

# WOOLWORTHS LIMITED

A.B.N 88 000 014 675

24 October 2006

The Manager, Companies  
Australian Stock Exchange Limited  
Company Announcements Office  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

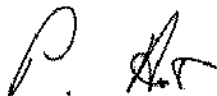
**RE: Woolworths Limited – Listing Rules 3.17, 4.5 and 4.7**

Woolworths Limited advises that the 2006 Annual Report, Notice of Annual General Meeting and Proxy Form, will be lodged with Australia Post for dispatch to shareholders today, 24 October 2006.

The Annual General Meeting is to be held on Friday 24 November 2006 at the Parkside Auditorium, Sydney Convention and Exhibition Centre, Darling Harbour, Sydney NSW, commencing at 11am and will be broadcast live on the Woolworths Limited website at [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au), for those shareholders who are unable to attend the meeting.

Copies of the documents to be mailed are attached.

**For and on behalf of  
WOOLWORTHS LIMITED**



**PETER J HORTON  
COMPANY SECRETARY**



# WOOLWORTHS LIMITED

A.B.N. 98 000 014 675

ANNUAL REPORT 2006

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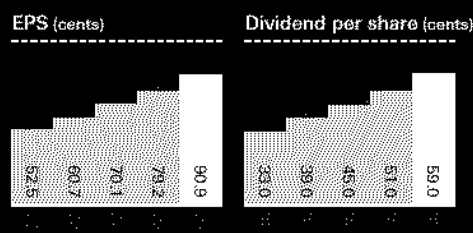
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|---|---|---|
| -----   | -----   | -----   |
| Sales up 20.4% from continuing operations.                                      | Earnings before interest and taxation (EBIT) up 32.3% to \$1,722.2 million. | Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 30.6% to \$2,244.4 million. |
| -----   | -----   | -----   |
| Total sales for this year compared with last year up 20.4% to \$37,734 million. | EBIT margins improved from 4.16% in 2005 to 4.56% in 2006.                  |   |
| -----   | -----   | -----   |

# Highlights

|   |  |  |   |
|---|--|--|---|
| -----   | -----  | -----  | -----   |
| Earnings per share (EPS) up 14.8% to 90.9 cents (AIFRS adjusted). | Final dividend per share (DPS) 31 cents to bring total DPS for the year to 59 cents, up 15.7% with total dividend paid and proposed for the year amounting to approximately \$692.4 million. | Reduction in inventory days (excluding Progressive and Taverner) from 30.4 days to 29.1 days, a reduction of 1.3 days. | Net operating profit after tax up 24.3% to \$1,014.6 million. |
| -----   | -----  | -----  | -----   |
|   |  |  | Average return on funds employed (ROFE) was 28.6%.            |
|   |  |  | -----   |



# CHAIRMAN'S REPORT TO THE SHAREHOLDERS



## RECORD RESULTS

I am pleased to report on another outstanding year for Woolworths, with Roger Corbett (in his last year as Group Managing Director and CEO) and his management team again delivering record results across a wide range of performance criteria.

This is highlighted by the achievement of a net profit after tax of \$1 billion for the first time, a real landmark. It has enabled the delivery of excellent returns for shareholders with earnings per share increasing by 14.8% and with a total dividend of 59 cents per share, up 15.7%.

## KEY PRIORITIES

The continuing improvement over the last eight years reflects the constant focus on two key priorities – driving cost reductions and efficiency, combined with healthy growth internally and by acquisitions.

The huge improvements via Project Refresh and building a new supply chain system have ensured Woolworths is at world standards in terms of efficiency and cost-effectiveness. These are a great credit to the teams throughout the Group who have planned, implemented and refined these complex arrangements to make them a great contributor to the future of the business for many years ahead.

## COMPETITIVE ENVIRONMENT

All of this has been achieved in a very competitive environment, and some pressures on the prevailing economic climate in parts of the market.

## SUCCESSFUL ACQUISITIONS

A further testament to a well-balanced performance by Roger Corbett and his team is the simultaneous acquisitions and integration of major new assets, including Progressive Enterprises Limited supermarket operations in New Zealand, the Taverner Hotel Group, the Bruce Mathieson Group (BMG) and the Australian Leisure and Hospitality Group (ALH).

## TRIBUTE TO ROGER CORBETT

On behalf of all shareholders and the Board, I would like to pay tribute to Roger Corbett for an outstanding performance as Managing Director and Chief Executive. His period of leadership has seen Woolworths transformed to great advantage for its investors and staff.

Roger has shown remarkable dedication, energy, passion and high ethical standards which have set a wonderful example for everyone in the Group.

The Board acted very deliberately to ensure Roger will be available for selected tasks and advice without in any way cutting across the role of his successor as CEO, Michael Luscombe.

## MICHAEL LUSCOMBE

The Board was delighted to appoint Michael to become CEO and Managing Director from within our talented senior management ensuring a smooth transition with continuity and his long-term experience.

Over the recent years, the standard of its management team and their stability has been a major factor in the success of the Woolworths Group.

Large, complex enterprises must have very competent teams driving every detailed part of the business.

## GOVERNANCE

This Annual Report contains a section dedicated to reporting on our continued attention to high standards of governance. Woolworths has a small but dedicated Board of Directors, and I thank them for their part in the success of the Group.

## CONTRIBUTION BY OUR PEOPLE

Woolworths has an impressive and dedicated team of approximately 175,000 people spread across many operations and stores. Our performance is a result of their efforts, individually and collectively.

On behalf of the Board, I thank them for their contribution, enthusiasm and pride in our business.

JAMES STRONG  
CHAIRMAN

**Left**  
James Strong,  
Chairman,  
Roger Corbett,  
outgoing Chief  
Executive Officer and  
Michael Luscombe,  
Chief Operating Officer.

## GROUP MANAGING DIRECTOR'S REPORT

On behalf of my colleagues and all of the approximately 175,000 members of the Woolworths team, I am proud to report to you another excellent result for the financial year 2005/2006. This year our net profit after tax (NPAT) exceeded \$1 billion (\$1,014.6 million) for the first time in Woolworths' history, which is an outstanding result and milestone for the Group. This result reflects the commitment and dedication of the Woolworths' team and consistent delivery against our clearly articulated strategies.

The strong operating performance this year was achieved despite undertaking significant transforming business changes, incurring one-off costs associated with the transition to our new supply chain and the focus on integrating our acquisitions. The management team at Woolworths has performed outstandingly, keeping focused on the customer in a challenging and transitioning year.

### TRADING ACHIEVEMENTS

Our **Australian Supermarket** division traded strongly. Comparable sales growth was strong over the year and consistent with expectations.

The **New Zealand Supermarket** division traded above our expectations. Woolworths acquired this business on 2 November 2005. There are significant opportunities to enhance this business with good progress being made on many of these initiatives.

**BIG W** had a solid result for the year in a difficult market. Sales exceeded \$3 billion for the first time in BIG W's trading history and comparable sales growth for the year was broadly in line with expectations, despite a tightening of discretionary spending. There continues to be positive widespread acceptance of our Every Day Low Pricing strategy.

**Dick Smith Electronics** produced an excellent result with double-digit sales and EBIT growth. Comparable sales (after adjusting for the impact of negative movements in the New Zealand dollar) also increased by a healthy 10.6%, carrying on from the excellent comparable sales growth shown in 2005.

**Petrol** now has comprehensive coverage across Australia and continues to deliver significant retail volumes of petroleum products, whilst providing

a valued discount to our Supermarket and BIG W customers. With full year petrol sales of \$4.4 billion and a network of 491 sites across Australia, we are well-placed to continue to grow and consolidate this key business.

**Liquor** – The continued development and rollout of our liquor outlets across Australia, trading under the brand names of Woolworths Liquor, BWS and Dan Murphy's, has allowed us to meet our stated medium-term target of \$3.5 billion in annual liquor sales even earlier than expected. At year end we had over one thousand liquor outlets around Australia.

### BUSINESS ACHIEVEMENTS

Significant benefits are being achieved from improving the IT and supply chain processes (Project Refresh) to world-class standards and now we are starting to reap the benefits arising from these improvements. These initiatives provide Woolworths with a major strategic advantage going forward and underpin our forecast cost reductions.

Since its inception in 1999 Project Refresh has concentrated on a number of initiatives including a major business restructuring program which saw significant changes in the way we do business. Over the past seven years to the end of FY06, Project Refresh has delivered cost savings amounting to 4.51% of sales. Measured in terms of dollars, this was a cumulative saving of \$5.3 billion.

### ACQUISITION ACHIEVEMENTS

Three significant acquisitions have been undertaken during the year: Progressive New Zealand (including 20 ex-FAL Australian supermarkets), Taverner and BMG. Each of these acquisitions has contributed significantly to the Group result and we have already made excellent progress in integrating these operations into the Group.

Our expansion into New Zealand has been particularly pleasing as this has expanded our base market and allows us to utilise our organisational strengths to directly benefit the ultimate consumer by way of better value, increased range and customer focused service. Our initial initiatives in the New Zealand market have been well received and

we look forward to expanding on the goodwill we have developed and improving the overall shopping experience across this market.

Our hotel acquisitions have provided an opportunity to refocus our efforts on repositioning and improving our performance in all areas of our hotel and retail liquor businesses. There have been outstanding improvements in the cost of doing business in our Hotels division as a number of initiatives implemented post-acquisition, including restructuring and rationalising of support offices, systems and processes, have allowed for improved operating efficiencies at all venues. Further, we have also continued and enhanced our focus on our efforts in regard to responsible gaming practices.

During the year we also completed the successful sale of eleven of our Distribution Centres for \$846 million. The transaction was very competitively priced and provides Woolworths with the flexibility to alter and adapt its Distribution Centres to meet its changing operational needs over time.

#### THE FUTURE

The past year has been an exciting and challenging one for Woolworths and I am greatly indebted to the Board, my colleagues and our supply partners for their continued support and dedication. Our performance is truly indicative of the hard work and commitment of Woolworths people at every level of our business and my thanks go to each one of them. Indeed, I firmly believe that the finest retail leaders in this country wear a Woolworths name badge. It is the continued efforts of all these people that ensure Woolworths has excellent foundations for continued growth.

Finally, I want to take this opportunity to thank all the staff of Woolworths for making me part of this family for many years. I have been fortunate to meet countless employees, suppliers and customers over this time, and it is truly the people that make this company great. I leave Woolworths in the most capable hands of the Board and Michael Luscombe. I know they will be ably supported by Woolworths' extremely strong, stable and experienced management team and the dedicated people who serve and support the customers in all of our stores. I feel proud that I have been a part of the drive to propel the company to greater success and market leadership whilst maintaining our core values and culture. It is on that confident note I can say, that the best is yet to come.



ROGER CORBETT  
GROUP MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER

*The strong operating performance this year was achieved despite undertaking significant transforming business changes, incurring one-off costs associated with the transition to our new supply chain and the focus on integrating our acquisitions. The management team at Woolworths has performed outstandingly, keeping focused on the customer in a challenging and transitioning year.*

## THE RESULTS IN BRIEF

52 WEEKS ENDED 25 JUNE 2006

|                                     | FY06<br>AIFRS<br>\$m     | FY05<br>AIFRS<br>\$m     | Change<br>%   |
|-------------------------------------|--------------------------|--------------------------|---------------|
| <b>SALES</b>                        |                          |                          |               |
| Australian Food and Liquor          | 25,458 <sup>(1)</sup>    | 23,570 <sup>(2)</sup>    | 8.0%          |
| New Zealand Supermarkets            | 2,605 <sup>(2)</sup>     | —                        | —             |
| Petrol                              | 4,390                    | 3,308                    | 32.7%         |
| <b>Supermarket division</b>         | <b>32,453</b>            | <b>26,878</b>            | <b>20.7%</b>  |
| BIG W                               | 3,119                    | 2,909                    | 7.2%          |
| Consumer Electronics                | 1,167                    | 1,007                    | 15.9%         |
| <b>General Merchandise division</b> | <b>4,286</b>             | <b>3,916</b>             | <b>9.4%</b>   |
| <b>Hotels</b>                       | <b>850<sup>(4)</sup></b> | <b>416<sup>(5)</sup></b> | <b>104.3%</b> |
| <b>Continuing operations</b>        | <b>37,589</b>            | <b>31,210</b>            | <b>20.4%</b>  |
| Wholesale division                  | 145                      | 142                      | 2.1%          |
| <b>Group sales</b>                  | <b>37,734</b>            | <b>31,352</b>            | <b>20.4%</b>  |

|  | FY06<br>AIFRS<br>Statutory<br>\$m | FY05<br>AIFRS<br>Statutory<br>\$m | AIFRS<br>Change<br>% | FY05<br>AGAAP<br>Statutory<br>Before<br>Goodwill<br>\$m | FY05<br>AGAAP<br>Statutory<br>After<br>Goodwill<br>\$m |
|--|-----------------------------------|-----------------------------------|----------------------|---|--|
| <b>EARNINGS BEFORE<br/>INTEREST AND TAX (EBIT)</b> |                                   |                                   |                      |   |  |
| Australian Food and Liquor                         | 1,286.0                           | 1,091.5                           | 17.8%                | 1,105.8   | 1,077.2  |
| New Zealand Supermarkets                           | 108.9                             | —                                 | —                    | —   | —  |
| Petrol   | 53.1                              | 36.2                              | 46.7%                | 36.3  | 36.3   |
| <b>Supermarket division</b>                        | <b>1,448.0</b>                    | <b>1,127.7</b>                    | <b>28.4%</b>         | <b>1,142.1</b>  | <b>1,113.5</b>   |
| BIG W  | 123.1                             | 118.3                             | 4.1%                 | 118.0   | 118.0  |
| Consumer Electronics                               | 64.0                              | 54.5                              | 17.4%                | 55.0  | 51.8   |
| <b>General Merchandise division</b>                | <b>187.1</b>                      | <b>172.8</b>                      | <b>8.3%</b>          | <b>173.0</b>  | <b>169.8</b>   |
| <b>Hotels</b>                                      | <b>151.1</b>                      | <b>52.8</b>                       | <b>186.2%</b>        | <b>64.8</b>   | <b>54.9</b>  |
| <b>Total trading result</b>                        | <b>1,786.2</b>                    | <b>1,353.3</b>                    | <b>32.0%</b>         | <b>1,379.9</b>  | <b>1,338.2</b>   |
| Property   | 18.3                              | 21.2                              | (13.7%)              | 20.3  | 20.3   |
| Central overheads                                  | (84.1)                            | (74.9)                            | 12.3%                | (77.9)  | (77.9)   |
| <b>Continuing operations</b>                       | <b>1,720.4</b>                    | <b>1,299.6</b>                    | <b>32.4%</b>         | <b>1,322.3</b>  | <b>1,280.6</b>   |
| Wholesale division                                 | 1.8                               | 2.5                               | (28.0%)              | 2.5   | 2.4  |
| <b>Group EBIT</b>                                  | <b>1,722.2</b>                    | <b>1,302.1</b>                    | <b>32.3%</b>         | <b>1,324.8</b>  | <b>1,283.0</b>   |

| Notes | (1)  | (2)   | (3)  | (4)  | (5)  |
|-------|--|---|--|--|--|
|       | Includes 20 Australian ex-FAL store sales from 2 November 2005, ALH retail, MGW retail and BMG retail sales for the 52 weeks and Taverner retail sales from 6 February 2006. | Represents New Zealand Supermarket operations from 2 November 2005. | Includes ALH retail liquor sales since 1 November 2004 and MGW retail liquor sales since 3 January 2005. | Includes BMG hotel sales from 1 July 2005 and Taverner hotel sales from 6 February 2006. | Represents ALH hotel sales since 1 November 2004 and MGW hotel sales since 3 January 2005. |

|  | FY06<br>AIFRS<br>Statutory<br>\$m | FY05<br>AIFRS<br>Statutory<br>\$m | Change<br>AIFRS<br>Statutory<br>% | FY05<br>AGAAP<br>Statutory<br>\$m |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>PROFIT</b>  |                                   |                                   |                                   |                                   |
| Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR) | 3,314.5                           | 2,618.3                           | 26.6%                             | 2,648.9                           |
| Property rent – base   | 925.6                             | 753.8                             | 22.8%                             | 758.5                             |
| Property rent – turnover contingent  | 97.7                              | 80.6                              | 21.2%                             | 80.6                              |
| Fitout rent  | 46.8                              | 65.8                              | (28.9%)                           | 65.8                              |
| Earnings before interest, tax, depreciation and amortisation (EBITDA)        | 2,244.4                           | 1,718.1                           | 30.6%                             | 1,744.0                           |
| Depreciation   | 522.2                             | 416.0                             | 25.5%                             | 419.2                             |
| Goodwill amortisation  | –                                 | –                                 | –                                 | 41.8                              |
| Earnings before interest and tax (EBIT)                                      | 1,722.2                           | 1,302.1                           | 32.3%                             | 1,283.0                           |
| Net financing costs <sup>(1)</sup>   | 249.7                             | 150.1                             | 66.4%                             | 153.7                             |
| Operating income tax expense   | 445.8                             | 334.8                             | 33.2%                             | 337.7                             |
| Net operating profit after income tax  | 1,026.7                           | 817.2                             | 25.6%                             | 791.6                             |
| Minority interests   | (12.1)                            | (1.0)                             | –                                 | (1.1)                             |
| Net operating profit after tax and outside equity interests                  | 1,014.6                           | 816.2                             | 24.3%                             | 790.5                             |
| <b>Margins</b>   |                                   |                                   |                                   |                                   |
| Gross profit   | 25.03%                            | 24.89%                            | 0.14%pts                          | 24.89%                            |
| Cost of doing business   | 20.47%                            | 20.73%                            | (0.26%)pts                        | 20.80%                            |
| EBIT to sales  | 4.56%                             | 4.16%                             | 0.40%pts                          | 4.09%                             |
| <b>RETURNS</b>   |                                   |                                   |                                   |                                   |
| Funds employed (period end)  | 7,804.8                           | 4,230.1                           | 84.5%                             | 4,467.1                           |
| ROFE (average)   | 28.6%                             | 42.6%                             | (14%)pts                          | 38.7%                             |
| Weighted average ordinary shares on issue (million) <sup>(2)</sup>           | 1,116.3                           | 1,030.6                           | 8.3%                              | 1,043.7                           |
| Ordinary earnings per share (cents)  | 90.9                              | 79.2                              | 14.8%                             | 75.7                              |
| Diluted earnings per share (cents)   | 90.3                              | 78.9                              | 14.4%                             | 75.3                              |
| Interim dividend per share (cents)   | 28                                | 24                                | 16.7%                             | 24                                |
| Final dividend per share (cents) <sup>(3)</sup>                              | 31                                | 27                                | 14.8%                             | 27                                |
| Total dividend per share (cents)   | 59                                | 51                                | 15.7%                             | 51                                |

#### Notes

(1) Interest capitalisation \$3.4 million (2005: \$7.7 million).

(2) The average ordinary shares have been adjusted to remove employee shares held by the Custodian company as required under AIFRS.

(3) Final dividend payable on 6 October 2006 will be fully franked at 30% (2005: 30%).

## AUSTRALIAN SUPERMARKET DIVISION

(INCLUDING LIQUOR AND PETROL)



# Supermar

### FOOD AND LIQUOR

For the full year, Australian Supermarket division sales increased 11.0% of which Food and Liquor sales in Australia grew 8.0% with comparable sales growing 3.7% during the year. Inflation in the year was just over 2%.

Cost savings continue to be vigorously pursued. The Australian Supermarket division's cost of doing business declined by 59 basis points during the year even after we expensed \$80 million of transition costs associated with moving to our new supply chain arrangements.

Woolworths' policy is and has consistently been to reduce costs and lower prices. This will remain our fundamental strategy moving forward. However, Food and Liquor gross margins improved reflecting improved buying and shrinkage control and the benefit flowing from the reduction of direct store deliveries. The reduction in direct store deliveries lowers the costs of goods as suppliers' costs are reduced resulting in improved gross margins.

For the Australian Supermarket division, EBIT grew faster than sales, increasing by 18.7% compared with sales growth of 11.0%. The Australian Supermarket division's EBIT margin increased from 4.19% last year to 4.49% this year, an increase of 30 basis points.

During the year 46 new supermarkets were opened (1H: 29 stores, 2H: 17 stores) which includes 20 ex-FAL Australian stores (from 2 November 2005). Total trading area in Australian Supermarket grew by 6.1% which was in excess of our stated range due to the ex-FAL Australian stores acquired during the year. The bulk of the stores were opened towards the end of each half year.

Inventory levels for the year for the Australian Supermarket division were down by half a day (excluding the one-off impact of 20 ex-FAL Australian stores and Taverner retail). This is despite the impact of dual stocking required during transitioning to our new Distribution Centres (DCs) and the impact of moving stock from DSD to our new DC network. StockSmart and AutoStockR systems continue to provide us the opportunity to better manage inventory levels without decreasing stock availability.

Taverner retail has been included in the Supermarket division and Taverner's hotel operations have been included in our Hotels segment from 6 February 2006. BMG has been consolidated from 1 July 2005, and included in the Supermarkets division are BMG's retail operations with BMG's hotel operations included in our Hotels segment.

All our existing liquor operations, including Dan Murphy's, BWS and attached liquor, continue to perform well and recorded strong growth in both sales and profits. Total liquor sales for the year were \$3.5 billion (FY05: \$2.6 billion) which represents the achievement of our medium-term target of \$3.5 billion in annual liquor sales earlier than expected.

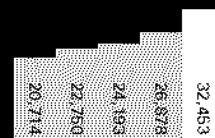
Dan Murphy's has expanded its operations in the year with 15 stores opened (three of which were in Queensland) bringing the total number of Dan Murphy's stores to 52. We now have the sites and the licenses to have in excess of 100 Dan Murphy's around Australia over the next two to three years. Dan Murphy's provides customers with excellent value for money, extensive product ranging, personalised service and expertise.

At the end of the year Woolworths Limited had 1,015 liquor outlets.

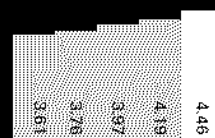
## SUPERMARKETS

| Financial summary (Australia) | FY05<br>AGAAP <sup>(1)</sup> | FY05<br>AIFRS <sup>(2)</sup> | FY06<br>AIFRS <sup>(3)</sup> | Change<br>AIFRS |
|-------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| Sales (\$m)                   | 20,714                       | 22,750                       | 26,878                       | 4,128           |
| Gross profit (\$m)            | 4,714                        | 5,197                        | 5,878                        | 681             |
| Operating profit (\$m)        | 3,611                        | 3,786                        | 4,191                        | 405             |
| EBIT (\$m)                    | 3,611                        | 3,786                        | 4,191                        | 405             |
| EBITDA (\$m)                  | 4,128                        | 4,466                        | 4,914                        | 448             |
| EBITDA margin (%)             | 19.9                         | 19.6                         | 18.3                         | -1.3            |
| EBIT margin (%)               | 17.4                         | 16.7                         | 15.6                         | -1.1            |
| EBITDA to EBIT ratio          | 1.12                         | 1.20                         | 1.20                         | 0.00            |

Sales (\$m)<sup>(4)</sup>



EBIT (%)



# kets



### Notes

(1)

Includes ALH retail liquor results from 1 November 2004.

(2)

FY05 restated under AIFRS.

(3)

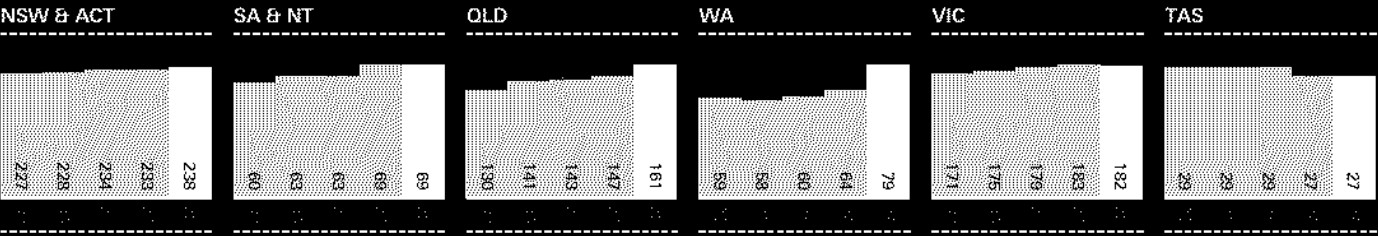
Includes 20 ex-FAL Australian store results from 2 November 2005, ALH retail, MGW retail and BMG retail for the 52 weeks ended 25 June 2006 and Taverner retail from 6 February 2006.

(4)

Includes liquor, petrol and New Zealand supermarkets.



SUPERMARKET STORE NUMBERS (AUSTRALIA)





## PETROL

For the full year, petrol sales were \$4.4 billion, an increase of 32.7% (FY05: 50.7%) which was driven by a combination of higher petrol prices and growth in the number of canopies. Petrol comparable sales increased by 21.6% during the year with comparable volumes having increased 1.3% over the year. In the closing week of the fourth quarter, sales volume reached approximately 76 million litres. As at the end of the financial year, we had 491 petrol stations including 131 Woolworths/Caltex alliance sites. Excluding the alliance sites, we opened an additional 21 petrol canopies during the year.

Petrol EBIT increased 46.7% to \$53.1 million reflecting volume growth through new and existing canopies and good cost control at a margin of 1.21%.

Customers highly value the Woolworths discount offer particularly in periods of higher petrol prices.

(1)  
Represents  
New Zealand store  
results from  
2 November 2005.

| Financial summary (New Zealand) | FY06<br>AIFRS <sup>(1)</sup><br>(A\$) | FY06<br>AIFRS<br>(NZ\$) |
|---------------------------------|---------------------------------------|-------------------------|
| Revenue                         | 2,100                                 | 2,100                   |
| Gross margin                    | 2,100                                 | 2,100                   |
| Operating expenses              | (1,100)                               | (1,100)                 |
| Operating profit                | 1,000                                 | 1,000                   |
| Finance costs                   | (100)                                 | (100)                   |
| Profit before tax               | 900                                   | 900                     |
| Income tax expense              | (100)                                 | (100)                   |
| Profit after tax                | 800                                   | 800                     |
| Dividends paid                  | (100)                                 | (100)                   |
| Retained profit                 | 700                                   | 700                     |

## NEW ZEALAND SUPERMARKETS PROGRESSIVE

New Zealand has enjoyed a pleasing post-acquisition performance. We are confident of our ability, working with our New Zealand colleagues, to strengthen and grow this business. New Zealand comparable sales increased by 3.5% in Q3 and by 3.8% in Q4. Overall food inflation in New Zealand was between 1.5% and 2.0%, consistent with prior periods. In New Zealand two new supermarkets have been opened since 2 November 2005. The opportunities that will enhance the performance of the New Zealand business include:

- reducing costs through:
  - obtaining improved buying efficiencies;
  - streamlining support office functions, processes and systems between Woolworths and the current New Zealand business;
  - applying Woolworths' supply chain, inventory management and logistics technology to reduce supply chain costs and practices;
- improving the working capital of the business mainly by better inventory management;
- applying Woolworths' operational expertise to enhance overall performance, through improving store range, merchandising, store layout and in-store execution and by applying fair and consistent pricing – all of which will grow sales;
- investigating the viability in the New Zealand marketplace of introducing new formats including general merchandise, liquor and pharmacy; and
- furthering supplier relationships providing opportunity for Australian and New Zealand suppliers to widen their markets. Several major initiatives are currently underway.

We are pleased to report that each of these initiatives is in progress and we expect to see positive outcomes over the next year. Some improvements in price competitiveness were undertaken during the second half of the financial year. The realisation of all synergies will be over a two to three-year period from date of acquisition.

## GENERAL MERCHANDISE



# BIG W



BIG W had a solid sales result for the year in a difficult market. Sales for the full year were \$3.1 billion, which represents the first time that BIG W sales have exceeded \$3 billion, an increase of 7.2% over the previous year (1H06: 7.6%, 2H06: 6.8%).

Comparable sales increase for the year was 1.4%. BIG W's business performance broadly parallels the performance of the national economy with a strong performance in Western Australia and slower performances on the eastern seaboard, in Victoria and particularly New South Wales.

The rebuilding process in Buying and Support functions is well advanced. The personnel and range changes have been largely completed in the soft goods area with pleasing results. Work continues in the hard goods area, however good results are being achieved in the areas already completed.

Clearly, interest rate increases and petrol prices are impacting on discretionary spending, however, as indicated, the impact is not consistent across the nation. The current economic circumstances including allowing for the effect of tax cuts are also impacting negatively on certain demographic groups. We anticipate and are planning for discretionary spending to remain constrained for the remainder of FY07.

BIG W continues to remain focused on providing customers excellent value for money through consistent application of our Every Day Low Pricing strategy. BIG W has a substantial price advantage in the marketplace.

Gross margins improved 16 basis points mainly due to a change in sales mix, in particular strong apparel sales. CODB has increased 28 basis points over last year primarily due to the inability to fractionalise costs as a result of lower comparable sales. Inventory levels were well-managed being 2.9 days down on last year.

Nine BIG W stores were opened in the year (1H06: three stores, 2H06: six stores), taking the total number of stores in the division to 129.

(1)  
FY05 restated  
under AIFRS.

| Financial summary       | FY05<br>AGAAP | FY05<br>AIFRS <sup>(1)</sup> | FY06<br>AIFRS | Change<br>AIFRS | Stores (no.) | Sales (\$m) | EBIT (%) |
|-------------------------|---------------|------------------------------|---------------|-----------------|--------------|-------------|----------|
| Net Sales               | 2,500         | 2,500                        | 2,500         | 0               | 129          | 2,500       | 3.95     |
| Operating Profit        | 214           | 214                          | 214           | 0               | 120          | 2,118       | 4.07     |
| Operating Profit Margin | 8.6           | 8.6                          | 8.6           | 0               | 111          | 2,500       | 4.28     |
| EBIT                    | 214           | 214                          | 214           | 0               | 104          | 2,281       | 4.15     |
| EBIT Margin             | 8.6           | 8.6                          | 8.6           | 0               | 98           | 2,281       | 4.10     |
| EBITDA                  | 214           | 214                          | 214           | 0               |              |             |          |
| EBITDA Margin           | 8.6           | 8.6                          | 8.6           | 0               |              |             |          |



## GENERAL MERCHANDISE



# Consumer Ele

An excellent result all round with the division reporting double-digit growth in both revenue and earnings. Sales for the full year reached \$1,167 million (15.9% increase on last year) with comparable store sales increasing by 10.1%. After normalising for the negative effect of exchange rate movements in New Zealand dollars (in the last quarter) sales would have increased 16.4% with comparable sales being 10.6%. Sales of plasma and LCD televisions, in-car navigation devices and the MP3/iPod categories have enjoyed healthy growth. During the year, 27 new Dick Smith Electronics, Powerhouse and Tandy stores were opened, with three of those being opened in the fourth quarter taking total stores to 366.

The consumer electronics formats of Dick Smith, Powerhouse and Tandy continue to prove to be an excellent set of formats to take full advantage of the technological evolution that is, and will continue to impact customer demand.

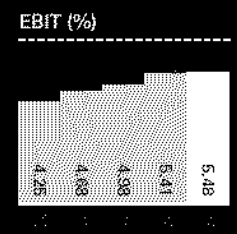
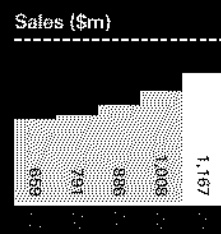
The consumer electronics business continued to provide customers with lower prices reflected by reduction in gross margins by 99 basis points underpinned by continued and significant reductions in the cost of doing business.

Funds employed have increased due to an increase in fixed assets and inventory associated with the new store rollout.

Inventory control was strong with days stock on hand at year end down 0.8 days, compared with the previous year, on sales growth of 15.9%.

