Unallocated)	163	177	(7.9)%
<b>Sales from Continuing Operations</b>	<b>58,086</b>	<b>58,812</b>	<b>(1.2)%</b>
<b>Sales from Continuing Operations (excluding Petrol)</b>	<b>53,474</b>	<b>53,180</b>	<b>0.6%</b>
Discontinued Operations (Home Improvement)	2,100	1,867	12.5%
<b>Group Sales</b>	<b>60,186</b>	<b>60,679</b>	<b>(0.8)%</b>
<b>Group Sales (excluding Petrol)</b>	<b>55,574</b>	<b>55,047</b>	<b>1.0%</b>

## EARNINGS/(LOSS) BEFORE INTEREST AND TAX (EBIT/LBIT)

	FY16 (52 WEEKS) \$M	FY15 (52 WEEKS) \$M	CHANGE
<b>Continuing Operations (before Significant Items<sup>2</sup>)</b>			
Australian Food and Petrol	1,759.8	2,970.2	(40.8)%
Endeavour Drinks Group	483.8	469.6	3.0%
<b>Australian Food, Petrol and Endeavour Drinks Group</b>	<b>2,243.6</b>	<b>3,439.8</b>	<b>(34.8)%</b>
New Zealand Food (AUD)	284.4	303.2	(6.2)%
New Zealand Food (NZD)	313.9	326.0	(3.7)%
BIGW	(14.9)	111.7	(113.3)%
Hotels	208.5	234.5	(11.1)%
Central Overheads	(157.8)	(116.1)	35.9%
<b>EBIT Continuing Operations (before Significant Items<sup>2</sup>)</b>	<b>2,563.8</b>	<b>3,973.1</b>	<b>(35.5)%</b>
Significant Items <sup>2</sup> (before tax)	(958.6)	(423.2)	n.c
<b>EBIT Continuing Operations (after Significant Items<sup>2</sup>)</b>	<b>1,605.2</b>	<b>3,549.9</b>	<b>(54.8)%</b>
<b>Discontinued Operations</b>			
Home Improvement (before Significant Items <sup>2</sup> )	(218.8)	(224.7)	(2.6)%
Significant Items <sup>2</sup> (before tax)	(3,055.1)	(2.7)	n.c
<b>LBIT Discontinued Operations (after Significant Items<sup>2</sup>)</b>	<b>(3,273.9)</b>	<b>(227.4)</b>	<b>1,339.7%</b>

**GROUP PROFIT AND LOSS FOR THE 52 WEEKS ENDED 26 JUNE 2016**

		FY16 (52 WEEKS)	FY15 (52 WEEKS)	CHANGE
<b>Continuing Operations – Before Significant Items<sup>2</sup></b>				
Earnings before interest, tax, depreciation, amortisation and rent	(\$m)	5,620.1	6,899.2	(18.5)%
Rent	(\$m)	(2,033.9)	(1,951.3)	4.2%
Earnings before interest, tax, depreciation and amortisation	(\$m)	3,586.2	4,947.9	(27.5)%
Depreciation and amortisation <sup>3</sup>	(\$m)	(1,022.4)	(974.8)	4.9%
<b>EBIT</b>	(\$m)	<b>2,563.8</b>	3,973.1	(35.5)%
Net financial expenses	(\$m)	(245.6)	(253.3)	(3.0)%
Income tax expense	(\$m)	(712.6)	(1,112.8)	(36.0)%
<b>Net Profit After Tax (NPAT)</b>	(\$m)	<b>1,605.6</b>	2,607.0	(38.4)%
Non-controlling interests	(\$m)	(47.4)	(45.6)	(3.9)%
<b>NPAT from Continuing Operations attributable to shareholders of Woolworths (before Significant Items<sup>2</sup>)</b>	(\$m)	<b>1,558.2</b>	2,561.4	(39.2)%
Net Loss After Tax (NLAT) from Discontinued Operations attributable to shareholders of Woolworths (before Significant Items <sup>2</sup> )	(\$m)	(165.2)	(108.1)	52.8%
Significant Items <sup>2</sup> after tax attributable to shareholders of Woolworths from:	(\$m)			
Continuing Operations	(\$m)	(754.7)	(306.0)	n.c
Discontinued Operations	(\$m)	(1,873.1)	(1.3)	n.c
<b>(NLAT)/NPAT attributable to shareholders of Woolworths</b>	(\$m)	<b>(1,234.8)</b>	2,146.0	(157.5)%
<b>MARGINS – Continuing Operations before Significant Items<sup>2</sup></b>				
Gross Profit	(%)	26.92	27.57	(65) bps
Cost of doing business	(%)	22.51	20.82	169 bps
EBIT	(%)	4.41	6.75	(234) bps
<b>EARNINGS PER SHARE (EPS) AND DIVIDENDS</b>				
Weighted average ordinary shares on issue	(million)	1,263.5	1,256.6	0.6%
Ordinary EPS – from Continuing Operations:				
Before Significant Items <sup>2</sup>	(cents)	123.3	203.9	(39.5)%
After Significant Items <sup>2</sup>	(cents)	63.6	179.5	(64.6)%
Diluted EPS – from Continuing Operations:				
Before Significant Items <sup>2</sup>	(cents)	123.3	203.3	(39.4)%
After Significant Items <sup>2</sup>	(cents)	63.6	179.0	(64.5)%
Interim dividend per share	(cents)	44	67	(34.3)%
Final dividend per share <sup>4</sup>	(cents)	33	72	(54.2)%
<b>Total dividend per share</b>	(cents)	<b>77</b>	139	(44.6)%
<b>Returns</b>				
Funds employed (period end)	(\$m)	10,839.3	14,521.3	(25.4)%
Return on Average Funds Employed <sup>5</sup> (before Significant Items <sup>2</sup> )	(%)	22.20 %	32.60 %	(1,040) bps

**GROUP FINANCIAL PERFORMANCE**

**Sales from Continuing Operations** were \$58.1 billion, a decrease of 1.2% in FY16 driven primarily by lower sales in Petrol. Excluding Petrol, sales increased 0.6% on the prior year.

**Gross profit from Continuing Operations** (before significant items<sup>2</sup>) as a percentage of sales decreased 65 bps on the prior year to 26.9% driven primarily by the significant price investment in Australian Supermarkets during the year.

**Cost of doing business from Continuing Operations** (CODB) (before significant items<sup>2</sup>) as a percentage of sales increased 169 bps on the prior year to 22.5% due to subdued sales growth limiting the ability to fractionalise costs, incremental investment in store labour in Australian and New Zealand Food and higher team performance-based bonuses. This was partially offset by cost savings generated primarily through improved efficiency across support functions.

**EBIT from Continuing Operations** (before significant items<sup>2</sup>) decreased 35.5% on the prior year to \$2,563.8 million.

**Net financing costs** decreased 3.0% on the prior year, primarily driven by a decrease in the net interest rate on lower debt.

**NPAT attributable to shareholders of Woolworths from Continuing Operations** (before significant items<sup>2</sup>) decreased 39.2% on the prior year to \$1,558.2 million, with corresponding EPS (before significant items<sup>2</sup>) down 39.5% to 123.3 cents.

On a statutory basis, after reflecting the impact of significant items<sup>2</sup>, the NLAT attributable to shareholders of Woolworths was \$1,234.8 million compared to a NPAT of \$2,146.0 million in FY15. The corresponding Loss Per Share (LPS) was 97.7 cents compared to EPS of 170.8 cents in FY15.