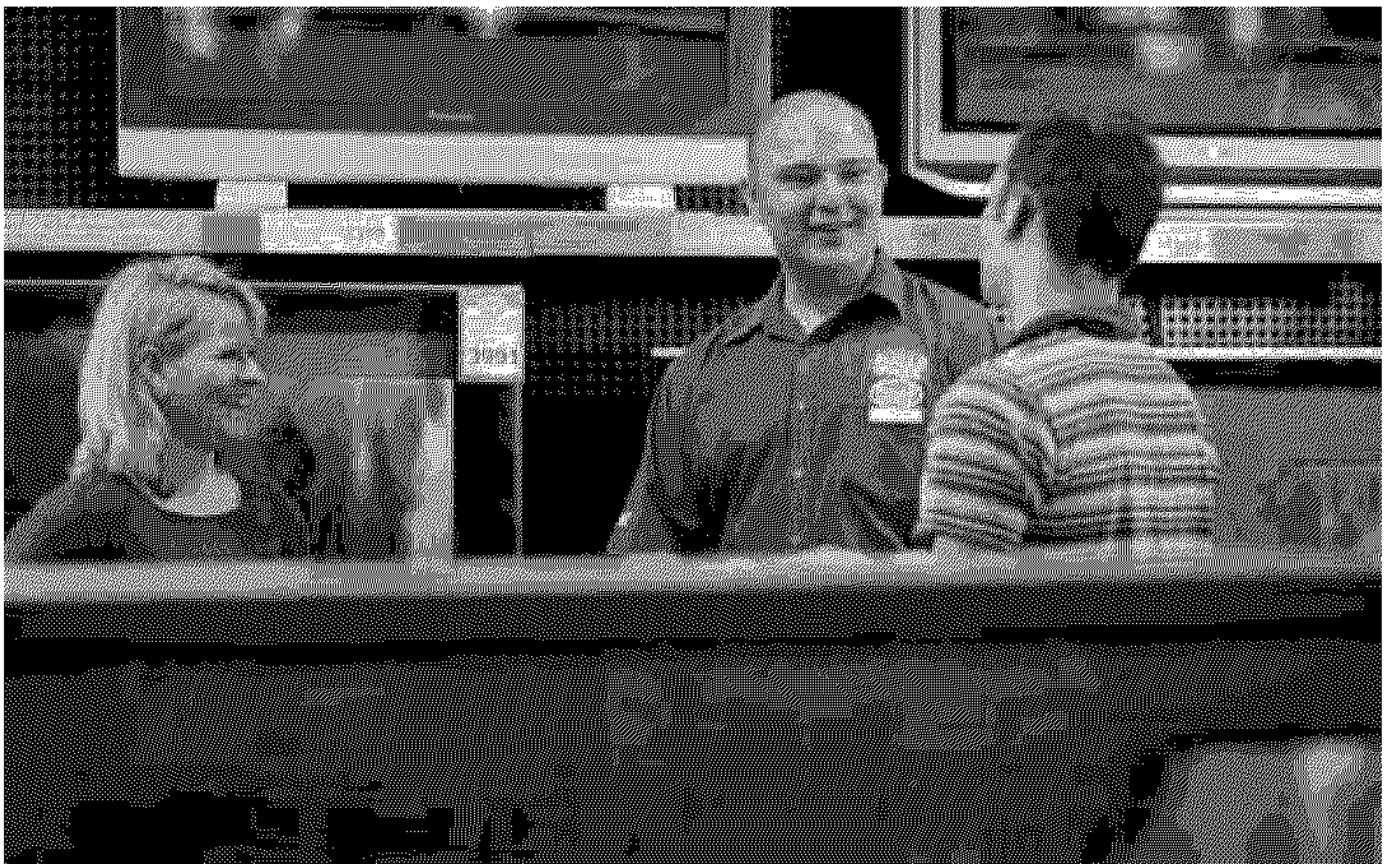


| Financial summary        | FY05<br>AGAAP | FY05<br>AIFRS <sup>(1)</sup> | FY08<br>AIFRS | Change<br>AIFRS |
|--------------------------|---------------|------------------------------|---------------|-----------------|
| Revenue (\$m)            | 1,167         | 1,167                        | 1,167         | 0.00            |
| Cost of sales (\$m)      | 659           | 659                          | 659           | 0.00            |
| Gross profit (\$m)       | 508           | 508                          | 508           | 0.00            |
| Operating expenses (\$m) | 244           | 244                          | 244           | 0.00            |
| Operating profit (\$m)   | 264           | 264                          | 264           | 0.00            |
| Finance income (\$m)     | 0.1           | 0.1                          | 0.1           | 0.00            |
| Finance expense (\$m)    | (0.1)         | (0.1)                        | (0.1)         | 0.00            |
| Profit before tax (\$m)  | 264           | 264                          | 264           | 0.00            |
| Income tax expense (\$m) | (10.1)        | (10.1)                       | (10.1)        | 0.00            |
| Profit after tax (\$m)   | 253.9         | 253.9                        | 253.9         | 0.00            |



# ctronics

(1)  
FY05 restated  
under AIFRS.



| Financial summary                               | FY05<br>AGAAP <sup>(1)</sup> | FY05<br>AIFRS <sup>(1),(2)</sup> | FY06<br>AIFRS <sup>(3)</sup> | Change<br>AIFRS |
|---|------------------------------|----------------------------------|------------------------------|-----------------|
| Hotel sales                                     | \$850.2                      | \$850.2                          | \$850.2                      | \$0.0           |
| Hotel operating profit                          | \$142.2                      | \$142.2                          | \$142.2                      | \$0.0           |
| Hotel operating profit as a percentage of sales | 16.7%                        | 16.7%                            | 16.7%                        | 0.0%            |
| Hotel EBITDA                                    | \$177.7                      | \$177.7                          | \$177.7                      | \$0.0           |
| Hotel EBITDA margin                             | 20.9%                        | 20.9%                            | 20.9%                        | 0.0%            |

# Hotels

Hotel sales of \$850 million represent an increase of 104.3% reflecting good growth in the existing business and the inclusion of BMG for the full 52 weeks and Taverner from 6 February 2006. Comparable sales increased by 3.4% during the year which is a good result considering the initial impact on revenue of the phased implementation of smoking bans in Queensland, with the requirement that two-thirds of all venues be smokefree. Our experience to date in this regard places us in a good position to manage the final phase of smoking bans in Queensland, with all venues being 100% smokefree from July 2006.

Since the acquisitions of ALH, BMG, MGW and Taverner, we have been focusing on repositioning and improving the performance of all operational areas. Comparable gaming revenue continues to grow year on year at 3.1%. Buying margins have and will continue to improve, primarily as a result of moving to Woolworths buying terms.

There have been outstanding improvements in CODB attributable to a number of initiatives implemented post-acquisition, including restructuring and rationalising of support offices and implementation of operating efficiencies at all venues.

EBIT margin of 17.78% is slightly down on the half year margin of 20.0% primarily due to the inclusion of the Taverner Hotel Group that had lower initial EBIT margins. Further improvements in Taverner's EBIT margins are available following on from the business improvements made to date in the rest of the Hotels business.

At the end of the year we had a premium portfolio of 250 hotels, including eight clubs.

**(1)**  
Represents ALH Hotel results from 1 November 2004 to 26 June 2005.

**(2)**  
FY05 restated under AIFRS.

**(3)**  
Represents ALH/MGW/BMG Hotel results for 12 months and Taverner Hotel results from 6 February 2006.

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PROJECT REFRESH

Delivering \$5.3 billion in cost savings to date, Project Refresh has transformed the way Woolworths does business

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STRATEGY AND GROWTH

A strong focus on clearly identified key growth opportunities is intrinsic to Woolworths' strategic vision

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# Our focus is:

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CAPITAL MANAGEMENT

The effective control and management of Woolworths' capital structure enables greater flexibility to pursue growth initiatives

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PEOPLE POWER

You can count on Woolworths people to deliver great results, day after day

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BEING RESPONSIBLE

Woolworths is working hard to deliver positive outcomes for the community and the environment

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# Refresh



*Project Refresh, since its commencement in 1999, has concentrated on a number of initiatives including a major business restructuring program which saw significant changes in the way we do business as well as numerous successful cost reduction programs which continue. Over the past seven years to the end of FY06, Project Refresh has delivered cost savings amounting to 4.51% of sales. Measured in dollars, this was a cumulative saving over the last seven years of \$5.3 billion.*

Our current focus is on our end-to-end supply chain improvement program. Our supply chain strategy was developed after evaluating systems and logistics features of leading global retailers following which we determined an appropriate and optimum solution for Woolworths. This solution addresses the following key design considerations:

- common integrated systems required to support supply chain operations;
- store supply chain costs (from the supermarket back dock to the shelf);
- Distribution Centre (DC) location and numbers;
- DC function (cross-docking and flow-through);
- composite supply chain (integrating cold and ambient);
- transport management (primary and secondary freight); and
- process improvements across the network.

Woolworths carried out extensive and detailed planning to ensure each initiative would be effective on implementation. The overall plan is broken down into a series of detailed plans which are individually monitored in terms of costs, functionality and timing to ensure all aspects are delivered. Each initiative is on its own a significant improvement. However, the interaction of these initiatives provides greater impetus to the overall project outcomes, benefits and Woolworth's competitive position.

Significant progress has been made to date with implementation now well down the track on many of the major projects which are now approaching their completion phase, a brief overview of which follows.



Project Refresh has significantly enhanced our ability to plan volumes and stock flow through DCs and stores on a daily basis. This enables greater resource planning and increased productivity.

The technology required to support our new supply chain is critical to its success and was complex in its construction. We have now passed the high risk part of our IT application development and are now applying the systems throughout our company with far better than expected results. The technology and systems are critical in achieving synergies in any supply chain transformation. These systems will have direct application to our recent business acquisitions which will be a critical enabler to deliver our synergies and future growth of these acquisitions.

Our inventory replenishment systems are well-established and embedded in the business. As previously reported, StockSmart (DC forecast based replenishment) has been implemented fully in our DCs and AutoStockR (store forecast based replenishment) has been rolled out to all supermarkets five months ahead of the original schedule and under budget. Further, we have expanded AutoStockR to cover other areas not originally planned because it has been so successful.

We continue to utilise the significant advantages that these systems provide, and more will follow as we complete the rollout of our new Point of Sale technology. This is currently operating in over 300 supermarkets and 50 BIG W stores.

The combination of StockSmart, AutoStockR and our Warehouse Management System has significantly enhanced Woolworths' ability to plan its volumes and flows through both DCs and stores on a daily basis. This provides an enormous opportunity to effectively plan labour inputs, therefore increase productivity and to obtain a higher level of "in" stock performance which adds to customer satisfaction whilst reducing stock levels and costs. This is exactly as planned and in the post-implementation stage is producing actual results exceeding expectations.

Supermarket DCs will be reduced from 31 DCs to nine Regional Distribution Centres (RDCs) and two National Distribution Centres (NDCs). The strategic location of these DCs is imperative in order to optimise network efficiencies. Our Perth RDC was completed ahead of schedule and within budget and is now fully operational. Our RDCs in Adelaide, Wyong, Wodonga and Townsville are fully operational – on time and on budget. All sites are performing well and supported our stores at record service levels. Construction is almost complete on our Brisbane RDC, commissioning has commenced and will be completed in the 2007 financial year, ahead of time and on budget.



In Victoria our chilled and frozen supply chain is under contract with an external provider. Our strategy in Victoria will be reviewed over this period with our learnings from Sydney and Brisbane built into our final solution.

Investment in existing Distribution Centre infrastructure has been undertaken in New South Wales and Victoria to further enhance the future DC network. Both our Mulgrave (VIC) and Yennora (NSW) sites are fully operational as NDCs. Construction work is now complete at our Minchinbury RDC and the new temperature-controlled section of this facility commenced operations in June.

On establishing our RDCs we have exited other sites in Western Australia, South Australia and Townsville. During the last half year we have also exited two sites in Sydney. We will exit other non-RDC/NDC sites in New South Wales and Queensland during 2006/2007. These generally coincide with the termination of the leases as planned.

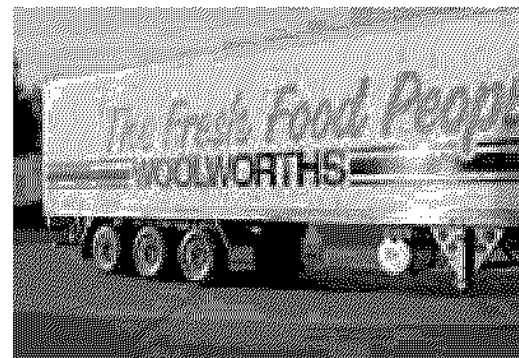
The rationalisation of DCs, combined with new cross-dock and flow-through processes, supported by new warehouse management systems, will utilise very effectively our site advantages and further reduce costs and stock levels.

Reducing the volume of our direct store deliveries is reducing costs by utilising our DC infrastructure as well as eliminating administration costs.

For stores, the introduction of phased replenishment, store restocking capabilities, along with store-ready unit load devices such as shelf-ready trays and roll cages is reducing overall costs.

Roll cages have been successfully implemented in Western Australia, South Australia and Queensland with expectations having been exceeded. Rollout at our Wyong and Wodonga RDCs has also been completed during the year.

The cost of inbound freight will be reduced by Woolworths' management of inbound freight volumes into our DC and utilising our Transport Management System (TMS) (developed by Woolworths). With the TMS now implemented for primary freight, a new secondary freight system is being piloted to ensure the optimisation of transport loads and routes and visibility of stock in transit at any point in time. Rollout has commenced and is aligned to the commissioning of our new RDCs.



Managing primary freight makes it possible to better manage critical delivery timing into our DCs therefore increasing operational efficiencies and improving safety. Woolworths' transport for inbound freight has been very effective, outperforming industry benchmarks.

We are now capitalising on the intellectual property in logistics and our new supply chain for supermarkets and focusing on our liquor business which has grown rapidly over recent years. We are currently completing our strategy for liquor supply chain, many elements of which are in place.

Woolworths values its relationship with its suppliers and aims to work with them to improve efficiencies across the supply chain to our mutual advantage. The advent of improved technology will further our relationship with our suppliers. We will do this through collaboration with our vendors, sharing information, requesting feedback on areas to improve and by harnessing innovation so that mutually beneficial outcomes are achieved.

Overall our supply chain initiatives are nearing the completion phase. We are moving to full operational implementation with the resulting benefits flowing this year and in the years ahead.

# Strategy and Growth

Woolworths' vision is to continue to drive its core retail business, bringing to its customers greater convenience, quality, value, range, freshness and service. Woolworths' strategy to achieve this vision and to continually grow the business is outlined below and is deeply entrenched in the Board and management. The strategies that have driven our growth to date will continue. The strategies are clear and management is focused. The skills and commitment of our experienced retail team will drive our continued success.

Clearly, the focus now is on maximising the benefits from our new technology, supply chain and achieving the synergies from our recent acquisitions. The majority of benefits of recent key initiatives will arise over the next three years.

We will maintain and enhance our long-term cost advantages we have obtained under Project Refresh. Our focus remains on continually enhancing the customer offer rewarding customers with value, range, freshness, service and convenience. We will continue to lay further foundations for sustainable profitable growth. We will further leverage our core capabilities and scale which are clear drivers of growth.

## PROJECT REFRESH – LOWER COSTS A KEY ENABLER

Stage 1: Underpinned cost savings to date, prerequisite for stage 2.

Stage 2: Our new logistics system and Distribution Centres provide us with a significant strategic and competitive advantage, which will underpin our ability to reduce costs over the next five years (minimum 20 bps p.a.), benefiting both customers and shareholders. We will leverage this technology and knowledge into other areas of our business such as liquor and Progressive in New Zealand and assist in achieving planned synergies for recent acquisitions.

## ACQUISITIONS – BOLT-ONS HAVE AND WILL CONTINUE TO ASSIST IN DRIVING GROWTH

Recent acquisitions comprise FAL, MGW, ALH, BMG and Taverner which all add scale and quality to Woolworths' current business portfolio. Foodland provides a new market with many opportunities and hotels provide us with a new growth segment. All have synergies readily achievable over the next three years.

## CONTINUING OPPORTUNITY TO GROW MARKET SHARE

The Australian food, liquor and grocery (FLG) market continues to be highly competitive by world standards. Woolworths' market share of FLG remains below 30%, which is low by world standards.

Independent grocers and speciality food stores hold just under 50%.

## DEFINED PLANS TO CONTINUE SPACE ROLLOUT

It is anticipated that Woolworths will add between 15–25 new supermarkets each year and together with expanding existing stores will grow supermarket trading area by more than 3% per annum.

It is intended to add 6–10 BIG W stores each year (6% to 8% space rollout p.a.), up to 15 Dan Murphy's stores each year and continue to rollout consumer electronics.



Focus will continue on planned store efficiency improvements e.g. centre of store and better utilisation of space.

Space rollout is supported by detailed plans for the next three to five years identifying specific sites. Minimal cannibalisation is expected.

#### LEVERAGE SCALE AND STORE DISTRIBUTION

Woolworths has considerable experience and has been successful in introducing new categories and formats such as liquor, petrol, electronics, hotels, Woolworths Select and expanding existing categories e.g. fresh food, digital photo, mobile phones and ATMs. Woolworths considers that there are further opportunities to branch into new formats and categories whilst continuing to expand the existing business.

#### INCREASED EMPHASIS ON PRIVATE BRANDED GOODS

Woolworths' product range features the major industry brands and a strong private label business. Woolworths Homebrand continues to be Australia's largest selling grocery brand. Woolworths Homebrand is at the leading price point in the market with the best quality at that price point. The new Woolworths Select is a premium range of Woolworths branded product and will be at least equal to or better quality than the existing category leader but at a lower price. Rollout has commenced and has been very well accepted by customers. Woolworths will continue to support, develop and grow national brands.

#### CONTINUED FOCUS ON IMPROVED IN-STORE EXECUTION AND SERVICE

Woolworths will continue to focus on improving in-store execution, ranging, stock availability and customer service.

#### GROW NEW INTERNATIONAL INITIATIVES

##### **India**

Woolworths has entered into arrangements with the Tata Group to develop a consumer electronics business in India. Woolworths will provide sourcing, wholesaling and some management support. The Tata Group will own and manage the retail operations.

##### **Hong Kong (and India) buying offices**

During the year Woolworths established a buying office in Hong Kong to directly source products for distribution in Australia. We currently have approximately 30 people in Hong Kong with plans to grow this office steadily over the next two years.

#### LEVERAGE WOOLWORTHS' CORE CAPABILITIES

Woolworths has developed expertise in key areas that will be useful to support future growth. These include:

- acquisitions and integration skills;
- world-class IT/supply chain;
- low cost culture;
- retail management expertise – high volume, low margin; and
- key business relationships: Caltex, BMG, Tata.

#### PERFORMANCE TARGETS

Woolworths targets four key areas of performance measurement for its business in the long term, namely:

- sales will grow in the upper single digits assisted by bolt-on acquisitions;
- EBIT growth outperforming sales growth assisted by cost savings;
- EPS growth outperforming EBIT growth assisted by capital management; and
- maintenance of its targeted credit ratings.

Woolworths' long-term objective is for EPS growth to outperform EBIT growth. However, when Woolworths undertakes major acquisitions which result in the need to defer its normal ongoing capital management initiatives for a period of time, EPS growth in relation to such periods will not outperform EBIT growth.

#### FOODLAND ACQUISITION

In the latter part of the first half, Woolworths acquired Foodland Associated Limited's New Zealand business (Progressive) plus 20 Australian ex-FAL stores. The 20 stores were carefully selected and complement the Woolworths store network. The acquisition value was approximately \$2.6 billion. Woolworths obtained control on 2 November 2005.

#### BMG ACQUISITION

On 1 July 2005, ALH Group Pty Ltd acquired 26 hotels and eight club management contracts previously owned by interests associated with Bruce Mathieson for \$199.2 million in cash and 191.7 million shares issued at a price of \$1 per share.

#### TAVERNER ACQUISITION

ALH Group Pty Ltd acquired 100% of the shares of the Taverner Hotel Group for an enterprise value of \$377.1 million effective 6 February 2006. The acquisition brought with it 33 hotels throughout Victoria, South Australia and New South Wales further enhancing the portfolio of hotel assets in the Group.



*Woolworths currently sets its capital structure with the objective of minimising its weighted average cost of capital whilst retaining a flexibility to pursue growth and capital management opportunities. Consistent with this objective, Woolworths has targeted, achieved and maintained its credit ratings of A- from Standard & Poor's and A3 from Moody's Investor Services*

# Capital Management

## CAPITAL RETURNS

To the extent consistent with these objectives and target ratings, Woolworths undertakes capital return strategies that seek to increase EPS and distribute franking credits to shareholders, mainly through ordinary dividends and share buybacks. Over the past eight years, over \$4,700 million, comprising off and on-market buy-backs and dividends, has been returned to shareholders (including the final dividend for the financial year ending 25 June 2006). Woolworths' capital management strategy has enhanced EPS growth whilst allowing Woolworths to take advantage of growth opportunities, such as the ALH and FAL acquisitions. Woolworths will re-examine opportunities for future share buy-backs once the Progressive New Zealand integration is further advanced. Franking credits available for distribution as at 25 June 2006 amounted to \$613.1 million (prior to final dividend).

## SHARE ISSUANCE

To assist in strengthening the balance sheet and to maintain current credit ratings during a period of major acquisitions, integration and business change, Woolworths has entered into an underwriting agreement in connection with the WOW DRP which ensures that an amount equal to 100% of all interim and final dividends payable in the calendar years 2005 and 2006 is subscribed for Woolworths shares.

Also during the year Woolworths issued 81.6 million shares in respect of the acquisition of FAL. In addition shares were issued under employee option plans.

## DEBT RAISINGS

Four significant debt transactions were undertaken during the year, which are detailed below.

These transactions locked in low levels of interest rates, provided staggered maturities to assist in refinancing flexibility in the future and provided broader sources of funding in different markets.

1 Medium Term Notes of A\$300 million were issued in September 2005 into the domestic market with a maturity date of 27 September 2008.

- 2 Senior Notes totalling US\$725 million (A\$991.8 million) were issued in November 2005 into the US bond market under Rule 144A (Regulation S). US\$300 million (A\$410.4 million) matures on 15 November 2011 and US\$425 million (A\$581.4 million) matures on 15 November 2015.
- 3 Medium Term Notes of A\$350 million were issued in March 2006 into the domestic market with a maturity date of 14 March 2011.
- 4 An offer of new securities called Woolworths Notes raised A\$600 million on 5 June 2006. Woolworths Notes are quoted under ASX code WOWHB. The Woolworths Income Notes (WINs) were redeemed on 5 June 2006.

#### SALE AND LEASEBACK OF DISTRIBUTION CENTRES

On 14 June 2006 it was announced that Woolworths had entered into arrangements to sell and leaseback 11 Distribution Centres for \$846 million. This transaction is a good outcome for all parties and it provides Woolworths with the flexibility to alter and adapt its DCs to meet changing operational requirements over time. \$547 million of the sales proceeds was received in July 2006 with a further \$94 million due to be received by December 2006 (Perth, Townsville) subject to lease consents. The balance of \$205 million is comprised of \$180 million to be received for Brisbane by March 2007 and \$25 million to be received for Yennora, at Woolworths' option, by June 2007.

#### BALANCE SHEET AND CASH FLOW

Inventory at year end increased by 17.6% on a sales increase of 20.4%. This translates to a 1.3 day reduction (excluding Progressive and Taverner).

Our cash flow and balance sheet remain strong following the acquisition of ALH, FAL, BMG and Taverner. Cash generated by operating activities was \$1.7 billion up 40% on the prior year reflecting strong earnings growth and benefits from working capital management.

Property, plant and equipment has increased from \$3,359.3 million to \$4,079.6 million. This is mainly due to fixed assets acquired as a result of the acquisition of FAL and BMG, the fitout of the new Distribution Centre network as part of our supply chain initiatives and new store rollout.

Intangibles have increased from \$2,046.4 million to \$4,756.6 million. This increase has been driven by the acquisitions in the first half year of BMG

and FAL resulting in the acquisition of liquor and gaming licences (\$125.0 million), brand names (\$244.7 million) and goodwill (\$2,126.9 million). In the second half, the Taverner acquisition resulted in additional liquor and gaming licences (\$200.0 million) and goodwill (\$138.6 million). Offset against these increases was a decline in the value of intangibles in FAL New Zealand owing to movements in the New Zealand dollar (\$242.1 million), which is recorded in the foreign currency translation reserve.

Trade creditors and other creditors have increased as a result of a combination of business acquisitions, the increase in inventory and general business growth.

Net repayable debt has increased by \$1,387.4 million to \$3,799.5 million primarily as a result of debt acquired to fund the acquisitions and ongoing operations of the business.

ROFE declined in the FY06 period mainly as a consequence of the acquisitions of FAL and Taverner. Funds employed are included in full, however the EBIT arising from these acquisitions will relate to part of the year only (FAL from 2 November 2005, Taverner from 6 February 2006).

#### CENTRAL OVERHEADS, NET PROPERTY INCOME AND TAX EXPENSE

With respect to the full year, central overheads have increased by \$9.2 million. The key factors causing the increase primarily relate to CEO retirement payments and costs associated with the expansion into India.

Net property income was \$18.3 million which is slightly less than last year.

Tax expense is 30.3% up from 29.1% last year primarily due to inclusion of Progressive New Zealand where the tax rate is 33%.

#### FUTURE OUTLOOK

We anticipate overall Group sales growth for FY07 to be in the range of 8% to 12%. We also anticipate that EBIT will continue to grow faster than sales in FY07.

Net profit after tax for FY07 is expected to grow in the range of 16% to 21%.

Our long-term EPS objective is to outperform EBIT growth, assisted by capital management. However, in FY07 EPS will be impacted by shares issued under the Group's employee share option plans, on acquisition of FAL and under the Dividend Reinvestment Plan underwriting arrangements.

This guidance is given subject to current retail trading patterns and the present business, competitive and economic climate continuing.



We anticipate overall Group sales growth for FY07 to be in the range of 8% to 12%. We also anticipate that EBIT will continue to grow faster than sales in FY07.

Net profit after tax for FY07 is expected to grow in the range of 16% to 21%.

**Meni Violentis**

Woolworths  
Store Manager

'Helping staff reach  
their full potential is  
something I'm really  
passionate about.  
Ultimately, if our staff  
are happy then our  
customers are happy.'



*You can count on Woolworths' people to deliver the right result. Whether it's delivering great service to our customers or great support to our stores, every contribution of every team member counts towards the continued success of the business.*

**Jessica Thiel**  
Sydney National  
Distribution Centre  
Receiving Clerk  
'When we converted to a National Distribution Centre as part of Project Refresh, a number of new systems were introduced. The result has been improved efficiencies that have enabled us to increase the number of pallets we accept each day from 1,000 to 1,600!'



# people



**Tim Hunt**

Woolworths  
Liquor Assistant  
Business Manager

'Over the past 12 months, we have been working closely with local growers and producers to source an exclusive collection of wines, now known as the Baily & Baily range. Customers are loving the quality and affordability.'



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 We welcomed  
 20,000 new  
 colleagues to the  
 family as part of  
 the integration  
 of PEL in New  
 Zealand, taking  
 our total number  
 of employees to  
 175,000.  
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 We also effected the  
 smooth transition of  
 3,000 people to our  
 new Distribution  
 Centre network -  
 a remarkable  
 achievement.  
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 The Woolworths  
 Hong Kong buying  
 office opened for  
 business, creating  
 employment and  
 opportunity for  
 local residents.  
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 Thousands of  
 employees across  
 the country, in all  
 divisions, continued  
 to receive training  
 and accreditation  
 through the  
 Woolworths  
 Academy.  
 -----

-----  
 Traineeships and  
 apprenticeships  
 continued to play  
 an important role  
 in developing  
 the young people  
 in our business  
 with almost 4,000  
 currently involved  
 in these programs.  
 -----

-----  
 2,600 people made  
 the move to the new  
 support office at  
 Norwest in Sydney.  
 -----

## ACHIEVEMENTS DURING 2006

**Patrick Prasad**  
 BIG W Store Manager  
 'In preparation for  
 the opening of our  
 new store we took on  
 200 employees from  
 the local area. Many  
 had never worked  
 in retail before but  
 seeing everyone come  
 together as a team in  
 such a short period  
 of time has been  
 incredibly satisfying.'

**Sayed Zalloua**  
 Woolworths  
 Meat Apprentice  
 'If I'm not serving  
 customers, I'm out  
 the back learning the  
 trade. Each day I cut,  
 dice and slice more  
 than one hundred  
 different fresh  
 meat products -  
 that 25,000 a year.  
 There are 500  
 other young meat  
 apprentices at  
 Woolies. We all  
 do our bit!'



*As a major retailer,  
employer, customer and  
corporate citizen,  
Woolworths' imprint  
touches the community  
in a multitude of ways.*



# Being Responsible

Socially, economically and environmentally, Woolworths is working hard to maximise the many positive benefits of our business through effective leadership and the development of best practice policies.

In 2006, Woolworths released its first-ever Corporate Social Responsibility report as part of an ongoing commitment to achieving greater transparency across these particular areas of our operations. The detailed report is available online at [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au).

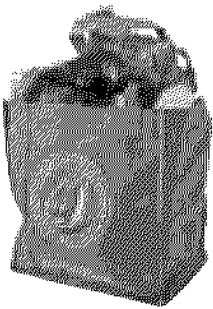
## **Reducing our environmental impact**

Woolworths is committed to reducing its environmental footprint through a wide range of initiatives that tackle our key areas of impact – energy consumption, waste management, packaging, fuel consumption and hazard management. We will continue to seek ways in which we can

improve our performance and take an active lead on issues of environmental concern.

In 2006 we:

- saved 3% of electricity costs via our Energy Management lighting system (EMS);
- achieved validation of our NSW Greenhouse Gas Abatement Certificate (NGAC) scheme in the 2005 audit and received the full complement of NGAC's allocated to our business for energy reduction;
- continued to undertake energy efficiency activities involving our bakery ovens and chicken cookers, as well as the installation of power factor correction units in stores;
- became a willing participant in the Federal Energy Efficiency Opportunities program. This requires auditing and reporting on energy efficient activities across the entire business over a five-year period;



In 2006 we helped to achieve a reduction of 45% in the annualised rate of plastic checkout bags issued, as a member of the Australian National Retailers Association (ANRA).

- designed our Norwest support office to Ecologically Sustainable Development standards, complete with energy efficient systems, recycling programs and a one million litre water tank;
- utilised energy efficient equipment including heat reclaim systems for refrigeration, HCFC in air conditioning systems and T5 lighting in all our supermarkets;
- commenced trials of a state-of-the-art carbon dioxide refrigeration system in a new supermarket in NSW;
- introduced a new green waste project, where supermarkets' organic waste is collected and processed to produce green energy, which is then sold in the national electricity market;
- accelerated cardboard, polystyrene and plastic recycling initiatives with increased education and awareness programs;
- established programs to minimise polystyrene use in the entire business;
- helped to achieve a reduction of 45% in the annualised rate of plastic checkout bags issued, as a member of the Australian National Retailers Association (ANRA). We have also established a Plastic Bags Task Force with the Federal Department of the Environment and representatives from other State Governments and industry bodies, to seek to identify environmentally sound and commercially feasible degradable alternatives to the current high density polyethylene bags used by supermarkets across Australia;
- minimised the amount of water run-off to the protected wetlands adjoining Wyong Distribution Centre, by constructing swales to control the flow of water into the wetlands, preventing flooding and reducing the impact to the habitat of a protected and endangered frog species;
- constructed the roofs of our Distribution Centres (DCs) so that water can be harvested into tanks for use in the day-to-day operations of the DC (e.g. flushing toilets, reticulation);
- commissioned an independent waste management strategy, using Wyong DC as a sample study, in order to identify waste management opportunities to be used in all of Woolworths DCs; and
- commissioned an independent energy audit at Wyong DC to identify energy efficiency opportunities. Recommendations are currently being developed into action plans ready for implementation across all Woolworths DCs.

### Putting safety and health first

Safety is a core value at Woolworths and whilst our business priorities may change, this value remains constant. While we still have much to achieve, our businesses have taken a major step forward in 2006 in embedding the principles of safety leadership into our activities.

The need to increase safety awareness and reduce at-risk behaviours is integral to achieving our safety vision. Effective safety leadership is crucial to the success of our safety programs. In this regard we are in the process of implementing our leadership program, "Safety the Woolworths Way".

In striving to maintain our Safety and Health vision of ensuring we go home from work without injury or illness, Woolworths achieved the following business improvements in 2006:

- Lost time injury frequency rates were reduced by 10%.
- Workers compensation claims were reduced by 8%.
- To assist in the development of our leaders we have engaged Dr E Scott Geller, Professor of Physiology from Virginia Tech University in the US to conduct seminars for our Leadership Teams and Store Managers.
- To address the high number of bandsaw related injuries in our meat departments we were instrumental in designing, developing and implementing a guarding solution which has contributed to an injury reduction of over 70% across Australia.
- We implemented a Group-wide central safety and compensation reporting and database system, STARS. The system has provided additional rigour and consistency to our overall performance reporting and data management processes which will contribute to improvements in incident analysis and risk mitigation.

### Sustaining local producers

Woolworths fully understands the importance of maintaining the long-term viability of rural and regional communities both in Australia and New Zealand. Essential to this is the management of a sustainable domestic agricultural industry. Woolworths is a major customer of Australian and New Zealand farmers, growers and producers and we work hard to provide them with the best supply opportunities that we can. In 2006 we:

- purchased over 97% of our fresh produce from domestic farmers, growers and producers;
- positively discriminated in favour of domestic

manufacturers when tendering Private Label contracts. We have a long history of supporting Australian producers, with our move into the New Zealand market we have commenced initiating similar programs in support of New Zealand suppliers; and

- continued to pursue our extensive import replacement program to help local growers and farmers develop domestically grown products that reduce the need to import. In 2006, we further expanded our Australian garlic initiative and were able to launch an all natural and all Australian garlic paste for the full year – the only Australian product of its kind on the market.

### Doing business with integrity

A sense of integrity is ingrained in the Woolworths culture. We are committed to always being fair, respectful, responsible and transparent in all our dealings with colleagues, customers and suppliers. Right across our business, we abide by voluntary codes of conduct in relation to supplier trading relationships. Woolworths also continues to make significant investment in compliance programs and works closely and proactively with regulators and industry authorities to help improve industry practices and community standards.

In 2006 we:

- established a Group compliance function which is independent of the trading divisions and support functions and will implement a formal review, monitoring and reporting of all compliance obligations across the Group. We have commenced this major cross-divisional project and have identified the significant number and variety of compliance requirements throughout the business and will be preparing compliance programs for each of the trading and non-trading functions which will provide reports to senior management and the Audit, Risk Management and Compliance Committee and to the Board on a regular assurance basis as well as in relation to individual non-compliance incidents;
- extended our Country of Origin product labelling beyond mandatory requirements and worked in close consultation with FSANZ to trial and evaluate new industry-wide guidelines; and
- as an inaugural member of the Produce and Grocery Industry Code of Conduct, which was established by the Federal Government in 2000, we participated in a major review of the Code which was aimed at providing a forum for the resolution



The Melbourne 2006 Commonwealth Games was enjoyed by 3,000 Victorian schoolchildren, thanks to Woolworths.

of disputes between suppliers, wholesalers and retailers in the produce and grocery sectors. The review has resulted in the expansion in the members of the Council administering the Code and in particular in broadening the primary producer representation ensuring that the Code can assist in resolving supplier related issues on a non-formal, efficient and expeditious basis.

The Fresh Future fundraising campaign runs annually in all Woolworths supermarkets, raising millions of dollars each year for children's hospitals and wards across Australia. The money pays for essential equipment and helps to fund vital medical research.



#### **Creating a better life for Australian families**

Woolworths is an integral part of hundreds of local communities right across Australia. Our objective is to be a good neighbour in every possible way and to support those communities that support our stores.

In 2006 we:

- brought 3,000 Victorian schoolchildren to the Commonwealth Games in Melbourne;
- raised over \$4 million for children's hospitals and wards across Australia;
- responded swiftly to support victims of Cyclone Larry in cash and in kind, helping to rebuild homes and businesses;
- arranged for 250 inspiring Australians to visit rural and regional communities on Australia Day;
- delivered the 'Harmony Day' message of multiculturalism and tolerance to over 300 communities across the country; and
- channelled significant funds back into every community in which we have a supermarket via donations to thousands of local schools, charities and community groups.

## BOARD OF DIRECTORS



### **James Alexander Strong**

Chairman. Member Corporate Governance Committee, Member Audit Committee and People Policy Committee.

Mr Strong is currently Chairman of Insurance Australia Group Limited (IAG), Rip Curl Group Pty Ltd and the Australia Council for the Arts. He was also appointed a Director of Qantas Airways Limited in 2006. Mr Strong is also a member of the Board of various sporting organisations.

He was the Chief Executive and Managing Director of Qantas Airways Limited until March 2001, and previously the Chief Executive of Australian Airlines Limited, Managing Partner and National Chairman of Corrs Chambers Westgarth Solicitors and Group Chief Executive of DB Group Limited (New Zealand). He was appointed a Director of Woolworths Limited in March 2000 and Chairman in April, 2001. Age 62.

### **Roger Campbell Corbett** AM, BCom, FAIM

Group Managing Director and Chief Executive Officer, Member Board of Trustees, Woolworths Group Superannuation Scheme.

Mr Corbett was appointed Group Managing Director and Chief Executive Officer in January 1999, having been Chief Operating Officer since July 1998, Managing Director Retail since July 1997 and Managing Director of BIG W since May 1990.

Mr Corbett has had more than 40 years' experience in retail and was previously Director of Operations and a Director of David Jones (Australia) Pty Limited as well as Merchandising and Stores Director and a Director of Grace Bros. Mr Corbett was appointed a non-executive Director of Fairfax Holdings Limited in February 2003.

He was appointed to the Board of the Reserve Bank of Australia in December 2005. In May 2006 Mr Corbett was presented with the B'nai B'rith (Australia New Zealand) Gold Medal. Mr Corbett was appointed a Director of Woolworths Limited in 1990. Age 64.

### **Michael Gerard Luscombe**

Chief Operating Officer.

Mr Luscombe is a graduate of Monash University and Monash Mt Eliza Business School. In 1992, as a graduate of the Victorian Community Leadership Programme, he was made a Williamson Fellow.

Mr Luscombe is a lifelong employee of Woolworths. His career extends over twenty-eight years starting as a Management Trainee in Woolworths Victoria.

He was appointed Chief Operating Officer in June 2006, having been Director of Supermarkets since September 2004. Prior to that Mr Luscombe held positions as Chief General Manager Supermarkets, Buying & Marketing, General Manager Supply Chain, General Manager Buying Long Life Products for Supermarkets, Safeway Merchandising and Marketing Manager, Senior Category Manager, Safeway Retail Operations Manager, Area Manager, Training and Development Manager, and Store Manager.

Mr Luscombe will be succeeding Mr Roger Corbett as Chief Executive Officer on 1 October 2006. He was appointed a Director of Woolworths Limited in June 2006. Age 53.

### **Adrienne Elizabeth Clarke** AC, PhD, FAA, FTSE

Member, People Policy Committee and Member, Corporate Governance Committee.

Professor Clarke is a Director of Fisher & Paykel Healthcare Corporation Limited since November 2001, Tridan Limited since July 1988 and Hexima Limited since March 1988. She is Laureate Professor at the University of Melbourne with a distinguished record of achievement in the Sciences of Botany and Biology. She was previously Lieutenant-Governor of Victoria (1997-2000), a Director of WMC Resources Limited (1996-2005), Chair of the CSIRO Board (1991-1996) and a Member of the Prime Minister's Supermarket to Asia Council (1996-2001) and a Member of the Federal Government's Trade Policy Advisory Group. Professor Clarke was appointed a Director of Woolworths Limited in July 1994. Age 68.



**John Astbury**  
FAICD

Chair, Audit Committee and Member, Corporate Governance Committee.

Mr John Astbury is also a Director of AMP Limited since September 2004 and of IAG Limited since July 2000. He was previously Finance Director of Lend Lease Corporation Limited and a Chief General Manager, National Australia Bank Limited. He had a long career in banking and financial services in both the UK and Australia.

Mr Astbury was appointed a Director of Woolworths Limited in January 2004. Age 62.

**Diane Jennifer Grady**  
BA (Hons), MA, MBA

Chair, People Policy Committee (Ms Grady retired from the People Policy Committee in August 2006) and Member, Audit Committee and Corporate Governance Committee.

Ms Grady is also a Director of Bluescope Steel Ltd since May 2002, and Wattyl Limited since December 1994 and has served on Boards of a number of public and not-for-profit organisations since 1994. Previously Ms Grady was a partner at McKinsey and Co. where she led the firm's Retailing and Consumer Goods practice in Australia. In that capacity, she advised retailing clients internationally on strategic, organisational and operational issues and assisted major consumer goods companies in Australia to develop strategies for their retail accounts. Globally, Ms Grady was a worldwide leader of McKinsey's Change Management and Organisation Practice. She was appointed a Director in July, 1996. Age 58.

**Leon Michael L'Huilier**  
BCom (Hons), MBA, MPhil

Member Audit Committee, Member Corporate Governance Committee and Chairman of Superannuation Policy Committee.

Mr L'Huilier is a Director of ALH Group Limited and Chairman of its Audit Committee. He is Chairman of Repco Corporation Limited since March 2006 and a director since January 2002.

He is an experienced Chief Executive and Company Director in the grocery manufacturing and liquor industries, most recently as the CEO of Lion Nathan Australia. He has substantial experience as an independent director of major organisations in distribution and logistics, property, accounting and financial services. He was previously a Chairman and Chief Executive of the Transport Accident Commission, a Director of MPG Logistics, and former Chairman of the Australian Prime Property Fund, a major retail shopping centre group. He is a former Director of MLC Limited, and Challenge Bank Limited. He was appointed a Director in September 1997. Age 63.

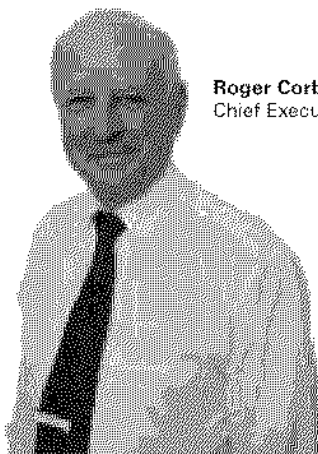
**Roderick Sheldon Deane**  
PhD, BCom (Hons),  
FCA, FCIM, FNZIM

Dr Deane has an honorary LLD from Victoria University of Wellington. Member People Policy Committee (Dr Deane became Chair of the People Policy Committee in August 2006) and Corporate Governance Committee.

Dr Deane is the Chairman of Fletcher Building Limited, and of the New Zealand Seed Fund. Dr Deane is a board member and Patron of New Zealand's largest charitable organisation, the IHC, and a Trustee of MOTU, an economic and social policy research group. He was previously Chairman of Telecom Corporation of New Zealand Limited, Chairman of Te Papa Tongarewa (The Museum of New Zealand), Chairman of ANZ National Bank Limited, a Director of ANZ Banking Group Limited, Chief Executive of the Electricity Corporation of New Zealand Limited, Chairman of the State Services Commission, Deputy Governor of the Reserve Bank of New Zealand, and Chairman of the City Gallery Wellington Foundation.

He was appointed a Director of Woolworths Limited in April 2000. Age 65.

## SENIOR MANAGEMENT



**Roger Corbett**  
Chief Executive Officer



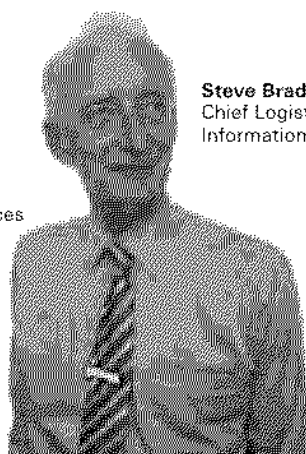
**Michael Luscombe**  
Chief Operating Officer



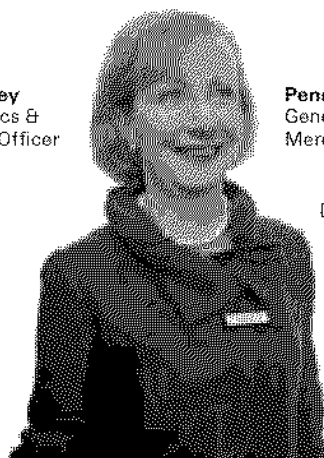
**Tom Pockett**  
Chief Financial Officer



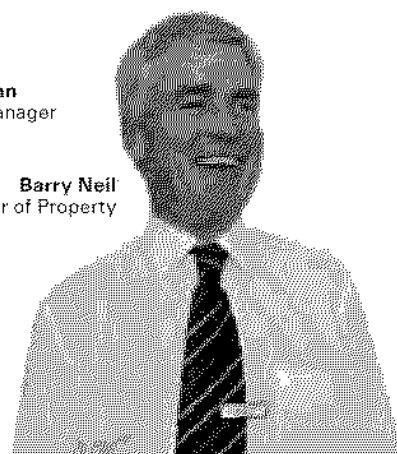
**Julie Coates**  
Director of  
Human Resources



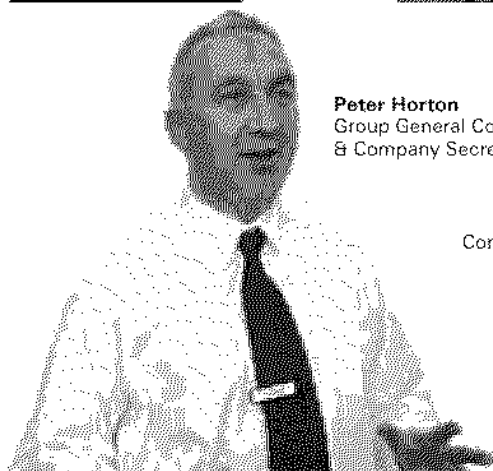
**Steve Bradley**  
Chief Logistics &  
Information Officer



**Penny Winn**  
General Manager  
Mercury



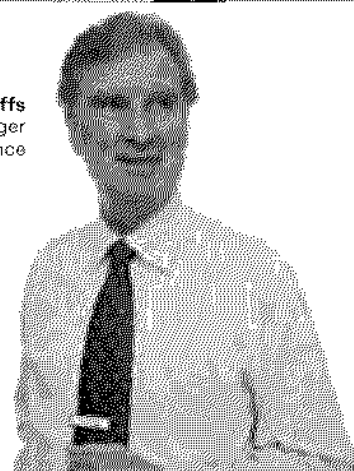
**Barry Neil**  
Director of Property



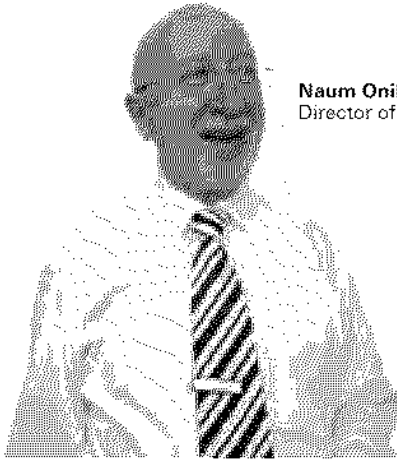
**Peter Horton**  
Group General Counsel  
& Company Secretary



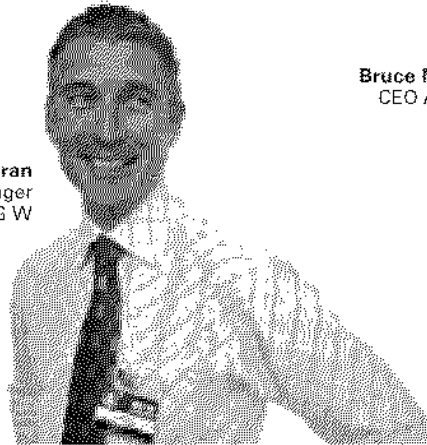
**Avner Nahmani**  
General Manager  
Corporate Marketing



**Rohan Jeffs**  
General Manager  
Compliance



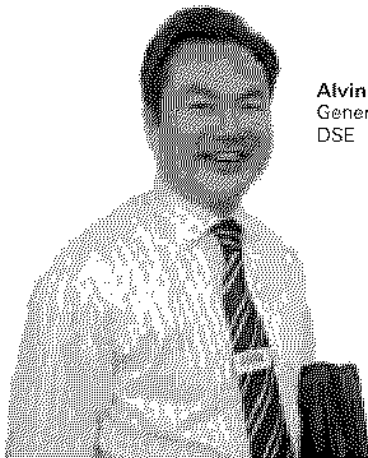
**Naum Onikul**  
Director of Supermarkets



**Greg Foran**  
General Manager  
BIG W



**Bruce Mathieson**  
CEO ALH Group



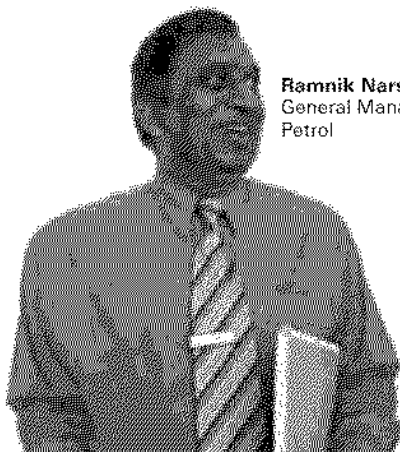
**Alvin Ng**  
General Manager  
DSE



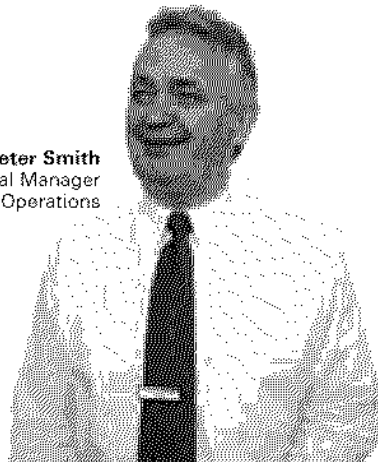
**Grant O'Brien**  
General Manager  
Freestanding Liquor



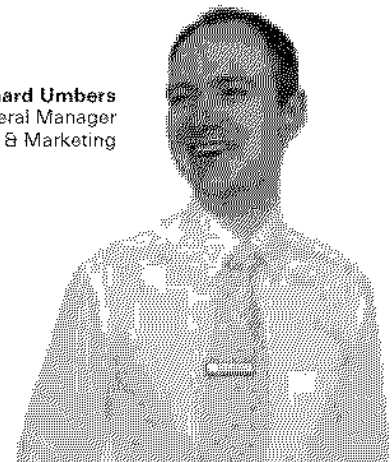
**Marty Hamnett**  
Managing Director  
PEL, New Zealand



**Ramnik Narsey**  
General Manager  
Petrol



**Peter Smith**  
General Manager  
Supermarket Operations



**Richard Umbers**  
General Manager  
Buying & Marketing

# DIRECTORS' STATUTORY REPORT

This Report is given by the Directors in respect of Woolworths Limited (the Company) and the consolidated entity consisting of the Company and the entities it controlled (the Group) for the financial period ended 25 June 2006.

## THE DIRECTORS

The persons who have been Directors of the Company at any time during or since the end of the financial period and up to the date of this Report are:

J A Strong Chairman  
R C Corbett Group Managing Director and Chief Executive Officer (retiring 30 September 2006)

J F Astbury  
A E Clarke  
R S Deane  
D J Grady  
L M L'Huillier  
M Luscombe<sup>(1)</sup>

Details of the experience, qualifications, special responsibilities and other directorships of listed companies in respect of each of the Directors are set out against their respective names from pages 36 to 37.

## COMPANY SECRETARY

Mr Peter John Horton BA LLB.

Mr Peter Horton joined Woolworths in November 2005 as Group General Counsel and Company Secretary. Previously Mr Peter Horton was General Manager Legal and Company Secretary at WMC Resources Limited.

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the period consisted of food, liquor, petrol, general merchandise and consumer electronics retailing through chain store operations, together with hotel, gaming and entertainment operations.

During the year, the Company completed the acquisition of Foodland Associated Limited (FAL) with stores in both Australia and New Zealand. In addition, the Company completed the acquisition of BMG and the Taverner Hotel Group which were integrated into the Group with the assistance of the ALH Group covering hotel management, gaming and entertainment.

## CONSOLIDATED RESULTS AND REVIEW OF OPERATIONS

The net amount of consolidated profit for the financial period after income tax expense and Woolworths Income Notes (WINS) distributions attributable to members of the Company and its controlled entities was \$1,014.6 million (2005: \$816.2 million).

A review of the operations of the consolidated entity and its principal businesses during the financial period and the results of those operations are set out in the Chairman's Report and the Group Managing Director's Report from pages 3 to 16 inclusive.

## DIVIDENDS

The amounts set out below have been paid by the Company during the financial period or have been declared by the Directors of the Company, by way of dividend, but not paid during the financial period up to the date of this Report. All dividends were fully franked at the tax rate indicated.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as referred to in the Group Managing Director's Report, the significant changes in the state of affairs of the Group during the financial period were as follows:

A net increase in the issued share capital of the Company of 120,437,733 fully paid ordinary shares as a result of:

- (i) the issue of 81,592,586 fully paid ordinary shares to shareholders of FAL on 24 November 2005 as part of the consideration for the acquisition of all the issued shares in Progressive Enterprises Holdings Ltd (PEH Shares). The PEH Shares were acquired by a wholly-owned subsidiary of Woolworths Limited (WOW), Woolworths (NZ) Supermarkets Limited under a scheme of arrangement.
- (ii) the issue on 7 October 2005 of 17,990,513 fully paid ordinary shares and the issue on 28 April 2006 of 17,650,083 fully paid ordinary shares pursuant to the Dividend Reinvestment Plan and the Dividend Reinvestment Plan Underwriting Deed in respect of the 2005 final dividend and the 2006 interim dividend respectively;

|  | Franking tax rate<br>% | Dividend<br>cents/share | Total paid/payable<br>\$m |
|--|------------------------|-------------------------|---------------------------|
| Final 2005 Dividend<br>Paid on 7 October 2005    | 30                     | 27                      | 287.2                     |
| Interim 2006 Dividend<br>Paid on 28 April 2006   | 30                     | 28                      | 326.0                     |
| Final 2006 Dividend<br>Payable on 6 October 2006 | 30                     | 31                      | 367.1                     |

### Note

(1)  
Mr Luscombe became a Director effective 1 June 2006 and is currently Chief Operating Officer. Mr Luscombe will become Group Managing Director and Chief Executive Officer effective 1 October 2006.

(iii) the issue on various dates, for cash at the relevant exercise price, of 3,204,551 fully paid ordinary shares as a result of the exercise of options held by a number of executives under the Executive Option Plan (EOP).

On 1 July 2005, 6,906,300 options were granted under the EOP.

There were no issues of fully paid ordinary shares pursuant to the Employee Share Plan or to the Employee Share Issue Plan made during the financial period.

As at 25 June 2006, there were 94,408 (2005: 79,311) full-time equivalent employees of the consolidated entity and 71,407 (2005: 72,834) employed by the Company.

#### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Except for the matters disclosed below, in the Chairman's Report and the Group Managing Director's Report from pages 3 to 16, there is, at the date of this Report, no other matter or circumstance which has arisen since 25 June 2006 that has significantly affected or may significantly affect the Group's operations, the results of those operations or the state of affairs of the Group in future financial periods.

#### Final dividend

On 21 August 2006, the Directors declared a final dividend of 31 cents per share, fully franked at the 30% tax rate, on each of the issued ordinary shares of the Company. The final dividend is payable on 6 October 2006.

#### Grant of options

On 1 July 2005, 6,906,300 options were granted under the EOP. Between 25 June 2006 and 22 September 2006, 2,759,053 shares were allotted as a result of the exercise of options granted under the EOP in July 1999.

#### DIRECTORS INTERESTS IN SHARES/OPTIONS

Particulars of Directors' relevant interests in shares in the Company as at 22 September 2006 are set out below:

| <i>Director</i> | <i>Relevant Interest</i> |
|-----------------|--------------------------|
| J F Astbury*    | 10,912                   |
| A E Clarke      | 41,932                   |
| R C Corbett     | 293,165                  |
| R S Deane*      | 40,000                   |
| D J Grady       | 34,670                   |
| L M L'Huillier* | 60,000                   |
| J A Strong      | 70,479                   |
| M Luscombe      | 408,290                  |

\* These relevant interests include superannuation fund, trust, joint or other ownership structure, as appropriate.

#### MEETINGS OF DIRECTORS

The table below sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the financial period ended 25 June 2006 and the number of meetings attended by each Director. The Board has previously determined that in order to deal effectively with all of the matters requiring its consideration, including ongoing strategic issues, five of the Board meetings were held over two days. In addition to attending formal Board and Board Committee meetings, the Directors undertake other duties including attending strategic review sessions, retail market study trips, as well as Board and Board Committee Meeting preparation and research. These additional responsibilities constitute a further significant time commitment by Directors.

The Superannuation Policy Committee was established on 6 June 2006. No meetings of the Superannuation Policy Committee took place in the financial year ended 25 June 2006.

|                                   | <i>Meetings of Directors whilst a Director Attended/Held</i> | <i>Meetings of Audit Committee Attended/Held</i> | <i>Meetings of Woolworths Group Superannuation Attended/Held</i> | <i>Meetings of Personal Policy Committee Attended/Held</i> | <i>Meetings of ad hoc Committee<sup>(5)</sup> Attended</i> |
|-----------------------------------|--|--|--|--|--|
| A E Clarke <sup>(2,3)</sup>       | 9/10   | ..   | ..   | 5/5  | ..   |
| R C Corbett                       | 10/10  | ..   | 1/5  | ..   | 3  |
| R S Deane <sup>(2,3)</sup>        | 10/10  | 3/3  | ..   | 2/2  | ..   |
| D J Grady <sup>(1,2,3)</sup>      | 8/10   | 1/1  | ..   | 5/5  | 1  |
| L M L'Huillier <sup>(1,3,4)</sup> | 10/10  | 4/4  | ..   | ..   | 2  |
| J A Strong <sup>(1,2,3)</sup>     | 10/10  | 4/4  | ..   | 4/4  | 4  |
| J F Astbury <sup>(1,3)</sup>      | 10/10  | 4/4  | 5/5  | ..   | ..   |
| M Luscombe                        | 0/0  | ..   | ..   | ..   | ..   |

#### Notes

(1) Member Audit Committee.

(2) Member People Policy Committee. Ms Grady retired as Chair and from the Committee in August 2006.

(3) Member Corporate Governance Committee.

(4) Chair of the Board of Trustees of the Woolworths Group Superannuation Scheme.

(5) These are meetings of ad hoc Committees which attended to special matters on behalf of the Board and meetings of Directors held by circular resolution.

## 1 INTRODUCTION

At Woolworths, all of our employees play an important role in delivering the Company's financial performance and our remuneration policies have been developed to provide market competitive remuneration in order to sustain Woolworths' competitive advantage and protect the interests of shareholders.

Woolworths recognises that remuneration is an important factor in attracting, motivating and retaining talented employees, in conjunction with other elements of our approach to people management. The Woolworths Academy provides training and development for employees to learn and develop the skills they need to succeed in their current roles and the development opportunities to enable them to reach their full potential. Effective succession planning includes promotion and appointment of employees to new challenges within the business.

Woolworths has an achievement and performance-oriented culture which our remuneration policies drive and support. In recognising the importance of our people to our success, in excess of 37,000 current Woolworths' employees participate in various equity-based schemes, sharing in the Company's success and aligning their experience with that of other shareholders.

## 2 REMUNERATION POLICY

Remuneration policy is aligned with both our financial and strategic business objectives and recognises that people are a major contributor to sustained improvements in performance.

Woolworths' remuneration policy for all executives ensures:

- ~ remuneration is market competitive and designed to attract, motivate and retain key executives;
- ~ demanding performance measures are applied to both short and long term "at risk" remuneration;

- ~ short term performance is linked to both financial and non-financial performance measures; and
- ~ long term performance is measured through creation of shareholder value.

Company protection and employment stability is provided through pre-established employment agreements limiting the amount of termination payments and providing for restrictive covenants on any future employment by competitors.

### 2.1 Role of the People Policy Committee

The Committee works closely with management to review processes and programs to ensure Remuneration Policy is implemented. Accordingly, management provides the Committee independent external advice on key remuneration issues, as required. The Committee acts on behalf of the Board and shareholders to ensure that in relation to its human resources, the Company:

- ~ establishes and implements a human resources strategy to ensure that appropriately talented and trained people are available to achieve the Business Strategy;
- ~ undertakes the appropriate performance management, succession planning and development activities and programs;
- ~ provides effective remuneration policies having regard to the creation of value for shareholders and the external remuneration market;
- ~ provides a safe working environment for all employees;
- ~ complies with all legal and regulatory requirements and principles of good governance; and
- ~ reports to shareholders in line with required standards.

Membership of the Committee consists of three independent non-executive Directors. At the date of this Report, members are Roderick Deane (Chair, previously Diane Grady), James Strong and Adrienne Clarke. The members' attendance at Committee Meetings is set out on page 41.

## 3 EXECUTIVE REMUNERATION INCLUDING EXECUTIVE DIRECTORS

### 3.1 Overview

Woolworths' current remuneration structure is comprised of two components:

- ~ fixed remuneration which is base salary, superannuation contributions and where appropriate, the use of a fully maintained motor vehicle; and
- ~ the variable or "at risk" component which is performance-based and comprised of a cash-based Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP).

The total remuneration package of all executives is designed to ensure an appropriate mix of fixed remuneration with short and long term incentive opportunities. The relative weighting of fixed and variable components, for target performance, varies with role level and complexity. Generally, the proportion of remuneration "at risk" increases with organisation responsibility and accountability level. Woolworths requires a significant proportion of senior executives' total potential reward to be at risk to reward performance in both the short and long term. To ensure alignment between the Company performance and individual performance, Woolworths aims to position all senior executives' remuneration at:

- ~ the median of the relevant market for fixed remuneration; and
- ~ the third quartile of the relevant market for total remuneration for outstanding performance.

Woolworths targets the mix of fixed and variable remuneration as follows:

|                         | Percentage of total target remuneration |                                      |                                     |
|-------------------------|---|--------------------------------------|-------------------------------------|
|                         | Fixed remuneration %                    | Target short-term incentive (STIP) % | Target long-term incentive (LTIP) % |
| Direct reports to CEO   | 40                                      | 30                                   | 30                                  |
| Other senior executives | 60                                      | 20                                   | 20                                  |

Specific arrangements exist for the CEO which are described in Section 3.5 Executive Service Agreements. These specific arrangements may vary from the general principles outlined in the following sections.

### 3.1.1 Fixed remuneration

The amount of base salary is determined by reference to independent research considering the scope and nature of the role and appropriate market rates as well as the executive's individual performance and experience. Base salaries are aligned to the median of the relevant market. Whilst Woolworths conducts annual remuneration reviews, there are no guaranteed remuneration increases contained in Executive Service Agreements. Any increases are determined by individual performance, economic indicators and market data.

### 3.1.2 Variable "at risk" remuneration

Remuneration that is variable and dependent upon performance is delivered through the STIP and the LTIP.

#### 3.1.2.1 Short Term Incentive Plan (STIP)

The STIP has been structured to ensure that payments are closely aligned to business performance and are designed to:

- ~ deliver Company performance improvements over the prior year;
- ~ provide rewards subject to the achievement of rigorous performance targets; and
- ~ align individual objectives to Company and business-specific objectives.

The STIP provides an annual cash incentive that is based on a maximum percentage of the executive's base salary. The CEO's STIP is calculated up to a maximum percentage of fixed remuneration.

STIP is payable upon the achievement of Woolworths' financial Key Result Areas (KRAs), as well as a component for non-financial or individual performance. Generally the components are weighted 70% to financial KRAs and 30% to non-financial or individual performance. The financial KRAs may be measures such as Sales, Earnings Before Interest and Tax (EBIT), Return on Funds Employed (ROFE) and Cost of Doing Business (CODB). Non-financial measures may include objectives such as reducing staff turnover rates and performance in areas such as safety, shrinkage and food safety compliance ratings. All targets are set at the beginning of the financial year for each business within the Woolworths Group and are measured based on improvements to the prior year.

There are three levels of targeted performance for each measure:

- ~ threshold, which is the minimum improvement to last year's results required to qualify for any incentive payment;
- ~ target, where established performance targets have been achieved; and
- ~ stretch, where performance targets have been exceeded.

The targets and weightings for each measure are adjusted at the beginning of the financial year to reflect the specific financial objectives of each business within the Woolworths Group for that financial year. This results in each executive having a STIP that is directly linked to their individual annual business objectives.

The People Policy Committee reviews annually the ongoing appropriateness of the STIP including performance measures, weighting of performance measures, performance hurdles, and assessment of performance and reward outcomes.

#### 3.1.2.2 Long Term Incentive Plan (LTIP)

The other variable remuneration component is the Long Term Incentive Plan which is designed to:

- ~ attract, retain and motivate all executives;
- ~ align executive rewards to shareholder value creation; and
- ~ provide rewards that are linked to the Company's strategic, financial and human resources objectives.

Long term incentives have been in place since 1993 and have been provided through various executive option plans. Since 1999, long term incentives have been provided through the Executive Option Plan which was designed to reward executives for share price and earnings growth. Performance measures relate to cumulative Earnings per Share (EPS) growth and Total Shareholder Return (TSR) relative to peer companies. EPS and TSR offer a balance between internal and external performance indicators and are aligned to shareholder experiences. In addition, since 2002, Executive Option Plan participation has been linked to executives entering into Service Agreements that offer the Company protection and provide clarity for executives.

# DIRECTORS' STATUTORY REPORT

## REMUNERATION REPORT

From 2003 all Supermarket and BIG W store managers and buyers as well as distribution centre managers became eligible to participate in the Executive Option Plan.

At the 2004 Annual General Meeting, shareholders approved the introduction of a new long term incentive, the Woolworths Long Term Incentive Plan. The Plan has four Sub-Plans that together can provide Options, Performance Rights, Performance Shares or Cash Awards. This Plan allows the Board flexibility to determine which of the Sub-Plan's awards will be granted to deliver the overall LTIP objectives. Like the previous Executive Option Plan, stringent performance measures are set annually and relate to EPS and TSR hurdles.

In the event of cessation of employment, both the Executive Option Plan and the LTIP Rules provide the Board with discretion as to the treatment of unvested long term incentive awards.

### Executive Option Plan

This Plan was approved by shareholders in November 1999. There are five tranches and each tranche is subject to performance hurdles established by the People Policy Committee and approved by the Board. Hurdles relate to cumulative EPS growth and to relative TSR. As at 25 June 2006, there were 30,346,968 options issued under this Plan. This Plan was last offered with an effective grant date of 1 July 2004.

The Executive Option Plan has the following features:

- ~ the exercise price is set at the weighted average market price of a Woolworths Limited ordinary share on the five trading days prior to the date approved by the Board as the effective date of options for the purpose of determining the exercise period and performance hurdles;

- ~ an exercise period that commences after five years, subject to performance hurdles being met and with a maximum exercise period of five and a half years;
- ~ upon exercise, each option entitles the option holder to one ordinary fully paid Woolworths Limited share;
- ~ vesting is subject to two performance hurdles based on cumulative EPS growth and relative TSR measured over the performance period;
- ~ the performance measures, EPS growth and relative TSR each represent 50% of the options granted;
- ~ EPS is the non-dilutive EPS which is measured as the net profit of the consolidated entity after outside equity interests divided by the weighted average number of shares on issue (including ordinary shares and dividend reinvestment allotments, but excluding shares held by Woolworths' custodian) over the performance period;
- ~ the EPS component vests in four tranches, dependent on attaining average annual growth of either 10% or 11% as follows:
- ~ the fifth tranche (50% of options) is linked to relative TSR and measures the growth in the Company's share price plus dividends notionally reinvested in the Company's shares comparative to a peer group, measured over five years from the grant date but averaged for three months to eliminate volatility. This reflects the increase in value delivered to shareholders over the performance period;
- ~ TSR performance is measured against comparator companies comprised of the S&P/ASX 100 Industrials Index, excluding companies in the ASX Banks and Finance Accumulation Index, ASX All Resources and ASX Trusts and any companies in the comparator group that have merged, had a share reconstruction or been de-listed as at the measurement date;
- ~ TSR performance measurement for the purpose of calculating the number of options to vest is carried out by an independent third party; and

| Tranche   | Percentage of options in total grant that may be exercised | Performance hurdle to be achieved for vesting | Exercise period                               |
|-----------|--|---|---|
| Tranche 1 | 12.5%  | 4 year<br>10% EPS                             | Between 5 ~ 5.5 years from the effective date |
| Tranche 2 | 12.5%  | 4 year<br>11% EPS                             | Between 5 ~ 5.5 years from the effective date |
| Tranche 3 | 12.5%  | 5 year<br>10% EPS                             | Between 5 ~ 5.5 years from the effective date |
| Tranche 4 | 12.5%  | 5 year<br>11% EPS                             | Between 5 ~ 5.5 years from the effective date |

the percentage of the total number of options granted that vest is dependent on Woolworths ranking relative to the performance of the above comparator companies. The following table sets out the TSR vesting schedule:

| <i>Woolworths<br/>TSR equals or<br/>exceeds the following<br/>percentile of the<br/>comparator companies</i> | <i>Percentage<br/>of options<br/>in total grant<br/>that vest and<br/>may be exercised</i> |
|--|--|
| 60th percentile  | 12.5%  |
| 65th percentile  | 25.0%  |
| 70th percentile  | 37.5%  |
| 75th percentile  | 50.0%  |

**Woolworths Long Term Incentive Plan**  
The Woolworths Long Term Incentive Plan has four Sub-Plans as described below. This provides the Board with the flexibility to determine which of the Sub-Plans will best meet the overall LTIP objectives. It should be noted that to date the Company has used Options under the Option Sub-Plan to satisfy LTIP grants.

For the 2007 financial year the Board has determined that the LTIP offer will be made under the Option Sub-Plan and will contain performance hurdles the same as those described for the Executive Option Plan.

#### 1 Option Sub-Plan

The Option Sub-Plan delivers a right to the holder of an option to acquire a share at a future date, subject to performance hurdles being met and the payment of an exercise price.

#### 2 Performance Rights Sub-Plan

The Performance Rights Sub-Plan delivers a contractual right to a future grant of a Company share to the right holder at a future date, subject to the performance hurdles being met. Each Performance Right has the following features:

- ... it can be exercised for no monetary payment; and
- ... upon exercise, each Performance Right entitles the right holder to the issue of one ordinary fully paid Woolworths Limited share.

#### 3 Performance Share Sub-Plan

The Performance Share Sub-Plan provides for a contractual right to an immediate grant of Company shares to participants, entitlement to which is subject to performance hurdles being achieved. Each Performance Share has the following features:

- ... it can be exercised for no monetary payment; and
- ... participants receive dividends or other distributions and entitlements as an ordinary Company shareholder.

#### 4 Cash Award Sub-Plan

The Cash Award Sub-Plan provides for participants to receive cash-based long-term incentives subject to specified performance hurdles being met.

#### Directors and executives

All key management personnel were employed by Woolworths Limited during the year. The following is a list of the key management personnel of Woolworths Limited and their positions at the date of this Report.

#### *Current position title*

#### **Executive Directors**

Roger Campbell Corbett  
Michael Luscombe<sup>(1)</sup>

Group Managing Director and Chief Executive Officer, up until 30 September 2006  
Chief Operating Officer

#### **Chairman**

James Alexander Strong

Chairman of the Board and member of the Audit Committee and People Policy Committee

#### **Non-executive Directors**

Leon Michael L'Huillier<sup>(2)</sup>

Non-executive Director; member of the Audit Committee and Chair of the Woolworths Group Superannuation Scheme

Adrienne Elizabeth Clarke

Non-executive Director and member of the People Policy Committee

Roderick Sheldon Deane

Non-executive Director and Chair of the People Policy Committee<sup>(3)</sup>

Diane Jennifer Grady

Non-executive Director and member of the Audit Committee<sup>(3)</sup>

John Frederick Astbury<sup>(4)</sup>

Non-executive Director and Chair of the Audit Committee

#### **Executives**

Tom Pockett<sup>(5)</sup>

Chief Financial Officer

Steve Bradley

Chief Logistics and Information Officer

Marty Hamnett<sup>(6)</sup>

Managing Director – Progressive Enterprises Limited

Naum Oníku<sup>(7)</sup>

Director of Supermarkets

#### **Notes**

**(1)**  
Mr Luscombe was appointed Chief Operating Officer on 1 June 2006 and it has been announced that Mr Luscombe will become CEO on 1 October 2006. Prior to 1 June 2006, he was Director of Supermarkets.

**(2)**  
Mr L'Huillier was appointed a Director and Chair of Woolworths Group Superannuation Scheme Pty Ltd effective 1 May 2006.

**(3)**  
Mr Deane assumed the Chair of the People Policy Committee in September 2006, previously held by Ms Grady.

**(4)**  
Mr Astbury resigned as a Director and Chair of Woolworths Group Superannuation Scheme Pty Ltd effective 30 April 2006.

**(5)**  
It has been announced that Mr Pockett will join the Board. Mr Pockett will stand for election at the Annual General Meeting on 24 November 2006.

**(6)**  
Mr Hamnett was appointed Managing Director – Progressive Enterprises Limited on 26 April 2006. Prior to this appointment Mr Hamnett was Director of Business Development.

**(7)**  
Mr Oníku was appointed Director of Supermarkets on 1 July 2006. Prior to this appointment Mr Oníku was the Director of Liquor and Petrol.

# DIRECTORS' STATUTORY REPORT

## REMUNERATION REPORT

### 3.2 Conditional entitlement to and shareholdings

The table below summarises the movements during the year in holdings of option interests for the key management personnel in the Company for the period. An option entitles the holder to one ordinary fully paid Woolworths Limited share. There is no amount unpaid on options exercised.

|            | <i>Options<br/>Holding at<br/>27 June<br/>2005<br/>No.</i> | <i>No.</i> | <i>Options granted as<br/>remuneration<sup>(1)</sup><br/>\$</i> | <i>No.</i> | <i>Options<br/>exercised<sup>(2)</sup><br/>\$</i> |
|------------|--|------------|---|------------|---|
| S Bradley  | 672,500  | 80,000     | 177,200   | 262,500    | 2,667,000   |
| M Hamnett  | 460,000  | 40,000     | 88,600  | ..         | ..  |
| M Luscombe | 485,000  | 80,000     | 177,200   | 75,000     | 973,500   |
| N Onikul   | 160,000  | 80,000     | 177,200   | ..         | ..  |
| T Pockett  | 500,000  | 80,000     | 177,200   | ..         | ..  |
| Total      | 2,277,500  | 360,000    | 797,400   | 337,500    | 3,640,500   |

|              |  |   |   |
|--------------|--|---|---|
| <b>Notes</b> | <b>(1)</b><br>"Options granted as remuneration" is the total fair value of options granted during the year determined by an independent actuary. This will be amortised over the vesting period. | <b>(2)</b><br>The value of options exercised during the year is calculated as the market value of shares on the Australian Stock Exchange (ASX) as at close of trading on the date the options were exercised after deducting the price paid to exercise the options. | The amount paid per share exercised was \$6.17 and no amounts remain unpaid. No other options were exercised by key management personnel. |
|--------------|--|---|---|

|                        | <i>Options<br/>Holding at<br/>27 June<br/>2004<br/>No.</i> | <i>No.</i> | <i>Options granted as<br/>remuneration<sup>(1)</sup><br/>\$</i> | <i>No.</i> | <i>Options<br/>exercised<sup>(2),(3)</sup><br/>\$</i> |
|------------------------|--|------------|---|------------|---|
| S Bradley              | 960,000  | 150,000    | 291,000   | 437,500    | 3,217,375   |
| B Brookes              | 970,000  | 60,000     | 116,400   | 750,000    | 4,732,500   |
| T Flood <sup>(1)</sup> | 660,000  | ..         | ..  | 350,000    | 2,747,500   |
| M Hamnett              | 610,000  | 150,000    | 291,000   | 300,000    | 1,893,000   |
| M Luscombe             | 872,500  | 150,000    | 291,000   | 537,500    | 3,378,375   |
| N Onikul               | 810,000  | 100,000    | 194,000   | 750,000    | 4,732,500   |
| T Pockett              | 350,000  | 150,000    | 291,000   | ..         | ..  |
| Total                  | 5,232,500  | 760,000    | 1,474,400   | 3,125,000  | 20,701,250  |

|              |  |  |   |
|--------------|--|--|---|
| <b>Notes</b> | <b>(1)</b><br>Mr Flood retired 31 August 2004 and Mr Luscombe was appointed Director of Supermarkets. All of Mr Flood's outstanding and vested options lapsed as at his retirement date. | <b>(2)</b><br>Granted as remuneration is the total fair value of options granted during the year determined by an independent actuary. | <b>(3)</b><br>The value of options exercised during the year is calculated as the market value of shares on the ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the options. |
|--------------|--|--|---|

| No. | Options Lapsed | \$ | Options Holding at 25 June 2006 <sup>(3)</sup><br>No. | Options Vested at 25 June 2006 |                 |                   | Vested during the year<br>No. |
|-----|----------------|----|---|--------------------------------|-----------------|-------------------|-------------------------------|
|     |                |    |   | Total No.                      | Exercisable No. | Unexercisable No. |                               |
| ..  | ..             | .. | 490,000   | ..                             | ..              | ..                | 175,000                       |
| ..  | ..             | .. | 500,000   | 100,000                        | 100,000         | ..                | 50,000                        |
| ..  | ..             | .. | 490,000   | ..                             | ..              | ..                | 50,000                        |
| ..  | ..             | .. | 240,000   | ..                             | ..              | ..                | ..                            |
| ..  | ..             | .. | 580,000   | ..                             | ..              | ..                | ..                            |
| ..  | ..             | .. | 2,300,000   | 100,000                        | 100,000         | ..                | 275,000                       |

(3)

The number of ordinary shares under option as at 25 June 2006 is equivalent to the option holding at that date.

| No.     | Options Lapsed <sup>(4)</sup> | \$ | Options Holding at 25 June 2005 <sup>(5)</sup><br>No. | Options Vested at 26 June 2005 |                 |                   | Vested during the year<br>No. |
|---------|-------------------------------|----|---|--------------------------------|-----------------|-------------------|-------------------------------|
|         |                               |    |   | Total No.                      | Exercisable No. | Unexercisable No. |                               |
| ..      | ..                            | .. | 672,500   | 87,500                         | ..              | 87,500            | 225,000                       |
| ..      | ..                            | .. | 280,000   | ..                             | ..              | ..                | 500,000                       |
| 310,000 | 414,600                       | .. | ..  | ..                             | ..              | ..                | 200,000                       |
| ..      | ..                            | .. | 460,000   | 50,000                         | 12,500          | 37,500            | 250,000                       |
| ..      | ..                            | .. | 485,000   | 25,000                         | ..              | 25,000            | 350,000                       |
| ..      | ..                            | .. | 160,000   | ..                             | ..              | ..                | 500,000                       |
| ..      | ..                            | .. | 500,000   | ..                             | ..              | ..                | ..                            |
| 310,000 | 414,600                       | .. | 2,557,500   | 162,500                        | 12,500          | 150,000           | 2,025,000                     |

(4)

The value of lapsed options was determined based on the fair value of the options as at date of lapse using the Monte Carlo Simulation Binomial method.

(5)

No amount is payable as of 26 June 2005 in respect of shares issued as a result of the exercise of options during the year.

(6)

The number of ordinary shares under option as at 26 June 2005 is equivalent to the options holding at that date.

# DIRECTORS' STATUTORY REPORT

## REMUNERATION REPORT

The table below summarises the movements during the year in holdings of shares in Woolworths Limited held by the key management personnel.

|            | <i>Shareholding<br/>at 26 June<br/>2005<br/>No.</i> | <i>Shares received<br/>on exercise<br/>of options<br/>No.</i> | <i>Other<br/>changes in<br/>shareholding<sup>(1)</sup><br/>No.</i> | <i>Shareholding<br/>at 25 June<br/>2006<br/>No.</i> |
|------------|---|---|--|---|
| R Corbett  | 293,165   | —   | —  | 293,165   |
| S Bradley  | 61,863  | 262,500   | (54,926)   | 269,437   |
| M Hamnett  | 5,000   | —   | —  | 5,000   |
| M Luscombe | 656,926   | 75,000  | (323,636)  | 408,290   |
| N Onikul   | 500,000   | —   | (302,009)  | 197,991   |
| T Pockett  | —   | —   | —  | —   |

|                | <i>Shareholding<br/>at 26 June<br/>2005<br/>No.</i> | <i>Shares issued<br/>under DRP<sup>(2)</sup><br/>No.</i> | <i>Shares issued<br/>under NEDSP<sup>(3)</sup><br/>No.</i> | <i>Shares sold<sup>(1)</sup><br/>No.</i> | <i>Shareholding<br/>at 25 June<br/>2006<br/>No.</i> |
|----------------|---|--|--|--|---|
| J F Astbury    | 8,386   | 42   | 2,051  | —  | 10,479  |
| A E Clarke     | 38,766  | 682  | 2,051  | —  | 41,499  |
| R S Deane      | 40,000  | —  | —  | —  | 40,000  |
| D J Grady      | 33,801  | 869  | —  | —  | 34,670  |
| L M L'Huillier | 119,044   | —  | —  | (59,044)                                 | 60,000  |
| J A Strong     | 68,137  | —  | 1,879  | —  | 70,016  |

| <b>Notes</b> | <b>(1)</b>  | <b>(2)</b>   | <b>(3)</b>   |
|--------------|---|--|--|
|              | Figures in brackets indicate that these shares have been sold or otherwise disposed of. | Comprises new shares issued as a result of participation in the Dividend Reinvestment Plan on the same basis as transactions by other shareholders and on-market transactions. | Comprises shares issued under the Non-executive Directors' Share Plan (NEDSP). |

The table below sets out the grants of options and outstanding options for the key management personnel in Woolworths Limited for the period 27 June 2005 to 25 June 2006.

|            | <i>Grant date</i>        | <i>No. of options at 25 June 2006<sup>(1)</sup></i> | <i>Expiry date</i> | <i>Exercise Price per option</i> | <i>Exercise date<sup>(2)</sup></i> | <i>Maximum value of award to vest<sup>(3)</sup></i> | <i>Fair value per option<sup>(4)</sup></i> |
|------------|--------------------------|---|--------------------|----------------------------------|------------------------------------|---|--|
| S Bradley  | 1/07/2002                | 160,000   | 31/12/2007         | \$12.94                          | 1/07/2007                          | \$248,000   | \$1.55                                     |
|            | 1/07/2003                | 100,000   | 31/12/2008         | \$12.60                          | 1/07/2008                          | \$115,500   | \$1.16                                     |
|            | 1/07/2004                | 150,000   | 31/12/2009         | \$11.54                          | 1/07/2009                          | \$581,250   | \$3.88                                     |
|            | 1/07/2005                | 80,000  | 31/12/2010         | \$16.46                          | 1/07/2010                          | \$177,200   | \$2.22                                     |
|            |                          | 490,000   |                    |                                  |                                    | \$1,121,950   |  |
| M Hamnett  | 1/07/2001 <sup>(5)</sup> | 100,000   | 1/07/2011          | \$10.89                          | 1/07/2004                          | \$141,250   | \$2.83                                     |
|            | 1/07/2002                | 60,000  | 31/12/2007         | \$12.94                          | 1/07/2007                          | \$93,000  | \$1.55                                     |
|            | 1/07/2003                | 150,000   | 31/12/2008         | \$12.60                          | 1/07/2008                          | \$173,250   | \$1.16                                     |
|            | 1/07/2004                | 150,000   | 31/12/2009         | \$11.54                          | 1/07/2009                          | \$581,250   | \$3.88                                     |
|            | 1/07/2005                | 40,000  | 31/12/2010         | \$16.46                          | 1/07/2010                          | \$88,600  | \$2.22                                     |
|            |                          | 500,000   |                    |                                  |                                    | \$1,077,350   |  |
| M Luscombe | 1/07/2002                | 160,000   | 31/12/2007         | \$12.94                          | 1/07/2007                          | \$248,000   | \$1.55                                     |
|            | 1/07/2003                | 100,000   | 31/12/2008         | \$12.60                          | 1/07/2008                          | \$115,500   | \$1.16                                     |
|            | 1/07/2004                | 150,000   | 31/12/2009         | \$11.54                          | 1/07/2009                          | \$581,250   | \$3.88                                     |
|            | 1/07/2005                | 80,000  | 31/12/2010         | \$16.46                          | 1/07/2010                          | \$177,200   | \$2.22                                     |
|            |                          | 490,000   |                    |                                  |                                    | \$1,121,950   |  |
| N Onikul   | 1/07/2003                | 60,000  | 31/12/2008         | \$12.60                          | 1/07/2008                          | \$69,300  | \$1.16                                     |
|            | 1/07/2004                | 100,000   | 31/12/2009         | \$11.54                          | 1/07/2009                          | \$387,500   | \$3.88                                     |
|            | 1/07/2005                | 80,000  | 31/12/2010         | \$16.46                          | 1/07/2010                          | \$177,200   | \$2.22                                     |
|            |                          | 240,000   |                    |                                  |                                    | \$634,000   |  |
| T Pockett  | 1/07/2002                | 200,000   | 31/12/2007         | \$12.94                          | 1/07/2007                          | \$310,000   | \$1.55                                     |
|            | 1/07/2003                | 150,000   | 31/12/2008         | \$12.60                          | 1/07/2008                          | \$173,250   | \$1.16                                     |
|            | 1/07/2004                | 150,000   | 31/12/2009         | \$11.54                          | 1/07/2009                          | \$581,250   | \$3.88                                     |
|            | 1/07/2005                | 80,000  | 31/12/2010         | \$16.46                          | 1/07/2010                          | \$177,200   | \$2.22                                     |
|            |                          | 580,000   |                    |                                  |                                    | \$1,241,700   |  |

No amounts were paid or payable by the recipient on receipt of the option.

The minimum value yet to vest is the minimum value of options that may vest if the performance criteria are not met. It is assessed as nil for each option grant and has not been specifically detailed in the table above on the basis that no options will vest if the performance criteria are not satisfied.

**Notes**

**(1)**

The number of options at 25 June 2006 comprises both options that have vested and have not been exercised and options yet to vest.

**(2)**

Options not exercised within six months of exercise date lapse.

**(3)**

The maximum value of award to vest represents the value of employee benefit expense that will be recorded in future reporting periods in respect of options currently on issue.

**(4)**

The fair value per option was determined by an independent actuary using the Monte Carlo Simulation Binomial method.

**(5)**

50% of the 1/07/2001 options grant was yet to vest at 25 June 2006.

# DIRECTORS' STATUTORY REPORT

## REMUNERATION REPORT

| Grant date | Expiry date | Exercise price | No. of options 26 June 2005 | No. of options granted during year | No. of options exercised during year | No. of options lapsed during year | No. of Options 25 June 2006 | Fair value of shares received <sup>(1)</sup> |
|------------|-------------|----------------|-----------------------------|------------------------------------|--------------------------------------|-----------------------------------|-----------------------------|--|
| 1/07/1999  | 1/07/2009   | \$5.11         | 951,875                     | ~                                  | 551,375                              | ~                                 | 400,500                     | \$9,137,533                                  |
| 1/07/2000  | 1/07/2010   | \$6.17         | 2,252,125                   | ~                                  | 1,942,750                            | ~                                 | 309,375                     | \$31,958,478                                 |
| 1/07/2001  | 1/07/2011   | \$10.89        | 6,107,982                   | ~                                  | 710,426                              | 97,713                            | 5,299,843                   | \$12,095,306                                 |
| 1/07/2002  | 31/12/2007  | \$12.94        | 5,386,000                   | ~                                  | ~                                    | 774,000                           | 4,612,000                   | ~  |
| 1/07/2003  | 31/12/2008  | \$12.60        | 6,569,350                   | ~                                  | ~                                    | 659,000                           | 5,910,350                   | ~  |
| 1/07/2004  | 31/12/2009  | \$11.54        | 7,752,750                   | ~                                  | ~                                    | 653,250                           | 7,099,500                   | ~  |
| 1/07/2005  | 31/12/2010  | \$16.46        | ~                           | 6,906,300                          | ~                                    | 190,900                           | 6,715,400                   | ~  |
|            |             |                | 29,020,082                  | 6,906,300                          | 3,204,551                            | 2,374,863                         | 30,346,968                  | \$53,191,317                                 |

**Note** (1)  
The fair value of shares received is determined by multiplying the average monthly market price by the number of options exercised in that month.

### 3.3 Relationship of variable remuneration to Woolworths' financial performance

Woolworths' executive remuneration is directly related to the performance of the following results through linking of short and long term incentive targets to these measures.

The effectiveness of the STIP in driving year-on-year growth and business improvements is highlighted in the following table. Each of these elements is currently linked to Woolworths STIP.

In monetary terms, since 2002:

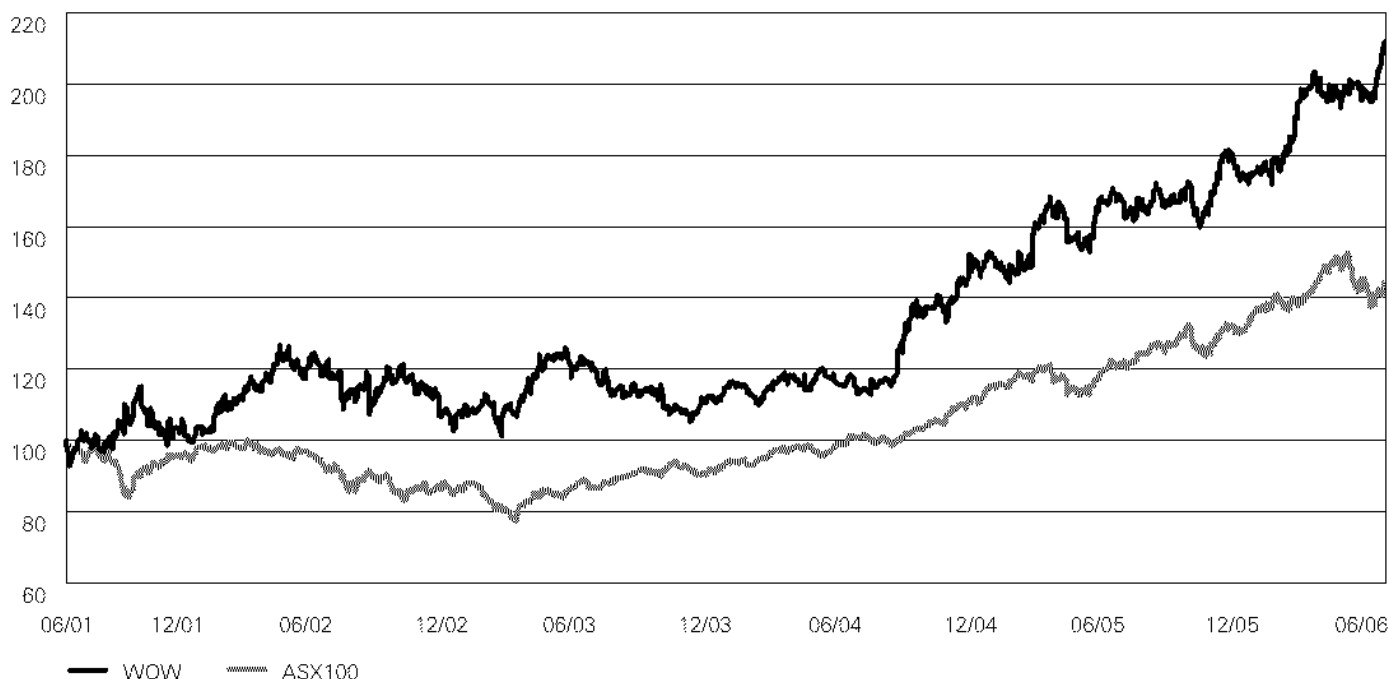
| Five Year Performance Table | 2002   | 2003   | 2004   | 2005 AGAAP | 2005 AIFRS | 2006 AIFRS          |
|-----------------------------|--------|--------|--------|------------|------------|---------------------|
| Sales (\$m)                 | 24,473 | 26,321 | 27,934 | 31,352     | 31,352     | 37,734              |
| EBIT (\$m)                  | 833    | 946    | 1,065  | 1,283      | 1,302      | 1,722               |
| ROFE (%)                    | 38.1   | 42.8   | 49.3   | 38.7       | 42.6       | 28.6 <sup>(1)</sup> |
| CODB (%)                    | 21.84  | 21.55  | 21.10  | 20.80      | 20.73      | 20.47               |

**Note** (1)  
Impacted by increase in Funds Employed following the acquisition of ALH.

- ~ Sales have increased by more than 50% since 2002;
- ~ EBIT has increased by more than 100%;
- ~ ROFE has declined in FY05 and FY06 due to the acquisitions of ALH, FAL, Taverner and BMG. 2005 and 2006 had partial earnings from the respective acquisitions that occurred at various times over that two year period; and
- ~ CODB has decreased.

Whilst EBIT has doubled over the period, STIP paid to executives has remained at less than 10% of EBIT over the same period.

The following shows the performance of the Company (as measured by the Company's TSR) and the comparison of the Company's TSR to the ASX 100 Index.



A comparison of the improved financial performance and benefits for shareholder wealth derived from Woolworths' long-term incentive arrangements and the number of options granted to all executives are shown in the following table:

| <i>Year ended June</i>                         | <i>2002</i> | <i>2003</i> | <i>2004</i>          | <i>2005</i> | <i>2006</i> |
|--|-------------|-------------|----------------------|-------------|-------------|
| EPS (cents per share)                          | 50.24       | 58.09       | 67.40                | 79.19       | 90.89       |
| Total dividends (cents per share)              | 33.0        | 39.0        | 45.0                 | 51.0        | 59.0        |
| Market capitalisation (\$ million)             | 13,797      | 12,945      | 11,875               | 17,493      | 22,822      |
| No. of options granted to executives (million) | 8.5         | 6.4         | 7.5                  | 7.8         | 6.9         |
| Fair value per option (\$)                     | 2.83        | 1.55        | 1.16                 | 3.88        | 2.22        |
| No. of executives granted options              | 149         | 333         | 1,277 <sup>(1)</sup> | 1,354       | 1,464       |

**Note**

**(1)**  
Grants under the Long Term Incentive Plan were extended to Store Managers and Distribution Centre Managers in this and subsequent years.

# DIRECTORS' STATUTORY REPORT

## REMUNERATION REPORT

### 3.4 Remuneration tables

Set out in the following table is the remuneration for the key management personnel of Woolworths Limited during the financial year ended 25 June 2006.

|                                | Short-term employee benefits |                             |  | Post-employment benefits |  |
|--------------------------------|------------------------------|-----------------------------|--|--------------------------|--|
|                                | Salary and fees<br>\$        | Short term cash bonus<br>\$ | Non-monetary benefits <sup>(1)</sup><br>\$ | Super-annuation<br>\$    | Retirement allowance accrual <sup>(1)(2)</sup><br>\$ |
| <b>Non-executive Directors</b> |                              |                             |  |                          |  |
| J F Astbury*                   | 170,000                      | ~                           | 1,972                                      | 12,139                   | ~  |
| A E Clarke <sup>*(2)</sup>     | 120,000                      | ~                           | 1,972                                      | 10,800                   | (27,777)   |
| R S Deane                      | 130,000                      | ~                           | 1,972                                      | 11,700                   | 44,584   |
| D J Grady                      | 130,000                      | ~                           | 1,972                                      | 11,700                   | 30,000   |
| L M L'Huillier <sup>(2)</sup>  | 195,000                      | ~                           | 1,972                                      | 12,139                   | 321,621  |
| J A Strong*                    | 330,000                      | ~                           | 1,972                                      | 12,139                   | 138,333  |
| <b>Executive Directors</b>     |                              |                             |  |                          |  |
| R C Corbett                    | 3,071,683                    | 2,291,746                   | 51,096                                     | ~                        | 3,000,000  |
| M Luscombe                     | 858,121                      | 714,800                     | 31,120                                     | 106,000                  | ~  |
| <b>Executives</b>              |                              |                             |  |                          |  |
| S Bradley                      | 713,063                      | 566,366                     | 23,057                                     | 103,478                  | ~  |
| M Hamnett                      | 595,788                      | 508,430                     | 11,675                                     | 84,000                   | ~  |
| N Onikul                       | 722,184                      | 641,044                     | 15,229                                     | 100,000                  | ~  |
| T Pockett                      | 745,699                      | 739,404                     | 26,135                                     | 110,435                  | ~  |
| <b>Total</b>                   | <b>7,781,538</b>             | <b>5,461,790</b>            | <b>170,144</b>                             | <b>574,530</b>           | <b>3,506,761</b>                                     |

#### Notes

\* These fees include fees sacrificed for the purchase of shares in the Company under the Non-executive Directors' Share Plan.

(1) Non-monetary benefits include the cost to the Company of motor vehicles, fringe benefits tax and other items where applicable, in addition to the deemed premium in respect of the Directors' and Officers' Indemnity insurance.

(2) These amounts are only payable to Non-executive Directors upon retirement. The Board resolved effective 1 January 2004 that in relation to the Directors' Retirement Allowance any Director appointed from that date would not enter into a Directors' Retirement Deed with the Company. This resolution was made prior to the appointment of Mr Astbury and consequently he is not entitled to a retirement allowance. The \$3 million payment to Mr Corbett relates to his retirement benefit as disclosed in Section 3.5.1.

(3) The Long Term Incentive Plan referred to in the table is only applicable to Mr Corbett.

| Other long-term benefits |  | Share-based payments      |            | Options as a % of total remuneration % | Accrued retirement allowance \$ |
|--------------------------|--|---------------------------|------------|--|---------------------------------|
| Long service leave \$    | Long-term incentive plan <sup>(5)</sup> \$ | Options <sup>(6)</sup> \$ | Total \$   |  |                                 |
| ~                        | ~  | ~                         | 184,111    | ~                                      | ~                               |
| ~                        | ~  | ~                         | 104,995    | ~                                      | 600,000                         |
| ~                        | ~  | ~                         | 188,256    | ~                                      | 406,250                         |
| ~                        | ~  | ~                         | 173,672    | ~                                      | 650,000                         |
| ~                        | ~  | ~                         | 530,732    | ~                                      | 861,250                         |
| ~                        | ~  | ~                         | 482,444    | ~                                      | 1,045,000                       |
| 262,123                  | 2,100,000                                  | ~                         | 10,776,648 | ~                                      | ~                               |
| 72,106                   | ~  | 239,929                   | 2,022,076  | 11.9%                                  | ~                               |
| 20,353                   | ~  | 239,929                   | 1,666,246  | 14.4%                                  | ~                               |
| 9,559                    | ~  | 240,096                   | 1,449,548  | 16.6%                                  | ~                               |
| 38,828                   | ~  | 94,253                    | 1,611,538  | 5.8%                                   | ~                               |
| 19,421                   | ~  | 265,559                   | 1,906,653  | 13.9%                                  | ~                               |
| 422,390                  | 2,100,000                                  | 1,079,766                 | 21,096,919 |  | 3,562,500                       |

(4)

Professor Clarke attained the maximum 10 years entitlement to this allowance at 27 June 2004. Therefore, no further provision was made in the year ended 25 June 2006. The reduction of \$27,777 in the allowance accrued at 25 June 2006 arose due to the method of calculating the accrual using an average of a rolling three years fee base for the three years to June 2006.

(5)

Mr L'Huillier receives an additional fee of \$65,000 per annum as a Non-executive Director and \$10,000 per annum as Chair of the Audit Committee of ALH Group Limited. These fees were also included in the determination of Mr L'Huillier's Directors Retirement Allowance.

(6)

These numbers represent the current year apportionment of the fair value of unvested options, on a pro rata basis over the total vesting period, determined by an independent actuary.

# DIRECTORS' STATUTORY REPORT

## REMUNERATION REPORT

Set out in the following table is the remuneration for the Executive Director, non-executive Directors and other key management personnel of Woolworths Limited during the financial year ended 26 June 2005.

|                                | Short-term<br>employee benefits |                                   |   | Post-employment<br>benefits |   |
|--------------------------------|---------------------------------|-----------------------------------|---|-----------------------------|---|
|                                | Salary<br>and fees<br>\$        | Short term<br>cash<br>bonus<br>\$ | Non-<br>monetary<br>benefits <sup>(1)</sup><br>\$ | Super-<br>annuation<br>\$   | Retirement<br>allowance<br>accrual <sup>(2)</sup><br>\$ |
| <b>Non-executive Directors</b> |                                 |                                   |   |                             |   |
| J F Astbury*                   | 186,974                         | ~                                 | 1,722   | 11,585                      | ~   |
| A E Clarke*                    | 120,000                         | ~                                 | 1,722   | 10,598                      | (41,345)  |
| R S Deane                      | 130,000                         | ~                                 | 1,722   | 11,585                      | 73,021  |
| D J Grady                      | 130,000                         | ~                                 | 1,722   | 11,585                      | 76,666  |
| L M L'Huillier                 | 195,000                         | ~                                 | 1,722   | 11,585                      | 75,532  |
| J A Strong*                    | 330,000                         | ~                                 | 1,722   | 11,585                      | 166,369   |
| <b>Executive Director</b>      |                                 |                                   |   |                             |   |
| R C Corbett                    | 2,354,037                       | 3,043,300                         | 65,195  | ~                           | ~   |
| <b>Executives</b>              |                                 |                                   |   |                             |   |
| S Bradley                      | 608,473                         | 338,874                           | 24,455  | 90,435                      | ~   |
| M Hamnett                      | 549,067                         | 284,661                           | 15,224  | 79,000                      | ~   |
| M Luscombe                     | 619,185                         | 453,423                           | 17,311  | 87,000                      | ~   |
| N Onikul                       | 603,865                         | 442,297                           | 23,898  | 95,000                      | ~   |
| T Pockett                      | 620,951                         | 433,655                           | 32,163  | 91,522                      | ~   |
| B Brookes <sup>(3)</sup>       | 537,097                         | 376,512                           | 26,758  | 74,000                      | ~   |
| T Flood                        | 386,057                         | ~                                 | 26,393  | 22,000                      | ~   |
| <b>Total</b>                   | <b>7,370,706</b>                | <b>5,372,722</b>                  | <b>241,729</b>                                    | <b>607,480</b>              | <b>350,243</b>  |

### Notes

\*  
These fees include fees sacrificed for the purchase of shares in the Company under the Non-executive Directors' Share Plan.

**(1)**  
Non-monetary benefits include the cost to the Company of motor vehicles, fringe benefits tax and other items, where applicable and also Directors' and Officers' Indemnity insurance.

**(2)**  
These amounts are only payable to Non-executive Directors upon retirement and on having satisfied a minimum three year service period.

**(3)**  
The Long Term Incentive Plan referred to in the table is only applicable to Mr Corbett.

| Other long-term benefits |  | Share-based payments      |            | Options as a % of total remuneration % | Accrued retirement allowance \$ |
|--------------------------|--|---------------------------|------------|--|---------------------------------|
| Long service leave \$    | Long Term incentive plan <sup>(5)</sup> \$ | Options <sup>(4)</sup> \$ | Total \$   |  |                                 |
| ~                        | ~  | ~                         | 200,281    | ~                                      | ~                               |
| ~                        | ~  | ~                         | 90,975     | ~                                      | 627,777                         |
| ~                        | ~  | ~                         | 216,328    | ~                                      | 361,666                         |
| ~                        | ~  | ~                         | 219,973    | ~                                      | 620,000                         |
| ~                        | ~  | ~                         | 283,839    | ~                                      | 539,629                         |
| ~                        | ~  | ~                         | 509,676    | ~                                      | 906,667                         |
| 30,264                   | 3,000,000                                  | ~                         | 8,492,796  | ~                                      | ~                               |
| 17,457                   | ~  | 249,295                   | 1,328,989  | 18.8%                                  | ~                               |
| 56,692                   | ~  | 169,195                   | 1,153,839  | 14.7%                                  | ~                               |
| 52,487                   | ~  | 171,201                   | 1,400,606  | 12.2%                                  | ~                               |
| 17,672                   | ~  | 56,313                    | 1,239,045  | 4.5%                                   | ~                               |
| 11,620                   | ~  | 165,594                   | 1,355,504  | 12.2%                                  | ~                               |
| 16,392                   | ~  | 92,748                    | 1,123,507  | 8.3%                                   | ~                               |
| 1,860                    | ~  | ~                         | 436,310    | ~                                      | ~                               |
| 204,444                  | 3,000,000                                  | 904,346                   | 18,051,668 |  | 3,055,739                       |

**(4)**

These numbers represent the current year apportionment of the fair value of unvested options, on a pro rata basis over the total vesting period, determined by an independent actuary.

**(5)**

As a result of the adoption of AIFRS, the basis for measuring the following elements of remuneration in the comparative period have changed:

- ~ amounts for defined benefit plans have been included based on an allocation of the current service cost and recognised past service cost for each employee;
- ~ amounts for accrued annual leave have been included in salaries and fees; and
- ~ amounts for accrued long service leave have been included in other long term benefits.

Comparative balances have been amended to reflect this change.

**(6)**

Mr Brookes was part of the key management personnel in 2005 and was appointed Director of Marketing on 1 July 2005. Mr Brookes resigned from the Company on 12 April 2006.

### **3.5 Executive Service Agreements**

#### **3.5.1 Chief Executive Officer (Roger Corbett)**

The CEO's Service Agreement which was effective 6 September 2004 terminates on 30 September 2006 and includes the components of remuneration to be paid to the CEO during the term of the Agreement. Upon retirement at the end of the term, the CEO is entitled to receive a payment of a retirement benefit of \$3 million in addition to payment for STIP and LTIP as detailed below, as well as statutory leave entitlements and superannuation benefits. The Agreement also provides for his consultancy services to Woolworths from his retirement in September 2006 until September 2011 and a restraint that will prevent him from providing services to major competitors of Woolworths in Australasia, for which Mr Corbett will be paid \$600,000 per annum.

#### **Short Term Incentive Plan**

The maximum annual incentive opportunity is 130% of fixed remuneration, with the actual payment to be determined by the Board having regard to the achievement by Mr Corbett against performance criteria which are set each year by the Board. The performance criteria are based on a combination of detailed measurements of corporate and financial performance and the implementation of strategic operational objectives.

#### **Long Term Incentive Plan**

The CEO participated in the Executive Option Plan in 2000 under the same terms and conditions as other executives but subject to a three year vesting period. At the 2004 Annual General Meeting shareholder approval was given for the Board to grant up to two million options to the CEO on the basis that up to one million options would be granted for each of the 2004 and 2005 financial years.

The Board subsequently determined that the above arrangement would be

replaced with cash-based incentives of up to a maximum of \$3 million per annum in relation to key strategic initiatives for the financial years ending 30 June 2005, 2006 and 2007. In addition to conventional performance measures, further measures will be considered by the Board that closely align the strategic positioning of Woolworths including:

- ~ growth and market share in key business categories;
- ~ pursuing acquisitions and alliance strategies;
- ~ initiation of management changes to prepare for succession and smooth transition for the new leadership team; and
- ~ developing further strategic initiatives to ensure future growth.

#### **3.5.2 Chief Executive Officer (Michael Luscombe)**

The Company is finalising the details of Mr Luscombe's Service Agreement, which will be announced on completion.

#### **3.5.3 All other executives**

Since 2002, LTIP participation has been offered subject to executives entering into Service Agreements with the Company. The Service Agreements include the components of remuneration paid to executives (as detailed in Section 3.2) but do not prescribe how remuneration levels are to be modified from year to year. They do not provide for a fixed term although these Service Agreements can be terminated on specified notice. For all of the executives, the Company is required to give a minimum of two months' notice. However, the Company retains the right to terminate any Service Agreement immediately in a number of circumstances including fraud, dishonesty, breach of duty or improper conduct.

All of the executives are required to provide the Company with a minimum of four weeks' notice of termination. In addition, for all executives, the Company

may elect to invoke a restraint period not exceeding 12 months.

All executives are entitled to receive their statutory leave entitlements and superannuation benefits upon termination. In relation to incentive plans on termination, where an executive has resigned, STIP is paid only if the executive is employed on the last day of the financial year. In relation to LTIP, the treatment of vested and unvested options, in all instances of separation, remains subject to the discretion of the Board in accordance with the Plan rules.

## **4 NON-EXECUTIVE DIRECTORS' REMUNERATION**

### **4.1 Non-executive Directors' remuneration policy and structure**

Non-executive Directors' fees are determined by the Board within the aggregate amount approved by shareholders. The current maximum aggregate amount which may be paid in Directors' fees, as approved at the Annual General Meeting on 25 November, 2005 is \$1,750,000 per annum. No Directors' fees are paid to Executive Directors.

As of 1 August 2006, the amount of Directors' base fees paid to each non-executive Director is \$165,000 per annum. The Chairman receives a multiple of three times this amount. The fees for Directors appointed prior to January 2004 were increased effective 1 August 2006 following their decision to "freeze" their retirement benefits (see Section 4.3 below). Fees for Directors appointed after December 2003 who were not previously entitled to a retirement allowance were increased effective 1 July 2006.

In addition to the above base fees, the non-executive Directors, other than the Chairman, receive a fee for service on a Board Committee (except the Corporate Governance Committee). The fees for serving as a member of a Board

Committee are \$22,500 for the Audit Committee and \$15,000 for the People Policy Committee. A Board Committee Chair receives \$45,000 for chairing the Audit Committee, \$30,000 for the People Policy Committee and \$20,000 for the Woolworths Group Superannuation Scheme.

Fees for Directors who are Directors of the controlled entity ALH Group Pty Ltd (ALH) are \$75,000 and for being Chair of the ALH Audit Committee \$22,500.

An overseas Directors' Allowance of \$10,000 is also provided to any Non-executive Directors residing outside Australia, representing the additional time and cost involved in attending to Board and Board Committee responsibilities.

The structure and level of non-executive Directors' fees was based on independent research and advice from external remuneration advisors. The advice takes into consideration the fees paid to non-executive Directors of Australian listed corporations, the size and complexity of the Company's operations and the responsibilities and workload requirements of Directors. Directors (with the exception of the Chair) receive a base fee for being a Director of the Board, and additional fees for either chairing or being a member of a Board Committee or serving on the Boards of controlled entities. No element of the remuneration of any Non-executive Director is dependent on the satisfaction of a performance condition.

#### **4.2 Non-executive Director Share Plan**

The Non-executive Director Share Plan (NEDSP) was established following approval by shareholders at the Company's Annual General Meeting on 26 November 1999. The NEDSP allows non-executive Directors to forego some of their future pre-tax Directors' fees to acquire shares in the Company at prevailing market prices on the Australian Stock Exchange. The rules of the NEDSP are virtually identical to the Woolworths Executive Management Share Plan as described in Note 24. During the 52 week period ended 25 June 2006, 5,981 shares (2005: 5,177) were purchased under the NEDSP.

#### **4.3 Non-executive Directors' retirement benefits cease**

Directors' Retirement Deeds, which were approved by shareholders in November 1998 entitled each non-executive Director (appointed prior to January 2004) to receive an allowance on retirement as a Director (Allowance) after a minimum period of service. The Board determined that it should implement changes to non-executive Director remuneration consistent with developing market practice and guidelines by discontinuing the on-going accrual of benefits under the existing retirement benefits arrangements on 1 August 2006. The benefits accrued to that date will be indexed by reference to the bank bill rate and may be rolled into a defined benefit superannuation fund until retirement occurs. With the cessation of the retirement benefits, all non-executive Directors shall receive the same base fees as set out in Section 4.1 above.

#### **4.4 Remuneration tables for Non-executive Directors**

For the financial year ending 25 June 2006 details of the remuneration of the non-executive Directors are set out at Section 3.4 of this Report.

#### **4.5 Shareholdings of non-executive Directors**

For the financial year ending 25 June 2006 details of shareholdings of non-executive Directors is set out at Section 3.2 of this Report.

#### **4.6 Appointment Letters, Deeds of Access, Insurance and Indemnity, Disclosure Deeds**

The Company and each of the Non-executive Directors have entered into an Appointment Letter together with a Deed of Access, Insurance and Indemnity, a Disclosure Deed (as required under the ASX Listing Rules). The Appointment Letter covers the key aspects of the duties, role and responsibilities of non-executive Directors.

Non-executive Directors are not appointed for a specific term and their appointment may be terminated by notice from the Director or otherwise pursuant to sections 203B or 203D of the Corporations Act 2001.

# DIRECTORS' STATUTORY REPORT

## ENVIRONMENTAL REGULATION

Except as set out below, the operations of the Group are not subject to any particular and significant environmental regulation under a law of the Commonwealth of Australia or of any of its States or Territories.

The Woolworths Petrol operations are subject to regulations and standards governing the construction and operation of the facilities relating to the storage and dispensing of petroleum products.

The Group may also from time to time be subject to various State and Local Government food licensing requirements and environmental and town planning regulations incidental to the development of shopping centre sites.

As outlined in the Group Managing Director's Report the Group has implemented a number of environmental initiatives. The Group has not incurred any significant liabilities under any environmental legislation.

## DIRECTORS' AND OFFICERS' INDEMNITY/INSURANCE

(i) The Constitution of the Company provides for an indemnity (to the maximum extent permitted by law) in favour of each Director of the Company referred to from pages 36 to 37 of this Report, the Company Secretary, directors and secretaries of related bodies corporate of the Company, and previous directors and secretaries of the Company and its related bodies corporate (Officers), against any liability to third parties (other than related Woolworths Group companies) incurred on or after 15 April 1994 by such Officers unless the liability arises out of conduct involving a lack of good faith. The indemnity includes costs or expenses incurred by an Officer in successfully defending proceedings or in connection with an application in which the court grants relief to the specified persons under the Corporations Act 2001.

(ii) Each Director has entered into a Deed of Indemnity and Access which provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the Director to access Company documents and records, subject to undertakings as to confidentiality.

(iii) During or since the end of the financial period, the Company has paid or agreed to pay a premium in respect of a contract of insurance insuring Officers (and any persons who are Officers in the future) against certain liabilities incurred in that capacity. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is prohibited by the contract of insurance.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 59 of the Annual Report.

## NON-AUDIT SERVICES

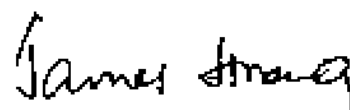
During the year, Deloitte Touche Tohmatsu, the Company's auditors, have performed certain other services in addition to their statutory duties. The Board is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 or as set out in Professional Statement F1, Professional Independence. It did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks or rewards.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 4 to the Financial Statements.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 dated 10 July 1998 pursuant to section 341(1) of the Corporations Act 2001 relating to the "rounding off" of amounts in the financial report and Directors' Report. In accordance with that Class Order, amounts therein have been rounded off to the nearest tenth of a million dollars except where otherwise indicated.

This Report is made out in accordance with a Resolution of the Directors of the Company on 22 September 2006.



James Strong  
Chairman



Roger Corbett  
Group Managing Director/CEO

# DIRECTORS' STATUTORY REPORT

## AUDITOR'S DECLARATION

# Deloitte.

Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor  
Place  
Sydney NSW 1220 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9322 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

The Chairman  
The Board Audit Committee  
Woolworths Limited  
1 Woolworths Way  
Bella Vista NSW 2153

22 September 2006

Dear Board Members

### Woolworths Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Woolworths Limited.

As lead audit partner for the audit of the financial statements of Woolworths Limited for the 52 weeks ended 25 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Rod Smith  
Partner  
Chartered Accountants

Liability limited by the Accountants Scheme, approved under The Professional Standards Act 1994 (NSW).

Member of  
Deloitte Touche Tohmatsu

Corporate Governance is at the core of the Company's and Board's approach to the enhancement of shareholder value and protection of shareholders' funds.

Woolworths is committed to ensuring its policies and practices in the critical areas of financial reporting, remuneration reporting and corporate governance meet the highest levels of disclosure and compliance.

The Company has reviewed its current Corporate Governance Policies and Practices against the ASX Corporate Governance Council (CGC) Best Practice Recommendations (Recommendations) and considers that, except as explicitly indicated, they meet the Recommendations for the financial period ended 25 June 2006.

All information that the CGC recommend is publicly available on the Woolworths website — [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au).

The following sets out the Company's position relating to each of the ASX Principles of Good Corporate Governance.

## 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### Board responsibilities and objectives

The Board of Directors of the Company acknowledges its accountability to shareholders for the creation of shareholder value and the safeguarding of shareholders' funds.

The roles and responsibilities of the Board are formalised in the Board Charter as set out below, which define the matters that are reserved for the Board and its Committees, and those that are the responsibility of the CEO and management.

In summary, the Board is accountable to shareholders for Woolworths' performance and its responsibilities include:

- 1 Strategy — reviewing strategic direction and approving corporate strategic initiatives;
- 2 Board performance and composition — Evaluating the performance of the Board and determining its size and composition;
- 3 Leadership selection — evaluating the performance of and selecting the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO);
- 4 Succession and remuneration planning — planning for Board, CEO and executive succession and remuneration and setting Non-executive Director remuneration within shareholder approved limits;
- 5 Financial performance — reviewing Woolworths' budget, monitoring management and financial performance;
- 6 Financial reporting — considering and approving Woolworths' half-yearly and annual Financial Statements;
- 7 Risk management — reviewing and monitoring the effectiveness of risk management and compliance in the organisation in respect of material operational, financial, compliance and strategic risks;
- 8 Relationship with the ASX and regulators, and continuous disclosure — maintaining an appropriate level of dialogue with the ASX and other regulators and ensuring that the market and shareholders are continuously informed of information that would be expected to have a material effect on the price or volume of the Company's shares and ensuring that internal processes and procedures facilitate compliance;

- 9 Social responsibility — considering the social, ethical and environmental impact of Woolworths activities and operations and setting standards and monitoring compliance with the Company's social responsibility policies and practices; and

## 10 Audit

- (i) External — selecting and recommending to shareholders the appointment of the external auditor. Determining the duration, remuneration and terms of appointment of the external auditor and evaluating their performance and ongoing independence. Additionally, the Board maintains a direct and ongoing dialogue with the external auditor.
- (ii) Internal — maintaining a constant and close review of risk management and compliance management, utilising the internal audit function and compliance function reporting to the Audit Risk Management and Compliance Committee. This process is supplemented by the review of all key audit and compliance reports and management responses and action plans in respect of any findings.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its responsibilities, it makes use of Board committees. Specialist committees are able to focus on a particular area of responsibility and provide informed feedback to the Board.

To this end the Board has established the following Committees:

- ~ Audit Risk Management and Compliance Committee;
- ~ Corporate Governance Committee;
- ~ People Policy Committee; and
- ~ Superannuation Policy Committee.

The day-to-day management and operations of the Company are the responsibility of the CEO who reports to the Board, on key management and operational issues including:

- ~ developing and implementing corporate strategies and making recommendations to the Board on significant corporate strategic initiatives;
- ~ making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles;
- ~ developing Woolworths annual budget and managing day-to-day operations within the budget;
- ~ maintaining an effective risk management and compliance framework;
- ~ keeping the Board and market fully informed about material continuous disclosure; and
- ~ managing day-to-day operations in accordance with standards for social, ethical and environmental practices.

Details of each Director's attendance at Board and Committee meetings is detailed in the Directors' Report on page 41.

## 2 STRUCTURE THE BOARD TO ADD VALUE

### Composition of the Board/Committees

The Board has adopted a policy of ensuring that it is composed of a majority of independent non-executive Directors who, with the executive Directors, comprise an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet the Board's responsibilities and objectives.

Details of the skills, experience and expertise of each Director are set out from page 36 to 37 of this Report. With the exception of the CEO, the COO (who will succeed the current CEO on 1 October 2006) and the CFO, all of the Directors are Non-executive Directors and each are considered to be independent.

A determination of non-executive Directors' independence is based on the Boards' individual and ongoing assessment that the Director is free of any material business or any other relationship that could be reasonably considered to interfere with the exercise of their independent judgement.

In order for a Director to be considered independent the Board determines that the Director does not have a material relationship with the Company, other than solely as a consequence of being a Director.

A "material relationship" includes a direct or indirect interest or relationship that could reasonably be considered to influence in a material way the Directors' decisions in relation to the Company. When considering whether a relationship is "material", the Board will consider the materiality to each of the Company, the Director and the person or organisation, with which the Director is related (as customer, supplier or advisor). Whilst the Board has not set materiality thresholds, it will consider all relationships on a case by case basis.

Any Director who considers that he/she has or may have a conflict of interest or a material personal interest in any matter concerning the Company is required to give the Directors immediate notice of such interest.

The Chairman is elected by and from the non-executive Directors each of whom is appointed to the Corporate Governance Committee. The Non-executive Directors are also appointed to at least one of the Audit, Risk Management and Compliance Committee, the People Policy Committee or to the Policy Committee of the Company's Superannuation Plan. The Audit, Risk Management and Compliance Committee and People Policy Committee have each adopted comprehensive Charters defining their roles and responsibilities as summarised in this Report.

Information on the Company's Chairman is set out on page 36.

Information on the Company's CEO is set out on page 36.

There is no specified term of office for non-executive Directors and the period since appointment of each Non-executive Director is set out from page 36 to 37.

The Board reviews, as considered appropriate, the terms of the Appointment Letter to ensure they are consistent with the ASX Principles and Recommendations.

### Corporate Governance Committee

The Corporate Governance Committee consists of the non-executive Directors and its main responsibilities are to review all matters relating to corporate governance including the composition, criteria for membership, appointment, retirement and performance of the Board of Directors, the Board Committees and the Chief Executive Officer of the Company.

The Committee also monitors the Company's Corporate Governance policies and practices against relevant external benchmarks.

CGC Recommendation 2.4 calls for the Board to establish a Nomination Committee. The Board has established the Corporate Governance Committee with, amongst other matters, responsibilities commensurate with a Nomination Committee. In this respect, the Corporate Governance Committee is responsible for the:

- ~ assessment of the necessary and desirable competencies of Board members;
- ~ review of the Board's succession plans;
- ~ evaluation of the Board's performance; and
- ~ recommendations for the appointment and removal of Directors.

## **Directors' independent advice**

The Directors, the Board and the Board Committees are empowered to seek external professional advice, as considered necessary, at the Company's expense, subject to prior consultation with the Chairman. If appropriate, any advice so received will be made available to all Directors.

## **3 PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

### **Directors' policy statements**

The Directors have approved and adopted a Directors Manual comprising Policy Statements setting out their legal and fiduciary duties relating to:

- ~ exercise of due care and diligence;
- ~ ensuring continuous disclosure of material matters;
- ~ dealing with conflicts of interest and duties;
- ~ access to Company documents, information, insurance, indemnities and independent advice;
- ~ confidentiality;
- ~ dealing in securities of the Company and insider trading; and
- ~ fair, open, ethical and honest standards of conduct and dealing.

### **Policy on trading in Company securities**

The Company has a policy which requires Directors, executives and senior managers who trade, or propose to trade, in the securities of the Company, to act in accordance with strict guidelines which prohibit trading in the Company's securities other than during fixed periods of 42 days immediately following the release of the half year and full year results to the ASX and following the Company's AGM.

Notwithstanding this policy, there is no period during which an individual is exempt from the requirements of the Corporations Act in regard to insider trading prohibitions.

## **4 SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

### **Financial report accountability**

Woolworths' Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to state to the Board, in writing, that the Company's Financial Statements and Reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant Accounting Standards.

As part of the process of approving the Financial Statements, the CEO and CFO provide statements in writing to the Board on the effectiveness of the Company's risk management and internal compliance control systems.

### **Audit, Risk Management and Compliance Committee**

The Audit, Risk Management and Compliance Committee of Directors is comprised of non-executive Directors who, at the date of this Report, are Messrs J F Astbury (Chair), J A Strong, L M L'Huilier and Ms D J Grady. The Committee provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to the Group's risk management and

compliance systems and practice, Financial Statements, financial and market reporting processes, internal accounting and control systems, internal and external audit and such other matters as the Board may request from time to time.

The Committee also provides advice and assistance to the Board on the compliance framework and its effectiveness including legal and regulatory compliance, health and safety, privacy, environment, trade practices and fair trading, trade weights and measures, and employment obligations. Woolworths has specific policies and processes for addressing these and other compliance areas and the Committee receives and reviews regular management reports in each of these areas.

The Committee processes are designed to establish a proactive framework and dialogue in which the Committee, management and external and internal auditors review and assess the risk framework, the quality of earnings, liquidity and strength of the Income Statements and Balance Sheets, and transparency and accuracy of reporting. The Committee recommends any actions it deems appropriate to the Board for its consideration.

### **Composition**

- ~ **Membership:** The Audit, Risk Management and Compliance Committee comprises at least three independent non-executive members of the Board, appointed by the Board, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise "independent".

- ~ Qualifications: All members have appropriate business and financial expertise to act effectively as members of the Committee, as determined by the Board.
- ~ Chair: The Chair of the Committee is an independent non-executive Director who is not the Chair of the Board.
- ~ Secretary: The Secretary of the Audit Committee is appointed by the Board and has responsibility for circulating minutes and matters arising from each meeting to all members of the Committee and the Board.

#### **Access and reporting**

- ~ Direct Access: The Audit, Risk Management and Compliance Committee maintains direct, unfettered access to external auditors, internal auditors and management. The Committee meets regularly with external and internal auditors and the Board and Committee meet with the external and internal auditors, at least once a year, without any management present. The Committee has full access to the Group's records and personnel. The Committee Chair commits additional time and may meet with the CEO, the CFO, senior management and external and internal auditors between Committee meetings to discuss and review matters relating to Committee functions as appropriate.
- ~ Reports: The key issues and reports discussed at each Committee meeting are reported to the Board by the Chair of the Committee at the immediately following Board meeting. The Committee's Charter includes providing periodical reports to the Board on the most significant risks facing the Group and the mitigation strategies and practices adopted by management.

#### **Responsibilities**

The Committee reviews and approves, annually, the overall audit strategy of the Group which uses a risk framework to identify, assess and assign accountability for risk and audit procedures. This ensures that the activities of external and internal audit are focused and coordinated and that there is no duplication of effort.

- ~ Risk Management: The Committee assists the Board in overseeing managements actions in the evaluation, management and reporting of material operational, financial compliance and strategic risks.
- ~ Accounting Standards and Quality: The Committee oversees the adequacy and effectiveness of the Group's accounting and financial policies and controls and risk management systems and seeks assurance of compliance with relevant regulatory and statutory requirements.
- ~ Financial Reports: The Committee oversees the Group's financial reporting processes and reports on the results of its activities to the Board. Specifically, the Committee reviews with management and the external auditor, the Group's annual and interim Financial Statements and Reports to shareholders.
- ~ Internal Controls: The Committee examines the adequacy of the nature, extent and effectiveness of the internal audit control processes of the Group.
- ~ Compliance: The Committee assists the Board in fulfilling its compliance responsibilities and oversees and reviews the Group compliance framework and its effectiveness. The Committee also assists management to foster and support a compliance culture.

- ~ Special Reviews: The Committee undertakes other special activities as requested by the Board.
- ~ Independent Advice: The Committee has the authority to engage independent legal, accounting and other advice to assist it to carry out its duties.
- ~ Complaint Handling Procedures: The Committee has established procedures to review complaints received by the Company concerning accounting and other matters which fall within the scope of its Charter, including any confidential and anonymous submissions by employees.

#### **External audit appointment and supervision**

- ~ Appointment: The Committee nominates the external auditor to the Board and this appointment is reviewed every three years. External audit performance is reviewed annually.
- ~ Partner Rotation: The Company requires the position of the lead client service audit partner to rotate every five years.
- ~ Independence: Review and monitor the independence of the external auditor. The Company will not invite to be appointed as Directors any ex-audit partners. Further, any ex-partners or senior personnel who may be proposed for appointment in a management position will be subject to Board approval.
- ~ Services: The Committee reviews additional audit and non-audit services by external auditors for appropriateness against an established framework.

- ~ Consulting: The Committee reviews all non-audit-related "consulting" tenders and submissions from the accounting firms. However, the Committee has not set any nominal "cap" on the level of non-audit services to be performed by the external auditors, as they consider that this may restrict the ability for the Company to access the best advisors for the particular task. The Committee has procedures to review proposed services by the providers of the external audit which are unrelated to audit assurance activities.
- ~ Audit Plans: Each year, the Committee reviews and approves the overall scope and plans for the external audit activities, including staffing and fees.
- ~ Audit Reports: The Committee reviews all audit reports provided by the external auditor.

## Internal audit appointment and supervision

- ~ Appointment: The Committee is involved in the performance, assessment and appointment or termination of the Head of Internal Audit, who reports to the Group Managing Director.
- ~ Audit Plans: The Committee reviews the overall scope, annual plans and budget for internal audit activities and oversees the alignment of risk management programs and internal audit activities.
- ~ Reports: The Committee reviews all key internal audit reports.
- ~ Access: The Committee has regular direct access to the Head of Internal Audit.
- ~ Resourcing: The Committee ensures that the internal audit function is adequately resourced to deliver the approved annual audit plan.
- ~ Independence: The Committee reviews the independence of the Internal Audit function and that it is not involved in executive decision-making.

## Compliance

- ~ Continuous Disclosure: The Committee reviews detailed policies and procedures designed to ensure compliance with the ASX Listing Rules in respect of continuous disclosure.
- ~ CEO/CFO Certification: The Committee approves the scope of risk management and internal controls to be covered by the CEO/CFO Certification and satisfies itself that the underlying certification is appropriate.
- ~ Legal Compliance/Regulatory Matters: The Committee receives reports and recommendations on significant legal, compliance or regulatory matters that may have a material effect on the financial statements or compliance policies.

## 5 MAKE TIMELY AND BALANCED DISCLOSURES

The Company has detailed policies and procedures designed to ensure compliance with the ASX Listing Rules continuous disclosure requirements and accountability at senior management level for that compliance. A summary of these policies and procedures is available on the Company's website.

## 6 RESPECT THE RIGHTS OF SHAREHOLDERS

The Company is committed to keeping shareholders fully informed of significant developments and activities of the Company. This commitment is delivered through the Company's website ([www.woolworthslimited.com.au](http://www.woolworthslimited.com.au)) which includes financial and shareholder information that is updated regularly to ensure transparency and a high level of communication of the Company's operations and financial situation, to the extent that this information is not commercially sensitive.

information available to shareholders includes, but is not limited to, the Company's annual reports, half-yearly reports, quarterly sales results, share price updates, dividend history and all other ASX announcements by the Company.

The Board requests the external auditor to attend each Annual General Meeting of the Company and to be available to answer shareholder questions about the conduct of the audit, preparation and content of the auditor's report, the accounting policies adopted by management and auditor independence.

## 7 RECOGNISE AND MANAGE RISK

### Risk management

Woolworths has a sound system of risk management and internal control. It has a risk management policy framework and governance structure designed to ensure that the risks of conducting business are properly managed.

Management is responsible to the Board for identifying, managing, reporting upon and implementing measures to address risk.

The Board oversees and reviews the effectiveness of risk management in the organisation and is assisted and advised in this role by its Corporate Governance Committee, Audit Risk Management and Compliance Committee and People Policy Committee. Further, internal audit and management provides regular compliance assurance reports to the Board and its Committees.

### Certification

In complying with CGC Recommendation 7.2, the CEO and CFO state to the Board in writing that the integrity of Financial Statements is founded on sound systems of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material

respects. In addition, in the current period, certification by the CEO and CFO stating whether:

- ~ the financial records of the entity for the financial year have been properly maintained in accordance with section 286 of the Corporations Act;
- ~ the financial statements, and the notes to the financial statements, for the financial year, comply with the relevant accounting standards; and
- ~ the financial statements and the notes for the financial year give a true and fair view;

is required in accordance with the Corporations Act and has been received by the Directors.

The Board's role in certification includes:

- ~ determining the scope of risk management and internal control to be covered by the CEO/CFO certification;
- ~ confirming the benchmark criteria ~ the Company uses the criteria contained in the Committee of Sponsoring Organizations of the Treadway Commission framework upon which an assessment of the effectiveness of internal controls will be based; and
- ~ satisfying itself that the process underlying certification is appropriate and that the CEO and CFO are justified in providing their certification.

## 8 ENCOURAGE ENHANCED PERFORMANCE

The Chair is responsible for monitoring the contribution of individual Directors and counselling them on any areas which might help improve Board performance. This has worked well in the past and the Board engages external assistance, as appropriate, in reviewing this process. The performance evaluation of key executives is undertaken by the CEO in conjunction with the People Policy Committee.

## 9 REMUNERATE FAIRLY AND RESPONSIBLY

### People Policy Committee

CGC Recommendation 9.2 proposes that the Board establishes a Remuneration Committee. The Board has established a People Policy Committee which, amongst other matters, has responsibilities commensurate with a Remuneration Committee.

The Remuneration Committee's recommended responsibilities include a review of and recommendations to the Board on:

- ~ executive remuneration and incentive policies;
- ~ the remuneration packages of senior management;
- ~ the Company's recruitment, retention and termination policies and procedures for senior management evaluation and assessment;
- ~ incentive schemes;
- ~ superannuation arrangements; and
- ~ the remuneration framework for Directors.

The People Policy Committee has responsibilities in relation to each of these matters, except superannuation which is the responsibility of the Superannuation Policy Committee.

The Committee works closely with management to review processes and programs to ensure Remuneration Policy is implemented. Accordingly, management provides the Committee independent external advice on key remuneration issues, as required.

The Committee acts on behalf of the Board and shareholders to ensure that in relation to its human resources, the Company:

- ~ establishes and implements a human resources strategy to ensure that appropriately talented and trained people are available to achieve the Business Strategy;
- ~ undertakes the appropriate performance management,

succession planning and development activities and programs;

- ~ provides effective remuneration policies having regard to the creation of value for shareholders and the external remuneration market;
- ~ provides a safe working environment for all employees;
- ~ complies with all legal and regulatory requirements and principles of good governance; and
- ~ reports to shareholders in line with required standards.

The People Policy Committee of Directors comprises non-executive Directors, who at the date of the Report are: Dr R S Deane (Chair), Prof A E Clarke and Mr J A Strong. Ms D J Grady was the Chair until the conclusion of the meeting of the Committee in August 2006, following which she retired from the Committee and Dr R S Deane became the Chair of the Committee. Their attendance at meetings of the Committee is set out on page 41 of the Directors' Report.

### Remuneration Report

In accordance with the Corporations Act 2001 (section 300A) disclosures in relation to Director and executive remuneration are included in a separate component of the Directors' Report, entitled Remuneration Report. The Remuneration Report is set out from page 42 to 57. Full details of the Company's remuneration philosophy, structure, including fixed and variable remuneration, and quantum are detailed in the Remuneration Report.

## **Employee share plans**

The Company has established various Plans which have provided for the allocation of shares to over 45,000 of its permanent employees. Details of these Plans are set out in Note 24 to the Financial Statements "Employee Benefits".

The Plans are aimed at aligning Woolworths' employee interests with those of other Woolworths shareholders.

The policies which have been incorporated in this Code of Conduct generally apply to all employees and set out the standards within which they are expected to act. The policies are aimed at the maintenance of standards of honesty, integrity and fair dealing by all employees in their dealings with customers, suppliers, the community, competitors and each other in the performance of their duties and responsibilities.

## **10 RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS**

### **Corporate conduct**

In addition to the Directors' Policy Statements set out on page 62 of this Report, the Board has adopted a Corporate Governance Manual which provides for the Board's endorsement of the Company's corporate governance policies applicable to all levels of Management in the following key areas:

- 1 Code of Conduct/Ethics;
- 2 Trade Practices/Fair Trading Practices;
- 3 Tendering and Supply arrangements;
- 4 Gifts and Gratuities/Political Donations;
- 5 Occupational Health and Safety/Discrimination;
- 6 Equal Employment Opportunity;
- 7 Continuous Disclosure;
- 8 Compliance;
- 9 Trading in the Company's Securities; and
- 10 Conflicts of Interest/Duties

# 2006 FINANCIAL REPORT TO SHAREHOLDERS

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# FIVE YEAR SUMMARY

|   | <i>AIFRS</i><br>2006<br>52 | <i>AIFRS</i><br>2005<br>52 | <i>AGAAP</i><br>2005<br>52 | <i>AGAAP</i><br>2004<br>52 | <i>AGAAP</i><br>2003<br>52 | <i>AGAAP</i><br>2002<br>53 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <i>Weeks</i>                                  |                            |                            |                            |                            |                            |                            |
| <b>INCOME STATEMENT</b>                       |                            |                            |                            |                            |                            |                            |
| <b>Sales (\$m)</b>                            |                            |                            |                            |                            |                            |                            |
| Food and Liquor <sup>(1)</sup>                | <b>28,063.0</b>            | 23,569.6                   | 23,569.6                   | 21,997.6                   | 21,039.0                   | 19,595.0                   |
| Petrol  | <b>4,390.4</b>             | 3,308.4                    | 3,308.4                    | 2,194.9                    | 1,710.5                    | 1,119.3                    |
| Total Supermarkets                            | <b>32,453.4</b>            | 26,878.0                   | 26,878.0                   | 24,192.5                   | 22,749.5                   | 20,714.3                   |
| BiG W   | <b>3,119.1</b>             | 2,908.7                    | 2,908.7                    | 2,717.9                    | 2,500.3                    | 2,280.5                    |
| Consumer Electronics                          | <b>1,167.1</b>             | 1,007.5                    | 1,007.5                    | 886.3                      | 791.2                      | 659.0                      |
| Total General Merchandise                     | <b>4,286.2</b>             | 3,916.2                    | 3,916.2                    | 3,604.2                    | 3,291.5                    | 2,939.5                    |
| Hotels  | <b>849.9</b>               | 415.8                      | 415.8                      | ...                        | ...                        | ...                        |
| Wholesale                                     | <b>37,589.5</b>            | 31,210.0                   | 31,210.0                   | 27,796.7                   | 26,041.0                   | 23,653.8                   |
| Total Group                                   | <b>144.7</b>               | 142.5                      | 142.5                      | 137.2                      | 280.4                      | 819.2                      |
| <b>Earnings before interest and tax (\$m)</b> |                            |                            |                            |                            |                            |                            |
| Food and Liquor <sup>(1)</sup>                | <b>1,394.9</b>             | 1,091.5                    | 1,077.2                    | 941.7                      | 825.1                      | 734.7                      |
| Petrol  | <b>53.1</b>                | 36.2                       | 36.3                       | 18.6                       | 29.9                       | 12.7                       |
| Total Supermarkets                            | <b>1,448.0</b>             | 1,127.7                    | 1,113.5                    | 960.3                      | 855.0                      | 747.4                      |
| BiG W   | <b>123.1</b>               | 118.3                      | 118.0                      | 116.2                      | 103.7                      | 93.5                       |
| Consumer Electronics                          | <b>64.0</b>                | 54.5                       | 51.8                       | 44.1                       | 37.0                       | 28.0                       |
| Total General Merchandise                     | <b>187.1</b>               | 172.8                      | 169.8                      | 160.3                      | 140.7                      | 121.5                      |
| Hotels  | <b>151.1</b>               | 52.8                       | 54.9                       | ...                        | ...                        | ...                        |
| Total trading operations                      | <b>1,786.2</b>             | 1,353.3                    | 1,338.2                    | 1,120.6                    | 995.7                      | 868.9                      |
| Net property income                           | <b>18.3</b>                | 21.2                       | 20.3                       | 21.7                       | 26.6                       | 34.2                       |
| Head office overheads                         | <b>(84.1)</b>              | (74.9)                     | (77.9)                     | (79.0)                     | (76.7)                     | (77.8)                     |
| Total unallocated <sup>(2)</sup>              | <b>(65.8)</b>              | (53.7)                     | (57.6)                     | (57.3)                     | (50.1)                     | (43.6)                     |
| Wholesale                                     | <b>1,720.4</b>             | 1,299.6                    | 1,280.6                    | 1,063.3                    | 945.6                      | 825.3                      |
| Total Group                                   | <b>1.8</b>                 | 2.5                        | 2.4                        | 1.8                        | 0.1                        | 7.4                        |
| <b>EBIT to sales (%)</b>                      |                            |                            |                            |                            |                            |                            |
| Total Supermarkets                            | <b>4.46</b>                | 4.19                       | 4.14                       | 3.97                       | 3.76                       | 3.61                       |
| BiG W   | <b>3.95</b>                | 4.07                       | 4.06                       | 4.28                       | 4.15                       | 4.10                       |
| Consumer Electronics                          | <b>5.48</b>                | 5.41                       | 5.14                       | 4.98                       | 4.68                       | 4.25                       |
| Hotels  | <b>17.78</b>               | 12.70                      | 13.20                      | ...                        | ...                        | ...                        |
| Wholesale                                     | <b>1.25</b>                | 1.75                       | 1.68                       | 1.31                       | 0.04                       | 0.90                       |
| Total   | <b>4.56</b>                | 4.16                       | 4.09                       | 3.81                       | 3.59                       | 3.40                       |

| Weeks   | AIFRS<br>2006<br>52 | AIFRS<br>2005<br>52 | AGAAP<br>2005<br>52 | AGAAP<br>2004<br>52 | AGAAP<br>2003<br>52 | AGAAP<br>2002<br>53 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>INCOME STATEMENT (\$m)</b>   |                     |                     |                     |                     |                     |                     |
| Sales   | <b>37,734.2</b>     | 31,352.5            | 31,352.5            | 27,933.9            | 26,321.4            | 24,473.0            |
| Cost of goods sold  | <b>(28,289.6)</b>   | (23,550.2)          | (23,549.9)          | (20,975.5)          | (19,703.0)          | (18,296.0)          |
| Gross profit  | <b>9,444.6</b>      | 7,802.3             | 7,802.6             | 6,958.4             | 6,618.4             | 6,177.0             |
| <i>Gross profit margin (%)</i>  | <b>25.03</b>        | 24.89               | 24.89               | 24.91               | 25.14               | 25.24               |
| Cost of doing business (CODB)   | <b>(7,722.4)</b>    | (6,500.2)           | (6,519.6)           | (5,893.3)           | (5,672.7)           | (5,344.3)           |
| <i>CODB (%)</i>   | <b>20.47</b>        | 20.73               | 20.80               | 21.10               | 21.55               | 21.84               |
| Selling, general and admin expenses<br>(excluding rent, depreciation and<br>amortisation)       | <b>(6,130.1)</b>    | (5,184.0)           | (5,153.7)           | (4,675.9)           | (4,515.7)           | (4,288.3)           |
| EBITDAR   | <b>3,314.5</b>      | 2,618.3             | 2,648.9             | 2,282.5             | 2,102.7             | 1,888.7             |
| <i>EBITDAR margin (%)</i>   | <b>8.78</b>         | 8.35                | 8.45                | 8.17                | 7.99                | 7.72                |
| Rent (including fitout rent)  | <b>(1,070.1)</b>    | (900.2)             | (904.9)             | (809.8)             | (758.7)             | (705.0)             |
| EBITDA  | <b>2,244.4</b>      | 1,718.1             | 1,744.0             | 1,472.7             | 1,344.0             | 1,183.7             |
| <i>EBITDA margin (%)</i>  | <b>5.95</b>         | 5.48                | 5.56                | 5.27                | 5.11                | 4.84                |
| Depreciation  | <b>(522.2)</b>      | (416.0)             | (419.2)             | (379.6)             | (370.9)             | (327.7)             |
| Amortisation of goodwill  | <b>—</b>            | —                   | (41.8)              | (28.0)              | (27.4)              | (23.3)              |
| EBIT  | <b>1,722.2</b>      | 1,302.1             | 1,283.0             | 1,065.1             | 945.7               | 832.7               |
| <i>EBIT margin (%)</i>  | <b>4.56</b>         | 4.16                | 4.09                | 3.81                | 3.59                | 3.40                |
| Interest  | <b>(201.8)</b>      | (104.9)             | (108.5)             | (47.3)              | (39.7)              | (50.5)              |
| WfNs and Woolworths Notes interest  | <b>(47.9)</b>       | (45.2)              | (45.2)              | (42.9)              | (41.1)              | (39.8)              |
| Profit before tax and abnormal items  | <b>1,472.5</b>      | 1,152.0             | 1,129.3             | 974.9               | 864.9               | 742.4               |
| Taxation  | <b>(445.8)</b>      | (334.8)             | (337.7)             | (286.7)             | (255.0)             | (218.5)             |
| Profit after tax and before<br>abnormal items   | <b>1,026.7</b>      | 817.2               | 791.6               | 688.2               | 609.9               | 523.9               |
| Minority interest   | <b>(12.1)</b>       | (1.0)               | (1.1)               | (0.4)               | (0.4)               | (0.7)               |
| Profit attributable to members of<br>Woolworths Limited after tax and<br>servicing income notes | <b>1,014.6</b>      | 816.2               | 790.5               | 687.8               | 609.5               | 523.2               |
| <b>BALANCE SHEET</b>  |                     |                     |                     |                     |                     |                     |
| <b>Funds employed (\$m)</b>   |                     |                     |                     |                     |                     |                     |
| Inventory   | <b>2,316.1</b>      | 1,969.6             | 1,977.3             | 1,847.0             | 1,843.1             | 1,838.4             |
| Accounts payable  | <b>(2,778.5)</b>    | (2,339.8)           | (2,335.6)           | (2,176.3)           | (2,078.9)           | (2,000.6)           |
| Net investment in inventory   | <b>(462.4)</b>      | (370.2)             | (358.3)             | (329.3)             | (235.8)             | (162.2)             |
| Fixed assets and investments  | <b>4,172.1</b>      | 3,425.8             | 3,581.9             | 2,758.8             | 2,485.0             | 2,366.8             |
| Intangibles   | <b>4,759.4</b>      | 2,046.4             | 2,011.4             | 572.3               | 555.3               | 545.0               |
| Receivables   | <b>1,174.4</b>      | 611.9               | 689.9               | 423.0               | 543.1               | 496.6               |
| Other creditors   | <b>(1,838.7)</b>    | (1,483.8)           | (1,457.8)           | (1,267.1)           | (1,186.1)           | (989.6)             |
| <b>Total funds employed<sup>(3)</sup></b>   | <b>7,804.8</b>      | 4,230.1             | 4,467.1             | 2,157.7             | 2,161.5             | 2,256.6             |
| Net tax balances  | <b>252.3</b>        | 182.2               | 147.2               | 58.7                | 21.3                | (7.9)               |
| Provision for dividend <sup>(4)</sup>   | <b>—</b>            | —                   | —                   | —                   | —                   | (188.9)             |
| <b>Net assets employed</b>  | <b>8,057.1</b>      | 4,412.3             | 4,614.3             | 2,216.4             | 2,182.8             | 2,059.8             |
| Net repayable debt <sup>(5)</sup>   | <b>(3,799.5)</b>    | (2,412.1)           | (2,417.2)           | (163.9)             | (359.6)             | (237.3)             |
| <b>Net assets</b>   | <b>4,257.6</b>      | 2,000.2             | 2,197.1             | 2,052.5             | 1,823.2             | 1,822.5             |
| Noteholders' equity (WfNs) <sup>(6)</sup>   | <b>—</b>            | —                   | —                   | 583.0               | 583.0               | 583.0               |
| Minority interest   | <b>229.8</b>        | 26.0                | 33.3                | 5.2                 | 4.8                 | 4.4                 |
| Shareholders' equity  | <b>4,027.8</b>      | 1,974.2             | 2,163.8             | 1,464.3             | 1,235.4             | 1,235.1             |
| <b>Total equity</b>   | <b>4,257.6</b>      | 2,000.2             | 2,197.1             | 2,052.5             | 1,823.2             | 1,822.5             |

# FIVE YEAR SUMMARY

|  | <i>AIFRS</i><br>2006<br>52 | <i>AIFRS</i><br>2005<br>52 | <i>AGAAP</i><br>2005<br>52 | <i>AGAAP</i><br>2004<br>52 | <i>AGAAP</i><br>2003<br>52 | <i>AGAAP</i><br>2002<br>53 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <i>Weeks</i>   |                            |                            |                            |                            |                            |                            |
| <b>CASH FLOW (\$M)</b>   |                            |                            |                            |                            |                            |                            |
| EBITDA   | <b>2,244.4</b>             | 1,718.1                    | 1,744.0                    | 1,472.7                    | 1,344.0                    | 1,183.7                    |
| Movement in net investment<br>in inventory   | <b>61.4</b>                | (44.3)                     | (44.0)                     | 97.3                       | 76.1                       | 247.8                      |
| Other operating cash flows   | <b>127.8</b>               | 100.4                      | 80.8                       | 69.2                       | 155.5                      | 38.7                       |
| Net interest paid (including cost<br>of income notes)                                | <b>(253.2)</b>             | (161.5)                    | (161.5)                    | (95.7)                     | (82.3)                     | (97.4)                     |
| Tax paid   | <b>(475.3)</b>             | (398.3)                    | (398.3)                    | (324.1)                    | (283.8)                    | (238.1)                    |
| <b>Operating cash flow</b>   | <b>1,705.1</b>             | 1,214.4                    | 1,221.0                    | 1,219.4                    | 1,209.5                    | 1,134.7                    |
| Payments for property, plant and<br>equipment  | <b>(1,411.7)</b>           | (1,180.5)                  | (1,180.5)                  | (718.7)                    | (593.4)                    | (596.7)                    |
| Proceeds on disposal of property,<br>plant and equipment                             | <b>328.7</b>               | 97.7                       | 97.7                       | 138.1                      | 114.5                      | 203.8                      |
| Major acquisitions – debt funded   | <b>(1,464.7)</b>           | (1,208.8)                  | (1,208.8)                  | –                          | –                          | (257.0)                    |
| Other investing cash flows   | <b>(178.1)</b>             | (76.7)                     | (76.6)                     | 1.4                        | (65.3)                     | (93.9)                     |
| <b>Free cash flow</b>  | <b>(1,020.7)</b>           | (1,153.9)                  | (1,147.2)                  | 640.2                      | 665.3                      | 390.9                      |
| Movement in gross debt   | <b>1,078.6</b>             | 1,312.7                    | 1,312.5                    | (133.7)                    | 118.3                      | (114.4)                    |
| Dividends paid   | <b>–</b>                   | (201.9)                    | (201.9)                    | (346.9)                    | (307.3)                    | (251.5)                    |
| Buy-back of shares   | <b>–</b>                   | –                          | –                          | (140.9)                    | (534.1)                    | –                          |
| New shares issued  | <b>40.9</b>                | 128.0                      | 120.0                      | 42.9                       | 50.1                       | 14.0                       |
| Effects of exchange rate<br>changes on balance of cash<br>held in foreign currencies | <b>(6.7)</b>               | –                          | –                          | –                          | –                          | –                          |
| <b>Net cash flow</b>   | <b>92.1</b>                | 84.9                       | 83.4                       | 61.6                       | (7.7)                      | 39.0                       |

|  | AIFRS<br>2006<br>52 | AIFRS<br>2005<br>52 | AGAAP<br>2005<br>52 | AGAAP<br>2004<br>52 | AGAAP<br>2003<br>52 | AGAAP<br>2002<br>53 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>SHAREHOLDER VALUE</b>   |                     |                     |                     |                     |                     |                     |
| <b>ROFE (pre-tax return on funds employed) (%)<sup>(7)</sup></b> |                     |                     |                     |                     |                     |                     |
| Normal   | <b>28.62</b>        | 42.64               | 38.73               | 49.32               | 42.81               | 38.07               |
| <b>Du Pont analysis (abnormals excluded) (%)</b>                 |                     |                     |                     |                     |                     |                     |
| EBIT to sales  | <b>4.56</b>         | 4.16                | 4.09                | 3.81                | 3.59                | 3.40                |
| Service burden <sup>(8)</sup>                                    | <b>85.50</b>        | 88.47               | 88.02               | 91.53               | 91.46               | 89.15               |
| Tax burden <sup>(9)</sup>  | <b>69.72</b>        | 70.94               | 70.10               | 70.59               | 70.52               | 70.57               |
| Asset turn <sup>(10)</sup>                                       | <b>3.41</b>         | 4.24                | 4.15                | 4.64                | 4.53                | 4.53                |
| Financial leverage <sup>(11)</sup>                               | <b>3.69</b>         | 4.62                | 4.16                | 4.46                | 4.70                | 4.97                |
| Return on equity <sup>(12)</sup>                                 | <b>33.81</b>        | 50.93               | 43.57               | 50.95               | 49.34               | 48.13               |
| <b>Earnings per share</b>  |                     |                     |                     |                     |                     |                     |
| Ordinary share price closing (\$)                                | <b>19.36</b>        | 16.48               | 16.48               | 11.62               | 12.68               | 13.15               |
| Market capitalisation (\$m)                                      | <b>22,881.9</b>     | 17,493.2            | 17,493.2            | 11,874.8            | 12,945.0            | 13,797.0            |
| Weighted average shares on issue                                 | <b>1,116.3</b>      | 1,030.6             | 1,043.7             | 1,020.5             | 1,049.2             | 1,041.3             |
| Normal basic EPS (cents per share) <sup>(13)</sup>               | <b>90.89</b>        | 79.19               | 75.74               | 67.40               | 58.09               | 50.24               |
| EPS pre-goodwill amortisation (cents per share)                  | <b>90.89</b>        | 79.19               | 79.75               | 70.14               | 60.70               | 52.48               |
| Interim dividend (\$m)   | <b>325.9</b>        | 250.9               | 250.9               | 213.6               | 192.0               | 157.0               |
| Interim dividend (cents per share)                               | <b>28.0</b>         | 24.0                | 24.0                | 21.0                | 18.0                | 15.0                |
| Final dividend (\$m) <sup>(14)</sup>                             | <b>367.1</b>        | 287.2               | 287.2               | 248.9               | 215.1               | 188.9               |
| Final dividend (cents per share)                                 | <b>31.0</b>         | 27.0                | 27.0                | 24.0                | 21.0                | 18.0                |
| Total dividend (\$m)   | <b>693.0</b>        | 538.2               | 538.2               | 462.5               | 407.1               | 345.9               |
| Total dividend (cents per share)                                 | <b>59.0</b>         | 51.0                | 51.0                | 45.0                | 39.0                | 33.0                |
| Payout ratio (before abnormals) (%)                              | <b>68.30</b>        | 65.94               | 68.01               | 67.24               | 66.79               | 66.11               |
| Price/earnings ratio (times)                                     | <b>21.3</b>         | 20.8                | 21.8                | 17.2                | 21.8                | 26.2                |
| Price/cash flow ratio (times)                                    | <b>12.67</b>        | 13.99               | 14.09               | 9.76                | 11.03               | 12.06               |
| <b>Growth rates (% increase)</b>                                 |                     |                     |                     |                     |                     |                     |
| Sales  | <b>20.35</b>        | 12.24               | 12.24               | 6.13                | 7.55                | 17.01               |
| Sales per equivalent week  | <b>20.35</b>        | 12.24               | 12.24               | 6.13                | 9.62                | 14.90               |
| Sales per square metre (normalised 52 weeks) <sup>(15)</sup>     | <b>1.14</b>         | 1.10                | 1.10                | 1.41                | 3.73                | 4.45                |
| EBITDA   | <b>30.64</b>        | 16.66               | 18.42               | 9.58                | 13.54               | 16.46               |
| EBIT   | <b>32.26</b>        | 22.25               | 20.46               | 12.63               | 13.57               | 17.84               |
| Profit before tax and abnormal items                             | <b>27.82</b>        | 18.17               | 15.84               | 12.72               | 16.50               | 14.96               |
| Profit after tax and servicing income notes                      | <b>24.30</b>        | 18.67               | 14.93               | 12.85               | 16.49               | 22.24               |
| Normal basic EPS   | <b>14.76</b>        | 17.50               | 12.37               | 16.03               | 15.63               | 25.10               |
| <b>FINANCIAL STRENGTH</b>  |                     |                     |                     |                     |                     |                     |
| Service cover ratio (times) <sup>(16)</sup>                      | <b>6.90</b>         | 8.67                | 8.35                | 1.81                | 11.70               | 9.22                |
| Fixed charges cover (times)                                      | <b>2.50</b>         | 2.48                | 2.48                | 2.52                | 2.50                | 2.32                |
| Sales to inventory (%) <sup>(17)</sup>                           | <b>17.61</b>        | 16.46               | 16.40               | 15.14               | 14.30               | 13.71               |
| Capital expenditure to EBITDA (%)                                | <b>62.90</b>        | 68.71               | 67.69               | 48.80               | 44.15               | 50.42               |
| Operating cash flow per share                                    | <b>1.53</b>         | 1.18                | 1.17                | 1.19                | 1.15                | 1.09                |
| Repayable gearing (%) <sup>(18)</sup>                            | <b>47.16</b>        | 54.67               | 52.38               | 7.39                | 16.47               | 11.52               |
| Serviced gearing (%) <sup>(19)</sup>                             | <b>47.16</b>        | 54.67               | 52.38               | 33.70               | 43.18               | 39.82               |
| Current assets to current liabilities (%)                        | <b>84.54</b>        | 81.06               | 81.60               | 85.98               | 80.79               | 83.55               |

# FIVE YEAR SUMMARY

|   | <i>AIFRS</i><br>2006 | <i>AIFRS</i><br>2005 | <i>AGAAP</i><br>2005 | <i>AGAAP</i><br>2004 | <i>AGAAP</i><br>2003 | <i>AGAAP</i><br>2002 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>PRODUCTIVITY</b>                                 |                      |                      |                      |                      |                      |                      |
| <b>Stores (number)</b>                              |                      |                      |                      |                      |                      |                      |
| <b>Supermarkets</b>                                 |                      |                      |                      |                      |                      |                      |
| NSW and ACT   | 238                  | 233                  | 233                  | 234                  | 228                  | 227                  |
| Queensland  | 161                  | 147                  | 147                  | 143                  | 141                  | 130                  |
| Victoria  | 182                  | 183                  | 183                  | 179                  | 175                  | 171                  |
| South Australia and Northern Territory              | 69                   | 69                   | 69                   | 63                   | 63                   | 60                   |
| Western Australia                                   | 79                   | 64                   | 64                   | 60                   | 58                   | 59                   |
| Tasmania  | 27                   | 27                   | 27                   | 29                   | 29                   | 29                   |
| Supermarkets in Australia                           | 756                  | 723                  | 723                  | 708                  | 694                  | 676                  |
| Supermarkets in New Zealand                         | 198                  | ..                   | ..                   | ..                   | ..                   | ..                   |
| <b>Total Supermarkets</b>                           | <b>954</b>           | <b>723</b>           | <b>723</b>           | <b>708</b>           | <b>694</b>           | <b>676</b>           |
| <b>Freestanding Liquor</b>                          |                      |                      |                      |                      |                      |                      |
| ALH Group retail outlets                            | 432                  | 382                  | 382                  | ..                   | ..                   | ..                   |
| Caltex/WOW Petrol                                   | 131                  | 117                  | 117                  | 44                   | ..                   | ..                   |
| WOW Petrol – Australia                              | 360                  | 339                  | 339                  | 315                  | 287                  | 256                  |
| WOW Petrol/Convenience – New Zealand                | 22                   | ..                   | ..                   | ..                   | ..                   | ..                   |
| <b>Total Supermarket division</b>                   | <b>2,103</b>         | <b>1,753</b>         | <b>1,753</b>         | <b>1,259</b>         | <b>1,145</b>         | <b>1,071</b>         |
| <b>General Merchandise</b>                          |                      |                      |                      |                      |                      |                      |
| BIG W   | 129                  | 120                  | 120                  | 111                  | 104                  | 96                   |
| Dick Smith Electronics                              | 223                  | 202                  | 202                  | 164                  | 153                  | 147                  |
| Dick Smith Electronics PowerHouse                   | 20                   | 18                   | 18                   | 18                   | 16                   | 15                   |
| Tandy   | 123                  | 122                  | 122                  | 148                  | 179                  | 204                  |
| <b>Total General Merchandise</b>                    | <b>495</b>           | <b>462</b>           | <b>462</b>           | <b>441</b>           | <b>452</b>           | <b>462</b>           |
| <b>Hotels (ALH Group 2006 includes eight clubs)</b> |                      |                      |                      |                      |                      |                      |
|   | 250                  | 169                  | 169                  | ..                   | ..                   | ..                   |
| <b>Total Group</b>                                  | <b>2,848</b>         | <b>2,384</b>         | <b>2,384</b>         | <b>1,700</b>         | <b>1,597</b>         | <b>1,533</b>         |

|   | June 2005    | Opened/Acquired | Closed      | June 2006    |
|---|--------------|-----------------|-------------|--------------|
| <b>Stores (movement)</b>                        |              |                 |             |              |
| <b>Australian Supermarkets</b>                  |              |                 |             |              |
| New South Wales                                 | 233          | 8               | (3)         | <b>238</b>   |
| Queensland                                      | 147          | 14              | ~           | <b>161</b>   |
| Victoria  | 183          | 2               | (3)         | <b>182</b>   |
| South Australia and Northern Territory          | 69           | ~               | ~           | <b>69</b>    |
| Western Australia                               | 64           | 17              | (2)         | <b>79</b>    |
| Tasmania  | 27           | ~               | ~           | <b>27</b>    |
| <b>Total Australian Supermarkets</b>            | <b>723</b>   | <b>41</b>       | <b>(8)</b>  | <b>756</b>   |
| Supermarkets ~ New Zealand                      | ~            | 198             | ~           | <b>198</b>   |
| <b>Total Supermarkets</b>                       | <b>723</b>   | <b>239</b>      | <b>(8)</b>  | <b>954</b>   |
| Freestanding Liquor                             | 192          | 17              | (5)         | <b>204</b>   |
| ALH Group retail liquor outlets <sup>(20)</sup> | 382          | 79              | (29)        | <b>432</b>   |
| Caltex/WOW Petrol                               | 117          | 15              | (1)         | <b>131</b>   |
| WOW Petrol ~ Australia                          | 339          | 21              | ~           | <b>360</b>   |
| WOW Petrol/Convenience ~ New Zealand            | ~            | 22              | ~           | <b>22</b>    |
| <b>Total Supermarket Division</b>               | <b>1,753</b> | <b>393</b>      | <b>(43)</b> | <b>2,103</b> |
| <b>General Merchandise</b>                      |              |                 |             |              |
| BIG W   | 120          | 9               | ~           | <b>129</b>   |
| Dick Smith Electronics                          | 202          | 21              | ~           | <b>223</b>   |
| Dick Smith PowerHouse                           | 18           | 2               | ~           | <b>20</b>    |
| Tandy   | 122          | 8               | (7)         | <b>123</b>   |
| <b>Total General Merchandise</b>                | <b>462</b>   | <b>40</b>       | <b>(7)</b>  | <b>495</b>   |
| Hotels (ALH Group) <sup>(20)</sup>              | 169          | 82              | (1)         | <b>250</b>   |
| <b>Total Group movement</b>                     | <b>2,384</b> | <b>515</b>      | <b>(51)</b> | <b>2,848</b> |

|  | AIFRS<br>2006<br>52 | AIFRS<br>2005<br>52 | AGAAP<br>2005<br>52 | AGAAP<br>2004<br>52 | AGAAP<br>2003<br>52 | AGAAP<br>2002<br>53 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Area (sqm)</b>  |                     |                     |                     |                     |                     |                     |
| Supermarkets (Australia) <sup>(21)</sup>                     | <b>1,780,086</b>    | 1,678,343           | 1,678,343           | 1,623,530           | 1,574,640           | 1,499,696           |
| General Merchandise  | <b>843,316</b>      | 783,685             | 783,685             | 731,788             | 695,338             | 640,832             |
| <b>Total</b>   | <b>2,623,402</b>    | 2,462,028           | 2,462,028           | 2,355,318           | 2,269,978           | 2,140,528           |
| <b>Sales per square metre<br/>(normalised 52 weeks) (\$)</b> |                     |                     |                     |                     |                     |                     |
| Supermarkets (Australia) <sup>(21)</sup>                     | <b>13,824.1</b>     | 13,787.7            | 13,787.7            | 13,549.2            | 13,361.1            | 12,819.7            |
| General Merchandise  | <b>5,082.5</b>      | 4,997.2             | 4,997.2             | 4,925.2             | 4,733.7             | 4,513.5             |
| <b>Total</b>   | <b>11,014.0</b>     | 10,989.6            | 10,989.6            | 10,869.8            | 10,718.4            | 10,332.9            |

# FIVE YEAR SUMMARY

## NOTES TO THE FIVE YEAR SUMMARY

**(1)**  
Includes FAL results since 2 November 2005 and Taverner retail sales from 6 February 2006.

**(2)**  
Unallocated expense represents corporate costs relating to the Woolworths Group as a whole, and profits derived by the Group's corporate property division including the disposal of development properties. These amounts are not identifiable against any particular operating segment and accordingly they remain unallocated, as required by Accounting Standard AASB 114 Segment Reporting.

**(3)**  
Funds employed is net assets excluding net tax balances, provision for dividends and net debt, and assets and liabilities as a result of hedging per AASB 139 Financial Instruments: Recognition and Measurement.

**(4)**  
Following the introduction of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets; effective since the year ended 29 June 2003, (superseded by AASB 137 Provisions, Contingent Liabilities and Contingent Assets from 1 July 2004), no provision for the final dividend has been raised as the dividend has not been declared, determined or publicly recommended as at the balance date.

**(5)**  
Net repayable debt is gross debt less cash on hand, cash at bank and cash on short-term deposit.

**(6)**  
On 30 June 2004, the Company amended the WINs Trust Deed. As a result of these amendments the outstanding balance of \$600.0 million, including issue costs of \$17.0 million, is no longer classified as part of Shareholders' Equity in the Balance Sheet. The principal amount of \$600.0 million has been reclassified as a non-current liability and the \$17.0 million of issue costs has been recorded as an adjustment to retained earnings in accordance with Australian Accounting Standards.

**(7)**  
Return on funds employed (ROFE) is EBIT as a percentage of average funds employed for the year.

**(8)**  
Service burden is net operating profit before income tax expressed as a percentage of EBIT before abnormal items.

**(9)**  
Tax burden is normal profit after income tax expressed as a percentage of normal profit before income tax.

**(10)**  
Asset turn is total sales divided by average total assets for the year.

**(11)**  
Financial leverage is average total assets divided by average shareholders' funds for the year.

**(12)**  
Return on equity is profit after income tax attributable to shareholders, divided by average shareholders' funds for the year.

**(13)**  
Normal basic earnings per share (Normal basic EPS) is profit after tax and servicing WINs before abnormal items divided into the weighted average number of ordinary shares on issue during the period. The weighted average number of shares on issue has been calculated in accordance with Accounting Standard AASB 133 Earnings per Share or Accounting Standard AASB 1027 Earnings per Share, as relevant.

**(14)**  
The current year figure represents the final dividend value given the shares on issue as at balance date. This figure will change if there are any shares issued between balance date and the ex-dividend date. See Note 6 for final dividend.

**(15)**  
Excludes Hotels and ALH Group retail in all periods. Excludes FAL in 2006 due to its acquisition being completed in November 2005.

**(16)**  
Service cover ratio is EBIT divided by the sum of interest and WINs interest.

**(17)**  
Sales to inventory is total sales for the period divided by average inventory.

**(18)**  
Repayable gearing is net repayable debt divided by net repayable debt plus total equity.

**(19)**  
Serviced gearing is net repayable debt plus WINs divided by net repayable debt plus total equity.

**(20)**  
Increase during the year includes sites acquired as part of the Taverner and BMG acquisitions.

**(21)**  
Supermarkets excludes Petrol and ALH Group retail outlets.

# INCOME STATEMENTS

|  | Note | Consolidated    |                            | Woolworths Limited |                            |
|--|------|-----------------|----------------------------|--------------------|----------------------------|
|  |      | 2006<br>\$m     | 2005 <sup>(1)</sup><br>\$m | 2006<br>\$m        | 2005 <sup>(1)</sup><br>\$m |
| For the 52 weeks ended 25 June 2006  |      |                 |                            |                    |                            |
| Revenue from the sale of goods   | 2a   | 37,734.2        | 31,352.5                   | 27,923.1           | 26,027.8                   |
| Other operating revenue  | 2a   | 115.5           | 128.7                      | 99.8               | 120.2                      |
| <b>Total revenue from operations</b>   |      | <b>37,849.7</b> | <b>31,481.2</b>            | <b>28,022.9</b>    | <b>26,148.0</b>            |
| Cost of sales  |      | (28,405.1)      | (23,678.9)                 | (21,125.0)         | (19,704.2)                 |
| <b>Gross profit</b>  |      | <b>9,444.6</b>  | <b>7,802.3</b>             | <b>6,897.9</b>     | <b>6,443.8</b>             |
| Other revenue  | 2b   | 128.2           | 95.2                       | 85.1               | 75.3                       |
| Other income   | 2c   | 16.7            | 10.2                       | –                  | 4.9                        |
| Share of profit in associated company  | 17   | –               | 2.5                        | –                  | –                          |
| Branch expenses  |      | (6,099.0)       | (5,029.9)                  | (4,365.9)          | (4,109.7)                  |
| Administration expenses  |      | (1,768.3)       | (1,578.2)                  | (1,398.3)          | (1,330.5)                  |
| <b>Earnings before interest and tax</b>  |      | <b>1,722.2</b>  | <b>1,302.1</b>             | <b>1,218.8</b>     | <b>1,083.8</b>             |
| Financial expense  | 3    | (266.8)         | (164.1)                    | (261.9)            | (122.6)                    |
| Financial income   | 3    | 17.1            | 14.0                       | 140.0              | 34.5                       |
| <b>Net financing cost</b>  |      | <b>(249.7)</b>  | <b>(150.1)</b>             | <b>(121.9)</b>     | <b>(88.1)</b>              |
| <b>Net profit before income tax expense</b>                                      |      | <b>1,472.5</b>  | <b>1,152.0</b>             | <b>1,096.9</b>     | <b>995.7</b>               |
| Income tax expense   | 5a   | (445.8)         | (334.8)                    | (316.4)            | (288.4)                    |
| <b>Profit after income tax expense</b>   |      | <b>1,026.7</b>  | <b>817.2</b>               | <b>780.5</b>       | <b>707.3</b>               |
| <b>Net profit attributable to:</b>   |      |                 |                            |                    |                            |
| Equity holders of the parent entity  |      | 1,014.6         | 816.2                      | 780.5              | 707.3                      |
| Minority interest  |      | 12.1            | 1.0                        | –                  | –                          |
| <b>Profit for the period</b>   |      | <b>1,026.7</b>  | <b>817.2</b>               | <b>780.5</b>       | <b>707.3</b>               |
| <b>Earnings per share (EPS)</b>  |      |                 |                            |                    |                            |
| Basic EPS (cents per share)  | 21   | 90.89           | 79.19                      | –                  | –                          |
| Diluted EPS (cents per share)  | 21   | 90.33           | 78.94                      | –                  | –                          |
| Weighted average number of shares used in the calculation of basic EPS (million) | 21   | 1,116.3         | 1,030.6                    | –                  | –                          |

The income statements should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

## Note

### (1)

Results for the 52 weeks ended 26 June 2005 have been restated to comply with AIFRS.

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE

| For the 52 weeks ended 25 June 2006                           | Note | Consolidated   |                            | Woolworths Limited |                            |
|---|------|----------------|----------------------------|--------------------|----------------------------|
|   |      | 2006<br>\$m    | 2005 <sup>(1)</sup><br>\$m | 2006<br>\$m        | 2005 <sup>(1)</sup><br>\$m |
| Movement in translation of foreign operations taken to equity | 19   | (275.9)        | (0.1)                      | –                  | –                          |
| Cash flow hedges  |      | (52.6)         | –                          | (52.6)             | –                          |
| Revaluation of intangibles                                    |      | –              | 46.8                       | –                  | –                          |
| Actuarial losses on defined benefit plans                     |      | (15.0)         | (10.0)                     | (15.0)             | (10.0)                     |
| Tax effect of items recognised directly to equity             | 5b   | (6.9)          | (11.0)                     | 6.4                | 3.0                        |
| <b>Net income/(expense) recognised directly in equity</b>     |      | <b>(350.4)</b> | <b>25.7</b>                | <b>(61.2)</b>      | <b>(7.0)</b>               |
| Profit for the period   |      | <b>1,026.7</b> | <b>817.2</b>               | <b>780.5</b>       | <b>707.3</b>               |
| <b>Total recognised income and expense for the period</b>     |      | <b>676.3</b>   | <b>842.9</b>               | <b>719.3</b>       | <b>700.3</b>               |
| <b>Attributable to:</b>                                       |      |                |                            |                    |                            |
| Equity holders of the parent                                  |      | <b>664.2</b>   | <b>825.5</b>               | <b>719.3</b>       | <b>700.3</b>               |
| Minority interest   |      | <b>12.1</b>    | <b>17.4</b>                | <b>–</b>           | <b>–</b>                   |
|   |      | <b>676.3</b>   | <b>842.9</b>               | <b>719.3</b>       | <b>700.3</b>               |

The statements of recognised income and expense should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

**Note** (1)  
Results for the 52 weeks ended 26 June 2005 have been restated to comply with AIFRS.

# BALANCE SHEETS

| As at 25 June 2006  |    | 2006<br>\$m     | Consolidated<br>2005 <sup>(1)</sup><br>\$m | 2006<br>\$m     | Woolworths Limited<br>2005 <sup>(1)</sup><br>\$m |
|---|----|-----------------|--|-----------------|--|
| <b>Current assets</b>   |    |                 |  |                 |  |
| Cash  |    | 525.9           | 433.8                                      | 331.9           | 313.2  |
| Trade and other receivables                                     | 8  | 1,160.4         | 595.6                                      | 328.5           | 287.2  |
| Inventories   |    | 2,316.1         | 1,969.6                                    | 1,602.0         | 1,519.0  |
| Assets held for sale  | 10 | 115.6           | 65.4                                       | 90.7            | 0.2  |
| Other financial assets  |    | 2.8             | ~  | 2.8             | ~  |
| <b>Total current assets</b>                                     |    | <b>4,120.8</b>  | <b>3,064.4</b>                             | <b>2,355.9</b>  | <b>2,119.6</b>                                   |
| <b>Non-current assets</b>                                       |    |                 |  |                 |  |
| Trade and other receivables                                     | 8  | 14.0            | 16.2                                       | 6,204.5         | 3,485.8  |
| Other financial assets  | 9  | 59.5            | 1.1  | 3,153.5         | 152.3  |
| Property, plant and equipment                                   | 10 | 4,055.8         | 3,359.3                                    | 2,200.6         | 1,919.2  |
| Intangibles   | 11 | 4,759.4         | 2,046.4                                    | 429.0           | 417.7  |
| Deferred tax assets   | 5d | 336.9           | 287.7                                      | 272.8           | 244.1  |
| <b>Total non-current assets</b>                                 |    | <b>9,225.6</b>  | <b>5,710.7</b>                             | <b>12,260.4</b> | <b>6,219.1</b>                                   |
| <b>Total assets</b>   |    | <b>13,346.4</b> | <b>8,775.1</b>                             | <b>14,616.3</b> | <b>8,338.7</b>                                   |
| <b>Current liabilities</b>                                      |    |                 |  |                 |  |
| Trade and other payables  | 12 | 3,573.4         | 2,916.1                                    | 5,596.3         | 2,992.6  |
| Borrowings  | 14 | 612.3           | 235.5                                      | 610.8           | 235.0  |
| Current tax liabilities   | 5c | 84.6            | 105.5                                      | 96.5            | 115.9  |
| Provisions  | 16 | 604.0           | 523.5                                      | 481.6           | 442.8  |
| <b>Total current liabilities</b>                                |    | <b>4,874.3</b>  | <b>3,780.6</b>                             | <b>6,785.2</b>  | <b>3,786.3</b>                                   |
| <b>Non-current liabilities</b>                                  |    |                 |  |                 |  |
| Borrowings  | 14 | 3,704.0         | 2,610.4                                    | 3,696.5         | 2,599.4  |
| Other financial liabilities                                     | 13 | 70.7            | ~  | 70.7            | ~  |
| Provisions  | 16 | 340.7           | 290.0                                      | 296.6           | 272.5  |
| Other   |    | 99.1            | 93.9                                       | 77.0            | 86.3   |
| <b>Total non-current liabilities</b>                            |    | <b>4,214.5</b>  | <b>2,994.3</b>                             | <b>4,140.8</b>  | <b>2,958.2</b>                                   |
| <b>Total liabilities</b>  |    | <b>9,088.8</b>  | <b>6,774.9</b>                             | <b>10,926.0</b> | <b>6,744.5</b>                                   |
| <b>Net assets</b>   |    | <b>4,257.6</b>  | <b>2,000.2</b>                             | <b>3,690.3</b>  | <b>1,594.2</b>                                   |
| <b>Equity</b>   |    |                 |  |                 |  |
| Issued capital  | 18 | 2,947.8         | 981.0                                      | 2,947.8         | 981.0  |
| Shares held in trust  | 18 | (87.1)          | (102.2)                                    | (87.1)          | (102.2)  |
| Reserves  | 19 | (288.6)         | 31.6                                       | (29.0)          | 15.3   |
| Retained earnings   | 20 | 1,455.7         | 1,063.8                                    | 858.6           | 700.1  |
| <b>Equity attributable to the members of Woolworths Limited</b> |    | <b>4,027.8</b>  | <b>1,974.2</b>                             | <b>3,690.3</b>  | <b>1,594.2</b>                                   |
| Minority interest   |    | 229.8           | 26.0                                       | ~               | ~  |
| <b>Total equity</b>   |    | <b>4,257.6</b>  | <b>2,000.2</b>                             | <b>3,690.3</b>  | <b>1,594.2</b>                                   |

The balance sheets should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

## Note

(1)  
2005 balances have been  
restated to comply with AIFRS.

# STATEMENT OF CASH FLOWS

For the 52 weeks ended 25 June 2006

|  | 2006<br>\$m      | Consolidated<br>2005 <sup>(1)</sup><br>\$m | Woolworths Limited<br>2006<br>\$m | 2005 <sup>(1)</sup><br>\$m |
|--|------------------|--|-----------------------------------|----------------------------|
| <b>Cash flows from operating activities</b>  |                  |  |                                   |                            |
| Receipts from customers  | 39,938.3         | 33,258.8                                   | 31,215.4                          | 27,609.1                   |
| Receipts from vendors and tenants  | 28.7             | 17.0                                       | 4.5                               | 4.5                        |
| Payments to suppliers and employees  | (37,533.4)       | (31,501.6)                                 | (29,384.6)                        | (26,138.8)                 |
| Interest and costs of finance paid   | (270.3)          | (171.9)                                    | (264.9)                           | (130.4)                    |
| Interest received  | 17.1             | 10.4                                       | 47.1                              | 32.1                       |
| Income tax paid  | (475.3)          | (398.3)                                    | (419.6)                           | (371.8)                    |
| <b>Net cash provided by operating activities</b>   | <b>1,705.1</b>   | <b>1,214.4</b>                             | <b>1,197.9</b>                    | <b>1,004.7</b>             |
| <b>Cash flows from investing activities</b>  |                  |  |                                   |                            |
| Proceeds from the sale of property, plant and equipment  | 328.7            | 97.7                                       | 15.0                              | 16.6                       |
| Proceeds from sale of investments  | 1.0              | 0.5  | –                                 | 0.5                        |
| Payments for property, plant and equipment   | (1,411.7)        | (1,180.5)                                  | (726.7)                           | (642.1)                    |
| Payment for purchase of investments  | –                | (0.4)                                      | –                                 | –                          |
| Loans to related entities  | –                | –  | (1,908.0)                         | (2,023.5)                  |
| Dividend received from related entity  | –                | 6.1  | –                                 | 2.4                        |
| Payments for purchase of businesses  | (1,643.9)        | (1,291.6)                                  | (22.8)                            | (24.2)                     |
| <b>Net cash used in investing activities</b>   | <b>(2,725.9)</b> | <b>(2,368.2)</b>                           | <b>(2,642.5)</b>                  | <b>(2,670.3)</b>           |
| <b>Cash flows from financing activities</b>  |                  |  |                                   |                            |
| Proceeds from issue of equity securities   | 40.9             | 128.1                                      | 40.9                              | 128.1                      |
| Repayment of short-term deposits   | (0.3)            | (0.2)                                      | –                                 | –                          |
| Proceeds from external borrowings  | 11,089.2         | 10,882.7                                   | 11,087.6                          | 10,840.7                   |
| Repayment of external borrowings   | (10,010.2)       | (9,570.0)                                  | (9,665.2)                         | (9,103.0)                  |
| Dividends paid   | –                | (201.9)                                    | –                                 | (201.9)                    |
| <b>Net cash provided by financing activities</b>   | <b>1,119.6</b>   | <b>1,238.7</b>                             | <b>1,463.3</b>                    | <b>1,663.9</b>             |
| Net increase in cash held  | 98.8             | 84.9                                       | 18.7                              | (1.7)                      |
| Effects of exchange rate changes on balance of cash held in foreign currencies   | (6.7)            | –  | –                                 | –                          |
| Cash at the beginning of the financial period  | 433.8            | 348.9                                      | 313.2                             | 314.9                      |
| <b>Cash at the end of the financial period</b>   | <b>525.9</b>     | <b>433.8</b>                               | <b>331.9</b>                      | <b>313.2</b>               |
| <b>Non-cash financing and investing activities</b>   |                  |  |                                   |                            |
| In accordance with the Company's Dividend Reinvestment Plan (DRP) 100% (2005: 60%) of the dividend paid was reinvested in the shares of the Company. |                  |  |                                   |                            |
| Dividends  | 613.1            | 499.8                                      | 613.1                             | 499.8                      |
| Issuance of shares under the DRP   | (613.1)          | (297.9)                                    | (613.1)                           | (297.9)                    |
| <b>Net cash outflow</b>  | <b>–</b>         | <b>201.9</b>                               | <b>–</b>                          | <b>201.9</b>               |

On 5 June 2006, the Company redeemed the Woolworths Income Notes. Of the \$600.0 million redeemed, \$231.3 million was rolled into the Woolworths Notes.

The Company issued shares as part of the consideration for business acquisitions as disclosed in Note 30.

The statement of cash flows should be read in conjunction with the notes to the financial statements set out on pages 80 to 156.

**Note** (1)  
Results for the 52 weeks ended 26 June 2005 have been restated to comply with AIFRS.

For the 52 weeks ended 25 June 2006

|   | Consolidated   |                            | Woolworths Limited |                            |
|---|----------------|----------------------------|--------------------|----------------------------|
|   | 2006<br>\$m    | 2005 <sup>(1)</sup><br>\$m | 2006<br>\$m        | 2005 <sup>(1)</sup><br>\$m |
| <b>Reconciliation of Net Cash Provided by Operating Activities to Profit from Ordinary Activities after Income Tax Expense</b>  |                |                            |                    |                            |
| Profit from ordinary activities after income tax expense  | 1,026.7        | 817.2                      | 780.7              | 707.3                      |
| Depreciation/amortisation charged to income statement   | 522.2          | 416.0                      | 350.1              | 321.3                      |
| Impairment of receivables   | 3.1            | 0.9                        | 1.1                | 0.4                        |
| Share of profit in associated company   | –              | (2.5)                      | –                  | –                          |
| Ineffectiveness of hedges   | (3.0)          | –                          | (3.0)              | –                          |
| Share-based payments expense  | 13.2           | 10.2                       | 13.2               | 10.2                       |
| Difference between defined benefit expense and cash contributions   | (9.0)          | (9.0)                      | (9.0)              | (9.0)                      |
| Intercompany interest receivable  | –              | –                          | (92.9)             | –                          |
| (Profit)/loss on sale of property, plant and equipment  | (16.7)         | (10.2)                     | 14.6               | (4.9)                      |
| Financing costs capitalised   | (3.4)          | (7.7)                      | (2.9)              | (7.7)                      |
| (Increase)/decrease in deferred tax asset   | (5.3)          | (31.6)                     | 9.1                | (34.5)                     |
| Increase/(decrease) in current tax liability  | (27.8)         | (24.3)                     | (19.2)             | (17.2)                     |
| (Increase)/decrease in trade and other receivables  | (34.1)         | (10.2)                     | (18.9)             | (57.5)                     |
| (Increase)/decrease in inventories  | (107.6)        | (61.7)                     | (81.5)             | (53.9)                     |
| Increase/(decrease) in trade and other payables   | 169.0          | 17.4                       | 141.9              | 85.8                       |
| Increase/(decrease) in sundry creditors and provisions  | 177.8          | 109.9                      | 114.6              | 64.4                       |
| <b>Net cash provided by operating activities</b>  | <b>1,705.1</b> | <b>1,214.4</b>             | <b>1,197.9</b>     | <b>1,004.7</b>             |
| <b>Acquisition of businesses</b>  |                |                            |                    |                            |
| Details of the aggregate cash outflow relating to the acquisition of businesses and the aggregate assets and liabilities of those businesses as at the date of the acquisition were as follows: |                |                            |                    |                            |
| ~ property, plant and equipment   | 679.1          | 391.0                      | 10.3               | 0.1                        |
| ~ inventories   | 269.7          | 69.0                       | 1.5                | 0.8                        |
| ~ liquor and gaming licences and other intangibles  | 393.1          | 1,026.7                    | 8.2                | 11.1                       |
| ~ brand names   | 244.1          | 13.9                       | –                  | –                          |
| ~ cash acquired   | 67.4           | 64.2                       | –                  | –                          |
| ~ other assets  | 103.6          | 58.3                       | –                  | –                          |
| ~ interest bearing liabilities  | (353.7)        | (424.1)                    | –                  | –                          |
| ~ accounts payable  | (302.2)        | (141.8)                    | –                  | –                          |
| ~ provisions  | (87.9)         | (45.1)                     | –                  | –                          |
| ~ other liabilities   | (95.5)         | (11.8)                     | –                  | (1.7)                      |
| ~ minority interests  | –              | (27.0)                     | –                  | –                          |
| ~ revaluation reserve attributable to parent entity as a result of previous ownership interest  | –              | (23.5)                     | –                  | –                          |
| ~ net assets previously equity accounted  | –              | (3.5)                      | –                  | –                          |
| <b>Net assets acquired</b>  | <b>917.7</b>   | <b>946.3</b>               | <b>20.0</b>        | <b>10.3</b>                |
| ~ goodwill on acquisition   | 2,315.3        | 436.4                      | 2.8                | 13.9                       |
| <b>Fair value of net assets acquired</b>  | <b>3,233.0</b> | <b>1,382.7</b>             | <b>22.8</b>        | <b>24.2</b>                |
| <b>Analysed as follows:</b>   |                |                            |                    |                            |
| <b>Consideration</b>  |                |                            |                    |                            |
| ~ equity issued   | 1,330.0        | –                          | –                  | –                          |
| ~ equity issued to minority interest  | 191.7          | –                          | –                  | –                          |
| ~ cash paid   | 1,711.3        | 1,382.7                    | 22.8               | 24.2                       |
|   | 3,233.0        | 1,382.7                    | 22.8               | 24.2                       |
| Cash paid   | 1,711.3        | 1,382.7                    | 22.8               | 24.2                       |
| Less: cash paid during previous financial year  | –              | (26.9)                     | –                  | –                          |
| Less: cash balances acquired  | (67.4)         | (64.2)                     | –                  | –                          |
| <b>Cash consideration paid this year</b>  | <b>1,643.9</b> | <b>1,291.6</b>             | <b>22.8</b>        | <b>24.2</b>                |

Details of acquisitions are shown at Note 30.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES

Woolworths Limited (the "Company") is a company domiciled in Australia. The financial report of the Company for the 52 weeks ended 25 June 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in jointly controlled entities.

The financial report was authorised for issue by the Directors on 22 September 2006.

### A Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalent to International Financial Reporting Standards (AIFRS). Compliance with the AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 Financial Instruments: Disclosure and Presentation as the Australian equivalent Accounting Standard, AASB 132 Financial Instruments: Disclosure and Presentation does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

This is the consolidated entity's first full year financial report prepared in accordance with Australian Accounting Standards, being AIFRS and AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (AASB 1). An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 31. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP or GAAP).

In the current financial year the consolidated entity adopted AASB 132 Financial Instruments: Disclosure and Presentation (AASB 132) and AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) for the first time. This change in accounting policy resulted from the election made in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

### B Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

The entity has elected to early adopt the following revised accounting standards:

- AASB 119 Employee Benefits (December 2004). Application date of the standard is 1 January 2006;
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 119 Employee Benefits, AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures. Application date of the standard is 1 January 2006;
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement. Application date of the standard is 1 January 2006;
- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (July 2004), AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. Application date of the standard is 1 January 2006;
- AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (July 2004) and AASB 139 Financial Instruments: Recognition and Measurement. Application date of the standard is 1 January 2006;
- AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations. Application date of the standard is 1 January 2006;
- AASB 2005-11 Amendments to Australian Accounting Standards (September 2005) amending AASB 101 Presentation of Financial Statements, AASB 112 Income Taxes, and AASB 132 Financial Instruments: Disclosure and Presentation, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement and AASB 141 Agriculture. Application date of the standard is 31 December 2005;

- ~ AASB 2006-1 Amendments to Australian Accounting Standards (January 2006) amending AASB 121 The Effects of Changes in Foreign Exchange Rates (July 2004). Application date of the standard is 1 January 2005; and
- ~ UIG 4 Determining whether an Arrangement contains a Lease. Application date of the standard is 1 January 2006.

#### Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these Financial Statements:

- ~ AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007;
- ~ AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007;
- ~ AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) amending AASB 4 Insurance Contract, AASB 1023 General Insurance Contracts, and AASB 132 Financial Instruments: Disclosure and Presentation, and AASB 139 Financial Instruments. The initial application is not expected to impact the results with the exception of the requirement to recognise any financial guarantees at fair value. Woolworths is currently reviewing the application of this requirement to its business. AASB 2005-9 is applicable to reporting periods beginning on or after 1 January 2006;
- ~ UIG 8 – Scope of AASB 2. Application date is for reporting periods beginning on or after 1 May 2006; and
- ~ UIG 9 – Reassessment of Embedded Derivatives. Application date is for reporting periods beginning on or after 1 June 2006.

The consolidated entity plans to adopt AASB 7 and AASB 2005-10 in the year ended 24 June 2007. The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results as the standard and the amendment are primarily concerned with disclosures. UIG 8 and UIG 9 are not expected to have a significant impact on the financial results of the business, if any. The consolidated entity is currently investigating the impact that AASB 2005-9 will have on the results of the business, if any.

Except for the change in accounting policy relating to classification and measurement of financial instruments as set out in Note 1E, F, J and P, the accounting policies set out below have been applied consistently to all periods presented in these Financial Statements. They also have been applied in preparing an opening AIFRS balance sheet at 28 June 2004 for the purposes of the transition to AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in Note 31. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. These accounting policies have been consistently applied by each entity in the consolidated entity.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### C Basis for consolidation

##### (i) Subsidiaries

In these Financial Statements, Woolworths Limited is referred to as the “Company” and the “Consolidated” Financial Statements are those of the consolidated entity, comprising Woolworths Limited and its controlled entities.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

Minority interests in the equity and results of controlled entities are shown as a separate item in the consolidated financial report.

##### (ii) Associates

Investments in associates are accounted for in the consolidated financial report using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C Basis for consolidation (continued)

#### (iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial report.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates' net profit" accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### D Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognised in the profit or loss in the period in which they arise except that:

- ~ exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- ~ exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

### Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. Revenue and expense items are translated at the average exchange rates for the period. Exchange differences arising on translation of foreign operations, if any, are recognised in the foreign currency translation reserve and recognised in consolidated profit and loss on disposal of the foreign operation.

### E Derivative financial instruments

#### Current period policy

The consolidated entity may use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value on the date a derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss unless the derivatives qualify for hedge accounting whereby the recognition of any resultant gain or loss depends on the nature of the item being hedged (refer Note 1F).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

#### Comparative period policy

The consolidated entity may enter into forward foreign exchange contracts and interest rate swap agreements. Accounting for forward exchange contracts and interest rate swaps was in accordance with the comparative period accounting policy set out in Note 1F.

The net amount receivable or payable under interest rate swap agreements was progressively brought to account over the period to settlement. The amount recognised was adjusted against interest expense during the period.

### F Hedging

#### Current period policy

##### (i) Cash flow hedges

A cash flow hedge is a hedge of an exposure to uncertain future cash flows. A cash flow hedge results in the uncertain future cash flows being hedged back into fixed amounts. Woolworths' cash flow hedges include:

- interest rate swap contracts that convert floating interest rate payments on borrowings into fixed amounts; and
- cross-currency interest rate swaps that convert foreign currency denominated principal and interest rate payments on offshore loans into fixed Australian dollar amounts.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

The ineffective part of any derivative designated as a hedge is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

#### *(ii) Fair value hedge*

A fair value hedge is a hedge of a fair value (i.e. "mark-to-market") exposure arising on a recognised balance sheet asset or liability. A fair value hedge results in the fair value exposure being offset. Woolworths' fair value hedges include:

- ~ Cross-currency interest rate swaps (CCIRS) that convert fixed interest rate foreign currency borrowings into floating rate Australian dollar borrowings. The CCIRS offsets the foreign currency and fixed interest rate fair value exposures arising on those borrowings.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

#### *(iii) Hedge of monetary assets and liabilities*

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

#### **Comparative period policy**

##### *(i) Specific commitments*

Exchange gains and losses, and costs, premiums and discounts on transactions intended to hedge the purchase or sale of goods or services were deferred up to the date of, and included in, the measurement of the purchase or sale.

In the case of hedges of monetary items, exchange gains and losses were brought to account in the period in which the exchange rates change. Gains or costs arising on entry into such hedging transactions were brought to account over the lives of the hedges.

Where a hedging transaction is terminated prior to maturity and the underlying transaction was still expected to occur, any gains or losses occurring prior to termination continued to be deferred and were brought to account in the measurement of the underlying transaction. Where the underlying transaction was no longer expected to occur, any previously deferred gains and losses were taken to the income statement at the date of termination.

Where a hedging transaction is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation were only deferred where the original anticipated transaction is still expected to occur. Where the original transaction is no longer expected to occur, any gains or losses relating to the hedge instrument were included in the income statement for the period.

##### *(ii) General commitments*

Exchange gains and losses on other hedge transactions were not deferred, but were brought to account in the income statement in the period in which the exchange rates change. Gains or costs arising on entry into these transactions are brought to account at the time of entry and amortised over the lives of the hedges.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G Property, plant and equipment

Freehold land and buildings and development properties are measured at cost. Borrowing and other holding and development costs on property under development are capitalised until completion of the development.

Land and buildings held for sale are classified as current assets and are valued at the lower of cost and fair value less costs to sell and depreciation on such assets ceases.

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer Note 1N). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes estimates of the costs of dismantling and removing the items and restoring the site on which they are located where it is probable that such costs will be incurred, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### (i) Leased assets

Leases whereby the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. Property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer Note 1N). Lease payments are accounted for as described in Note 1U.

#### (ii) Depreciation

##### (a) Buildings, fixtures, fittings and plant

Buildings and plant comprising lifts, air-conditioning, fire protection systems and other installations are depreciated on a straight-line basis over the estimated useful life of the asset to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets.

The expected useful lives are as follows:

|                              | 2006           | 2005           |
|------------------------------|----------------|----------------|
| Buildings                    | 25 to 40 years | 25 to 40 years |
| Fixtures, fittings and plant | 3 to 10 years  | 3 to 10 years  |

##### (b) Leasehold improvements

The cost of leasehold improvements is amortised over the remaining period of the individual leases or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over a maximum period of 20 years.

##### (c) Plant, equipment and shop fittings

Plant, equipment and shop fittings (including application software) are depreciated on a straight-line basis over the estimated useful life of the asset to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets.

The expected useful lives are as follows:

|                               | 2006            | 2005            |
|-------------------------------|-----------------|-----------------|
| Plant, equipment and fittings | 2.5 to 10 years | 2.5 to 10 years |

##### (d) Proceeds from sale of assets

The gross proceeds of asset sales are recognised at the date that an unconditional contract of sale is exchanged with the purchaser. The net gain (net loss) is recorded in other income.

## H Goodwill

### Business combinations prior to 27 June 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 27 June 2004 have not been reconsidered in preparing the consolidated entity's opening AIFRS transition balance sheet.

### Business combinations since 27 June 2004

All business combinations are accounted for by applying the purchase method whereby entities and businesses acquired are accounted for using the cost method of accounting, whereby fair values are assigned to all the identifiable underlying assets acquired and liabilities assumed, including contingent liabilities, at the date of acquisition.

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is not amortised, but tested for impairment annually and whenever an indication of impairment exists, (refer Note 1N). Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Any impairment is recognised directly in the income statement and is not subsequently reversed.

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## **I Other intangibles**

### **(i) Brand names**

Brand names are valued at cost. Brand names are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. They are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

### **(ii) Liquor licences**

Liquor licences are valued at cost. Liquor licences are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. They are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

### **(iii) Gaming licences**

Gaming licences are valued at cost. Gaming licences are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. They are tested for impairment annually and whenever an indication of impairment exists. Any impairment is recognised immediately in profit or loss.

### **(iv) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (refer Note 1N).

### **(v) Other intangible assets**

Other intangible assets that are acquired by the consolidated entity are stated at cost. These are considered to have an indefinite useful life. As a consequence, no amortisation has been charged. Expenditure on internally generated goodwill and brand names is recognised in profit or loss as an expense as incurred.

## **J Investments**

### **Current accounting policy**

Interests in controlled entities are accounted for in the consolidated Financial Statements as set out in Note 1C and at cost in Woolworths Limited's Financial Statements. Investments in associates are accounted for under the equity method in the consolidated Financial Statements and the cost method in Woolworths Limited's Financial Statements.

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through the income statement.

Where the consolidated entity has the positive intent and ability to hold Government bonds to maturity, they are stated at amortised cost less impairment losses (refer Note 1N).

### **Comparative accounting policy**

Interests in listed and unlisted shares are carried at the lower of cost and recoverable amount in Woolworths Limited's Financial Statements. Interest in semi-Government securities are carried at amortised cost, calculated after accounting for the discount or premium on acquisition. Interest income is taken to account as revenue on an effective yield basis.

### **K Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses (refer Note 1N).

### **L Inventories**

Shortlife retail stocks are valued at the lower of average cost or net realisable value.

Longlife retail stocks have been valued using the retail inventory method to arrive at cost. The retail inventory method determines cost by reducing the value of the inventory by the appropriate gross margin percentage which takes into account markdown prices.

Warehouse stocks are valued at the lower of average cost or net realisable value.

These methods of valuation are considered to achieve a valuation reasonably approximating the lower of cost and net realisable value. Cost includes all purchase related rebates, settlement discounts and other costs incurred to bring inventory to its condition and location for sale.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### M Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### N Impairment

The carrying amounts of the consolidated entity's tangible assets, excluding inventories (refer Note 1L) and deferred tax assets (refer Note 1W), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (refer below).

For goodwill and other intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually and whenever there is an impairment indicator.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

#### (i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment.

Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss will be recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement. Impairment losses recognised in respect of a cash-generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis to their carrying amounts.

#### (ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## O Capital

### (i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

### (ii) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### (iii) Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

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## **P Borrowings**

### **Current accounting policy**

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Borrowing costs directly attributable to buildings under construction are capitalised as part of the cost of those assets.

### **Comparative period policy**

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense was accrued at the contracted rate and included in trade and other payables.

Debentures, bills of exchange and notes payable were recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest expense was recognised on an effective yield basis.

## **Q Employee benefits**

The Company sponsors a superannuation plan that provides accumulation type benefits to permanent salaried employees and their dependants on retirement or death. Defined benefits have been preserved for members of certain former superannuation funds sponsored by the Company, which are now provided for in the plan.

The Company's commitment in respect of accumulation benefits under the scheme is limited to making the specified contributions in accordance with the rules of the plan and/or any statutory obligations.

### **(i) Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

### **(ii) Defined benefit plans**

The consolidated entity has early adopted the revised AASB 119 Employee Benefits (December 2004).

Woolworths is the employer sponsor of a defined benefit superannuation fund. Under AIFRS, the employer sponsor is required to recognise a liability (or asset) where the present value of the defined benefit obligation, adjusted for unrecognised past service cost exceeds (is less than) the fair value of the underlying net assets of the fund (hereinafter referred to as the "defined benefit obligation").

The consolidated entity's net obligation, in respect of defined benefit plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The discount rate is the yield at the balance sheet date on Government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All movements in the defined benefit obligation are recognised in the income statement except actuarial gains and losses. All actuarial gains and losses as at 28 June 2004, the date of transition to AIFRS, were recognised. Actuarial gains and losses that arise subsequent to 28 June 2004 are recognised in full in retained earnings in the period in which they occur and are presented in the statement of recognised income and expense.

When the calculation results in plan assets exceeding liabilities to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

### **(iii) Long-term service benefits**

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

### **(iv) Share-based payment transactions**

Equity settled share-based payments form part of the remuneration of employees (including executives) of both the consolidated entity and Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Q Employee benefits (continued)

The consolidated entity and Company recognises the fair value at the grant date of equity settled share-based payments (such as options) as an employee benefit expense proportionally over the vesting period with a corresponding increase in equity. Fair value is measured at grant date using a binomial model which takes into account market-based performance conditions. The fair value per instrument is multiplied by the number of instruments expected to vest based on achievement of non-market-based performance conditions (e.g. service conditions) to determine the total cost. This total cost is recognised as an employee benefit expense proportionally over the vesting period during which the employees become unconditionally entitled to the instruments.

On vesting and over the vesting period the amount recognised as an employee benefit expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to failure to achieve market-based performance conditions.

As permitted by the elections available under AASB 1, Woolworths has not retrospectively recognised the fair value of share-based payments that have vested prior to 1 January 2005. Furthermore, no adjustment has been made for share-based payments granted before 7 November 2002.

The consolidated entity operated an Employee Share Plan (ESP) whereby it provided interest free loans to selected employees to purchase shares in the Company. All shares acquired under the ESP are held by a wholly-owned subsidiary of Woolworths as trustee of the share plan trust. Dividends paid by Woolworths are used to repay the loan (after payment of a portion of the dividend to the employee to cover any tax liabilities).

The loans are limited recourse and if the employee elects not to repay the loan, the underlying shares are sold to recover the outstanding loan balance. These have been accounted for as an option in the Financial Statements.

Under AIFRS, a liability equal to that part of these receivable balances not yet repaid by the employee has been recognised as a liability as the financial institution has recourse to the Company until the share plan vesting conditions have been satisfied.

### (v) Wages and salaries and related employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being reliably measured. Provisions made in respect of employee benefits, which are expected to be settled within 12 months, are recognised, and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, are recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to period end. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The expected future cash flows are discounted, using interest rates attaching to Commonwealth Government guaranteed securities which have terms to maturity, matching their estimated timing as closely as possible.

### R Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### (i) Restructuring

Provision for restructurings is recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has either:

- (a) entered into firm contracts to carry out the restructuring; or
- (b) raised a valid expectation in those affected by the restructuring that the restructuring will occur.

### (ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### (iii) Self-insurance

The consolidated entity provides for self-insured liabilities relating to workers compensation and public liability claims. The provisions for such liabilities are based on independent actuarial assessments, which consider numbers, amounts and duration of claims, and allow for future inflation and investment returns.

Allowance is included for injuries which occurred before the balance date, but where the claim is expected to be notified after the balance date.

The provision is discounted using the Commonwealth Government bond rate with a maturity date approximating the term of the consolidated entity's obligation.

#### **(iv) Warranty**

The consolidated entity provides for anticipated warranty costs when the underlying products or services are sold. The provision is based upon historical warranty data.

#### **(v) Dividends**

The consolidated entity provides for dividends when the dividend is declared by the Board of Directors.

#### **S Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity and Company which were unpaid at the end of the period. The amounts are unsecured and are usually settled within 45 days of recognition.

#### **T Revenue recognition**

In general, revenue is recognised only when it is probable that the economic benefits comprising the revenue will flow to the entity, the flow can be reliably measured and the entity has transferred the significant risks and rewards of ownership.

In addition to these general criteria, specific revenue recognition criteria apply as follows:

##### **(i) Sales revenue**

Sales revenue represents the revenue earned from the provision of products and rendering of services to parties external to the consolidated entity and Company. Sales revenue is only recognised when the significant risks and rewards of ownership of the products, including possession, have passed to the buyer and for services when a right to be compensated has been attained and the stage of completion of the contract can be reliably measured.

Revenue is recognised on a commission-only basis where Woolworths acts as an agent rather than a principal in the transaction. Revenue is recognised net of returns.

Revenue from the sale of customer gift cards is recognised when the card is redeemed and the customer purchases the goods by using the card. Where a revenue transaction involves the issue of a voucher that may be subsequently redeemed, the future expected cost of settling the obligation is provided for.

##### **(ii) Rental income**

Rental income is recognised on a straight-line basis over the term of the lease. Lease rentals granted are recognised as an integral part of the total rental income.

##### **(iii) Financing income**

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date.

#### **U Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### **Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Fixed rate increases to lease rental payments, excluding contingent or index-based rental increases, such as CPI, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term. An asset or liability arises for the difference between the amount paid and the lease expense brought to account on a straight-line basis.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

#### **V Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (refer Note 1F).

#### **W Income tax**

Income tax in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Where it arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill or excess.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability to the extent it is unpaid.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with AASB 112 Income Taxes, the following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future where the consolidated entity is able to control the reversal of the temporary differences.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### W Income tax (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

### Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Woolworths Limited.

Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised by each member of the tax consolidated group.

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding agreement which sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset assumed by the head entity in circumstances where the subsidiary member would have been entitled to recognise the current tax asset on a stand-alone basis. These tax funding arrangements result in the head entity recognising an inter-entity receivable/payable equal in amount to the tax liability/asset assumed. The inter-entity receivable/payable amounts are at call.

In respect of carried forward tax losses brought into the Group on consolidation by subsidiary members, the head entity will pay the subsidiary member for such losses when these losses are transferred to the Woolworths Limited tax consolidated group, where the subsidiary member would have been entitled to recognise the benefit of these losses on a stand-alone basis.

### X Assets held for sale

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held for sale, assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

### Y Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### Z Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### Business segments

The consolidated entity comprises the following main segments:

*Supermarket Division* – encompasses supermarkets, retail liquor outlets and petrol outlets;

*General Merchandise* – encompasses B&W discount department stores;

*Consumer Electronics* – encompasses Dick Smith Electronics, Tandy and Dick Smith Electronics Powerhouse stores;

*Hotels* – encompasses on premise liquor sales, food, accommodation, gaming and venue hire; and

*Wholesale Division* – comprises Statewide Independent Wholesalers (SIW).

Unallocated items comprise mainly income-earning assets and revenue, interest bearing borrowings and expenses, and corporate assets and expenses.

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**Geographical segments**

Segment assets are based on the geographical location of the assets. Woolworths Limited operates in Australia and New Zealand with the majority of business customers in Australia. Woolworths operates in New Zealand following the acquisition of Foodland supermarkets and has supply arrangements with 45 franchised stores. The consumer electronics business operates stores based in Australia and New Zealand.

**AA Accounting estimates and judgements**

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as appropriate in the Notes to the Financial Statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and underlying assumptions are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period and future periods if the revision affects both current and future periods.

# NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 June 2006

|   | Consolidated    |                 | Woolworths Limited |                 |
|---|-----------------|-----------------|--------------------|-----------------|
|   | 2006<br>\$m     | 2005<br>\$m     | 2006<br>\$m        | 2005<br>\$m     |
| <b>2 PROFIT FROM OPERATIONS</b>   |                 |                 |                    |                 |
| Profit before income tax includes the following items of revenue, income and expense: |                 |                 |                    |                 |
| <b>(a) Operating revenue</b>  |                 |                 |                    |                 |
| Revenue from the sale of goods:   |                 |                 |                    |                 |
| Other parties   | 37,734.2        | 31,352.5        | 27,923.1           | 26,025.0        |
| Related parties   | —               | —               | —                  | 2.8             |
| Other operating revenue   | 115.5           | 128.7           | 99.8               | 120.2           |
| <b>Total revenue from operations</b>  | <b>37,849.7</b> | <b>31,481.2</b> | <b>28,022.9</b>    | <b>26,148.0</b> |
| <b>(b) Other revenue</b>  |                 |                 |                    |                 |
| Rent  | 28.7            | 17.0            | 4.5                | 4.5             |
| Other   | 99.5            | 78.2            | 80.6               | 70.8            |
| <b>Total other revenue</b>  | <b>128.2</b>    | <b>95.2</b>     | <b>85.1</b>        | <b>75.3</b>     |
| <b>Total revenue</b>  | <b>37,977.9</b> | <b>31,576.4</b> | <b>28,108.0</b>    | <b>26,223.3</b> |
| <b>(c) Other income</b>   |                 |                 |                    |                 |
| Net profit on disposal of property, plant, equipment, fixtures and fittings           | 16.7            | 10.2            | —                  | 4.9             |
| <b>Total other income</b>   | <b>16.7</b>     | <b>10.2</b>     | <b>—</b>           | <b>4.9</b>      |
| <b>(d) Expenses</b>   |                 |                 |                    |                 |
| Amounts provided for:   |                 |                 |                    |                 |
| Impairment of receivables   | 3.1             | 0.9             | 1.1                | 0.4             |
| Self-insured risks (Note 16)  | 88.8            | 102.8           | 73.3               | 95.9            |
| Depreciation of:  |                 |                 |                    |                 |
| Buildings   | 22.9            | 10.2            | 1.7                | 1.9             |
| Plant and equipment, fixtures and fittings  | 435.2           | 364.0           | 306.6              | 282.8           |
| Amortisation of:  |                 |                 |                    |                 |
| Leasehold improvements  | 64.1            | 41.8            | 41.8               | 36.6            |
| <b>Total depreciation and amortisation</b>  | <b>522.2</b>    | <b>416.0</b>    | <b>350.1</b>       | <b>321.3</b>    |
| <b>Employee benefits expense<sup>(1)</sup></b>  | <b>4,425.4</b>  | <b>3,724.8</b>  | <b>3,404.2</b>     | <b>3,217.7</b>  |
| Net loss on disposal of plant, property, equipment, fixtures and fittings             | —               | —               | 14.6               | —               |
| Operating lease rental expenses:  |                 |                 |                    |                 |
| Leased premises   |                 |                 |                    |                 |
| ~ minimum lease payments  | 923.2           | 750.1           | 652.5              | 583.9           |
| ~ contingent rentals  | 97.7            | 80.6            | 86.2               | 72.5            |
| ~ sub-leases  | 2.4             | 3.7             | —                  | 3.6             |
| Leased equipment~ minimum lease payments  | 46.8            | 65.8            | 38.4               | 57.3            |
| <b>Total operating lease rental expense</b>   | <b>1,070.1</b>  | <b>900.2</b>    | <b>777.1</b>       | <b>717.3</b>    |

|             |   |
|-------------|---|
| <b>Note</b> | <b>(1)</b>  |
|             | Employee benefits expense includes salaries and wages, defined benefit plan expense, defined contribution plan expense, termination benefits, taxable value of fringe benefits, payroll tax, leave entitlements and share-based payments expense. |

For the 52 weeks ended 25 June 2006

|   | 2006<br>\$m | Consolidated<br>2005<br>\$m | 2006<br>\$m | Woolworths Limited<br>2005<br>\$m |
|---|-------------|-----------------------------|-------------|-----------------------------------|
| <b>3 NET FINANCING COSTS</b>              |             |                             |             |                                   |
| <b>Financial expense</b>                  |             |                             |             |                                   |
| Interest expense – other parties          | (270.2)     | (171.8)                     | (264.8)     | (130.3)                           |
| Less: interest capitalised <sup>(1)</sup> | 3.4         | 7.7                         | 2.9         | 7.7                               |
|   | (266.8)     | (164.1)                     | (261.9)     | (122.6)                           |
| <b>Financial income</b>                   |             |                             |             |                                   |
| Dividend income                           |             |                             |             |                                   |
| Related parties                           | –           | 3.6                         | –           | 2.5                               |
| Interest income                           |             |                             |             |                                   |
| Related parties                           | –           | 0.4                         | 128.5       | 25.0                              |
| Other parties                             | 17.1        | 10.0                        | 11.5        | 7.0                               |
|   | 17.1        | 14.0                        | 140.0       | 34.5                              |
| <b>Net financing cost</b>                 | (249.7)     | (150.1)                     | (121.9)     | (88.1)                            |

**Note** (1)  
Weighted average capitalisation rate on funds borrowed generally: 7.0% (2005: 8.0%).

#### 4 AUDITORS' REMUNERATION

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Auditors of the parent entity                   |              |              |              |              |
| Audit or review of the financial report         | 1.835        | 1.503        | 1.222        | 0.975        |
| Other non-audit related services <sup>(1)</sup> | 0.777        | 0.240        | 0.369        | 0.189        |
|   | 2.612        | 1.743        | 1.591        | 1.164        |
| Other auditors <sup>(2)</sup>                   |              |              |              |              |
| Audit or review of the financial report         | 0.528        | 0.034        | –            | –            |
| Tax services                                    | –            | 0.013        | –            | –            |
|   | 0.528        | 0.047        | –            | –            |
| <b>Total auditors' remuneration</b>             | <b>3.140</b> | <b>1.790</b> | <b>1.591</b> | <b>1.164</b> |

The auditor of Woolworths Limited is Deloitte Touche Tohmatsu.

**Notes** (1) Other non-audit services comprise assistance on various accounting (\$0.054 million, 2005: \$0.183 million) and tax matters (\$0.195 million, 2005: \$nil) and due diligence (\$0.528 million, 2005: \$0.057 million). (2) Other auditors include international associates of Deloitte Touche Tohmatsu Australia.

# NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 June 2006

|      | Consolidated |      | Woolworths Limited |
|------|--------------|------|--------------------|
| 2006 | 2005         | 2006 | 2005               |
| \$m  | \$m          | \$m  | \$m                |

## 5 INCOME TAXES

### (a) Income tax recognised in the income statement

#### Tax expense comprises:

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Current tax expense  | 451.0        | 383.4        | 335.5        | 333.5        |
| Adjustments recognised in the current year in relation to the current tax of prior years | 0.1          | (13.6)       | 3.2          | (13.6)       |
| Deferred tax relating to the origination and reversal of temporary differences           | (5.3)        | (35.0)       | (22.3)       | (31.5)       |
| <b>Total tax expense</b>   | <b>445.8</b> | <b>334.8</b> | <b>316.4</b> | <b>288.4</b> |

### Numerical reconciliation between tax expense and pre-tax net profit

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Financial Statements as follows:

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Profit from operations  | 1,472.5      | 1,152.0      | 1,096.9      | 995.7        |
| Income tax using the domestic corporation tax rate of 30% (2005: 30%) | 441.8        | 345.6        | 329.1        | 298.7        |
| Non-deductible expenses   | 3.4          | 1.3          | 3.4          | 1.3          |
| Impact of differences in offshore tax rates                           | 4.3          | -            | -            | -            |
| Exempt foreign dividend income  | -            | -            | (14.4)       | -            |
| Other   | (3.8)        | 1.5          | (4.9)        | 2.0          |
|   | <b>445.7</b> | <b>348.4</b> | <b>313.2</b> | <b>302.0</b> |
| Under/(over) provided in prior years                                  | 0.1          | (13.6)       | 3.2          | (13.6)       |
|   | <b>445.8</b> | <b>334.8</b> | <b>316.4</b> | <b>288.4</b> |

### (b) Income tax recognised directly in equity

The following current and deferred amounts were charged/(credited) directly to equity during the period:

#### Deferred tax

|  |            |             |              |              |
|--|------------|-------------|--------------|--------------|
| Cash flow hedges   | (1.6)      | -           | (1.6)        | -            |
| Transactions charged to foreign currency translation reserve | 13.6       | -           | -            | -            |
| Actuarial movements on defined benefits plans                | (4.5)      | (3.0)       | (4.5)        | (3.0)        |
| Revaluation of intangible assets                             | -          | 14.0        | -            | -            |
| Other  | (0.6)      | -           | (0.3)        | -            |
|  | <b>6.9</b> | <b>11.0</b> | <b>(6.4)</b> | <b>(3.0)</b> |

### (c) Current tax assets and liabilities

The current tax liability for the consolidated entity of \$84.6 million (2005: \$105.5 million) and for Woolworths Limited of \$96.5 million (2005: \$115.9 million) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, Woolworths Limited, as the head entity of the Australian tax consolidated group has assumed the current tax liabilities initially recognised by the members in the tax consolidated group.

### (d) Deferred tax balances

#### Deferred tax assets comprise:

|                       |              |              |              |              |
|-----------------------|--------------|--------------|--------------|--------------|
| Tax losses - revenue  | -            | 10.0         | -            | -            |
| Temporary differences | 336.9        | 277.7        | 272.8        | 244.1        |
|                       | <b>336.9</b> | <b>287.7</b> | <b>272.8</b> | <b>244.1</b> |

Taxable and deductible differences arise from the following:

| <i>Consolidated 2006</i>                | <i>Opening<br/>Balance<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Income<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Equity<br/>\$m</i> | <i>Acquisitions/<br/>Disposals<br/>\$m</i> | <i>Closing<br/>Balance<br/>\$m</i> |
|---|------------------------------------|--|--|--|------------------------------------|
| <b>Gross deferred tax assets</b>        |                                    |  |  |  |                                    |
| Property, plant and equipment           | 43.7                               | 16.4   | (1.3)  | 10.0                                       | 68.8                               |
| Provisions and accruals                 | 218.7                              | 39.5   | 1.4  | 27.3                                       | 286.9                              |
| Recognised tax losses                   | 10.0                               | (10.0)   | –  | –  | –                                  |
| Other                                   | 27.7                               | (6.3)  | 1.6  | 9.0  | 32.0                               |
|   | 300.1                              | 39.6   | 1.7  | 46.3                                       | 387.7                              |
| <b>Gross deferred tax liabilities</b>   |                                    |  |  |  |                                    |
| Intangible assets                       | (14.0)                             | 0.5  | –  | (0.5)                                      | (14.0)                             |
| Prepayments                             | 1.0                                | (3.9)  | –  | –  | (2.9)                              |
| Unrealised foreign exchange differences | –                                  | –  | (9.6)  | –  | (9.6)                              |
| Other                                   | 0.6                                | (30.9)   | 1.0  | 5.0  | (24.3)                             |
|   | (12.4)                             | (34.3)   | (8.6)  | 4.5  | (50.8)                             |
|   | 287.7                              | 5.3  | (6.9)  | 50.8                                       | 336.9                              |

| <i>Woolworths Limited 2006</i>        | <i>Opening<br/>Balance<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Income<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Equity<br/>\$m</i> | <i>Closing<br/>Balance<br/>\$m</i> |
|---------------------------------------|------------------------------------|--|--|------------------------------------|
| <b>Gross deferred tax assets</b>      |                                    |  |  |                                    |
| Property, plant and equipment         | 66.1                               | 8.3  | –  | 74.4                               |
| Provisions and accruals               | 140.5                              | 45.4   | 4.5  | 190.4                              |
| Other                                 | 37.5                               | (27.7)   | 1.9  | 11.7                               |
|                                       | 244.1                              | 26.0   | 6.4  | 276.5                              |
| <b>Gross deferred tax liabilities</b> |                                    |  |  |                                    |
| Prepayments                           | (0.3)                              | (2.5)  | –  | (2.8)                              |
| Other                                 | 0.3                                | (1.2)  | –  | (0.9)                              |
|                                       | –                                  | (3.7)  | –  | (3.7)                              |
|                                       | 244.1                              | 22.3   | 6.4  | 272.8                              |

# NOTES TO THE FINANCIAL STATEMENTS

## 5 INCOME TAXES (CONTINUED)

Taxable and deductible differences arise from the following:

| <i>Consolidated 2005</i>              | <i>Opening<br/>Balance<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Income<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Equity<br/>\$m</i> | <i>Acquisitions/<br/>Disposals<br/>\$m</i> | <i>Closing<br/>Balance<br/>\$m</i> |
|---------------------------------------|------------------------------------|--|--|--|------------------------------------|
| <b>Gross deferred tax assets</b>      |                                    |  |  |  |                                    |
| Property, plant and equipment         | 16.4                               | 27.3   | ~  | ~  | 43.7                               |
| Provisions and accruals               | 201.9                              | (1.8)  | 3.0  | 15.6                                       | 218.7                              |
| Recognised tax losses                 | ~                                  | 10.0   | ~  | ~  | 10.0                               |
| Other                                 | 24.1                               | (6.0)  | ~  | 9.6  | 27.7                               |
|                                       | 242.4                              | 29.5   | 3.0  | 25.2                                       | 300.1                              |
| <b>Gross deferred tax liabilities</b> |                                    |  |  |  |                                    |
| Intangible assets                     | ~                                  | ~  | (14.0)   | ~  | (14.0)                             |
| Prepayments                           | (2.0)                              | 3.0  | ~  | ~  | 1.0                                |
| Other                                 | (2.4)                              | 2.5  | ~  | 0.5  | 0.6                                |
|                                       | (4.4)                              | 5.5  | (14.0)   | 0.5  | (12.4)                             |
|                                       | 238.0                              | 35.0   | (11.0)   | 25.7                                       | 287.7                              |

| <i>Woolworths Limited 2005</i>        | <i>Opening<br/>Balance<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Income<br/>\$m</i> | <i>Credited/<br/>(Charged) to<br/>Equity<br/>\$m</i> | <i>Closing<br/>Balance<br/>\$m</i> |
|---------------------------------------|------------------------------------|--|--|------------------------------------|
| <b>Gross deferred tax assets</b>      |                                    |  |  |                                    |
| Property, plant and equipment         | 28.7                               | 37.4   | ~  | 66.1                               |
| Provisions and accruals               | 150.8                              | (13.3)   | 3.0  | 140.5                              |
| Other                                 | 32.4                               | 5.1  | ~  | 37.5                               |
|                                       | 211.9                              | 29.2   | 3.0  | 244.1                              |
| <b>Gross deferred tax liabilities</b> |                                    |  |  |                                    |
| Prepayments                           | (1.9)                              | 1.6  | ~  | (0.3)                              |
| Other                                 | (0.4)                              | 0.7  | ~  | 0.3                                |
|                                       | (2.3)                              | 2.3  | ~  | ~                                  |
|                                       | 209.6                              | 31.5   | 3.0  | 244.1                              |

## 6 DIVIDENDS

|                              | <i>Cents per share</i> | <i>Total amount<br/>\$m</i> | <i>Franked</i> | <i>Date of payment</i> |
|------------------------------|------------------------|-----------------------------|----------------|------------------------|
| 2006                         |                        |                             |                |                        |
| <b>Interim 2006 ordinary</b> | 28                     | 325.9                       | 100%           | 28/04/2006             |
| <b>Final 2005 ordinary</b>   | 27                     | 287.2                       | 100%           | 7/10/2005              |
| <b>Total</b>                 | 55                     | 613.1                       |                |                        |

2005

|                              |    |       |      |            |
|------------------------------|----|-------|------|------------|
| <b>Interim 2005 ordinary</b> | 24 | 250.9 | 100% | 29/04/2005 |
| <b>Final 2004 ordinary</b>   | 24 | 248.9 | 100% | 8/10/2004  |
| <b>Total</b>                 | 48 | 499.8 |      |            |

All dividends are franked to 30%.

On 21 August 2006, the Board of Directors declared a final dividend in respect of the 2006 year of 31c (2005: 27c) per share 100% franked at a 30% tax rate. The amount that will be paid on 6 October 2006 (2005: 7 October 2005) will be \$367.1 million (2005: \$287.2 million). As the dividend was declared subsequent to 25 June 2006, no provision has been included as at 25 June 2006.

Woolworths has entered into an underwriting agreement in relation to the Woolworths DRP for the 2006 dividends. Under this arrangement Woolworths pays shareholders their dividend entitlement in cash to the extent that they have not elected to take up their full entitlement under the Woolworths DRP and the underwriter subscribes for a number of shares calculated by reference to the aggregate amount of cash which has been paid to shareholders who have not elected to take up their full share entitlement under the Woolworths DRP. The price per share paid by the underwriter is the average of the daily volume weighted average market price of Woolworths ordinary fully paid shares sold on the Stock Exchange Automated Trading System over a period of ten trading days commencing on the third trading day after the record date for the relevant dividend.

The underwriting agreement applied to both dividends paid in 2006. The underwriting agreement will apply to the final dividend payable in October 2006, following which the underwriting agreement will be concluded.

### Franked dividends

|  | <i>2006<br/>\$m</i> | <i>Consolidated<br/>2005<br/>\$m</i> | <i>Woolworths Limited<br/>2006<br/>\$m</i> | <i>2005<br/>\$m</i> |
|--|---------------------|--------------------------------------|--|---------------------|
| The franked portions of the dividends proposed as at 25 June 2006 will be franked out of existing franking credits or out of franked credits arising from the payment of income tax in the period ending 24 June 2007. |                     |                                      |  |                     |
| Franking credits available for the subsequent financial year 30% (2005: 30%)   | <b>740.6</b>        | 606.3                                | <b>702.1</b>                               | 574.1               |

The above amounts represent the balances of the franking accounts as at the end of the financial period, adjusted for:

- (a) franking credits that will arise from the payment of income tax payable at the end of the financial period; and
- (b) franking debits that will arise from the payment of dividends provided at the end of the financial period.

Franking accounts are presented on a tax paid basis.

# NOTES TO THE FINANCIAL STATEMENTS

|   | Supermarkets <sup>(1)</sup> |                 | BIG W          |                |
|---|-----------------------------|-----------------|----------------|----------------|
|   | 2006<br>\$m                 | 2005<br>\$m     | 2006<br>\$m    | 2005<br>\$m    |
| <b>7 SEGMENT DISCLOSURES</b>  |                             |                 |                |                |
| <b>Business segments</b>  |                             |                 |                |                |
| Sales to customers  | 32,453.4                    | 26,878.0        | 3,119.1        | 2,908.7        |
| Other operating revenue   | 113.9                       | 128.7           | –              | –              |
| Inter-segment revenue   | –                           | –               | –              | –              |
| <b>Segment revenue</b>  | <b>32,567.3</b>             | <b>27,006.7</b> | <b>3,119.1</b> | <b>2,908.7</b> |
| Eliminations  |                             |                 |                |                |
| Unallocated revenue/(expenses) <sup>(4)</sup>                           |                             |                 |                |                |
| <b>Total revenue</b>  |                             |                 |                |                |
| Share of net profits of associate accounted for using the equity method | –                           | 2.5             | –              | –              |
| <b>Segment result before tax</b>  | <b>1,448.0</b>              | <b>1,127.7</b>  | <b>123.1</b>   | <b>118.3</b>   |
| Unallocated revenue/(expenses)  |                             |                 |                |                |
| – Property  |                             |                 |                |                |
| – Head office   |                             |                 |                |                |
| Net financing cost  |                             |                 |                |                |
| <b>Profit before tax</b>  |                             |                 |                |                |
| <b>Income tax expense</b>   |                             |                 |                |                |
| <b>Profit after tax</b>   |                             |                 |                |                |
| Segment assets  | 7,385.6                     | 4,143.7         | 799.6          | 739.4          |
| Unallocated <sup>(5)</sup>  |                             |                 |                |                |
| <b>Total assets</b>   |                             |                 |                |                |
| Segment liabilities   | 2,890.7                     | 2,275.2         | 345.2          | 376.2          |
| Unallocated <sup>(5)</sup>  |                             |                 |                |                |
| <b>Total liabilities</b>  |                             |                 |                |                |
| Capital expenditure   | 3,454.7                     | 910.3           | 90.0           | 62.1           |
| Unallocated <sup>(5)</sup>  |                             |                 |                |                |
| <b>Acquisition of assets</b>  |                             |                 |                |                |
| Segment depreciation and amortisation                                   | 364.8                       | 293.5           | 36.7           | 34.7           |
| Unallocated <sup>(5)</sup>  |                             |                 |                |                |
| <b>Total depreciation and amortisation</b>                              |                             |                 |                |                |
| Segment other non-cash expenses   | 8.2                         | 6.7             | 1.5            | 1.2            |
| Unallocated <sup>(5)</sup>  |                             |                 |                |                |
| <b>Total other non-cash expenses</b>                                    |                             |                 |                |                |

| Notes  | (2)  | (3)  | (4)   |
|--|--|--|---|
| (1)<br>Supermarkets comprise supermarket stores, liquor stores and petrol canopies in Australia and New Zealand. | Hotels comprise on-premise liquor sales, food, accommodation, gaming and venue hire. | Wholesale comprises Statewide Independent Wholesalers (SIW). | Unallocated revenue comprises rent and other revenue from operating activities. |

| Consumer Electronics |         | Hotels <sup>(2)</sup> |         | Wholesale <sup>(3)</sup> |       | Consolidated |          |
|----------------------|---------|-----------------------|---------|--------------------------|-------|--------------|----------|
| 2006                 | 2005    | 2006                  | 2005    | 2006                     | 2005  | 2006         | 2005     |
| \$m                  | \$m     | \$m                   | \$m     | \$m                      | \$m   | \$m          | \$m      |
| 1,167.1              | 1,007.5 | 849.9                 | 415.8   | 144.7                    | 142.5 | 37,734.2     | 31,352.5 |
| –                    | –       | 1.6                   | –       | –                        | –     | 115.5        | 128.7    |
| 0.3                  | 0.3     | –                     | –       | 224.8                    | 220.4 | 225.1        | 220.7    |
| 1,167.4              | 1,007.8 | 851.5                 | 415.8   | 369.5                    | 362.9 | 38,074.8     | 31,701.9 |
|                      |         |                       |         |                          |       | (225.1)      | (220.7)  |
|                      |         |                       |         |                          |       | 128.2        | 95.2     |
|                      |         |                       |         |                          |       | 37,977.9     | 31,576.4 |
| –                    | –       | –                     | –       | –                        | –     | –            | 2.5      |
| 64.0                 | 54.5    | 151.1                 | 52.8    | 1.8                      | 2.5   | 1,788.0      | 1,355.8  |
|                      |         |                       |         |                          |       | 18.3         | 21.2     |
|                      |         |                       |         |                          |       | (84.1)       | (74.9)   |
|                      |         |                       |         |                          |       | (249.7)      | (150.1)  |
|                      |         |                       |         |                          |       | 1,472.5      | 1,152.0  |
|                      |         |                       |         |                          |       | (445.8)      | (334.8)  |
|                      |         |                       |         |                          |       | 1,026.7      | 817.2    |
| 408.1                | 369.7   | 2,404.9               | 1,530.9 | 59.6                     | 57.7  | 11,057.8     | 6,841.4  |
|                      |         |                       |         |                          |       | 2,288.6      | 1,933.7  |
|                      |         |                       |         |                          |       | 13,346.4     | 8,775.1  |
| 89.7                 | 112.4   | 107.8                 | 83.6    | 37.0                     | 36.3  | 3,470.4      | 2,883.7  |
|                      |         |                       |         |                          |       | 5,618.4      | 3,891.2  |
|                      |         |                       |         |                          |       | 9,088.8      | 6,774.9  |
| 23.8                 | 34.8    | 919.3                 | 1,442.8 | 1.4                      | 0.6   | 4,489.2      | 2,450.6  |
|                      |         |                       |         |                          |       | 554.7        | 600.8    |
|                      |         |                       |         |                          |       | 5,043.9      | 3,051.4  |
| 21.7                 | 18.2    | 39.5                  | 23.0    | 1.3                      | 1.3   | 464.0        | 370.7    |
|                      |         |                       |         |                          |       | 58.2         | 45.3     |
|                      |         |                       |         |                          |       | 522.2        | 416.0    |
| 0.3                  | 0.3     | –                     | –       | –                        | –     | 10.0         | 8.2      |
|                      |         |                       |         |                          |       | 87.9         | 74.8     |
|                      |         |                       |         |                          |       | 97.9         | 83.0     |

(5)  
Unallocated comprise corporate head office and property division.

(6)  
Includes non-cash transactions including the Defined Benefit Liability movement, Financial Instruments and Employee Shares Scheme expenses.

# NOTES TO THE FINANCIAL STATEMENTS

|  |                 | <i>Australia</i> |                | <i>New Zealand</i> |                 | <i>Consolidated</i> |
|--|-----------------|------------------|----------------|--------------------|-----------------|---------------------|
|  | 2006            | 2005             | 2006           | 2005               | 2006            | 2005                |
|  | \$m             | \$m              | \$m            | \$m                | \$m             | \$m                 |
| <b>7 SEGMENT DISCLOSURES<br/>(CONTINUED)</b> |                 |                  |                |                    |                 |                     |
| <b>Geographical segments</b>                 |                 |                  |                |                    |                 |                     |
| Sales to customers                           | <b>34,885.0</b> | 31,148.2         | <b>2,849.2</b> | 204.3              | <b>37,734.2</b> | 31,352.5            |
| Other revenue                                | <b>337.1</b>    | 349.4            | <b>3.5</b>     | ..                 | <b>340.6</b>    | 349.4               |
| Segment revenue                              | <b>35,222.1</b> | 31,497.6         | <b>2,852.7</b> | 204.3              | <b>38,074.8</b> | 31,701.9            |
| Segment assets                               | <b>8,397.0</b>  | 6,787.5          | <b>2,660.8</b> | 53.9               | <b>11,057.8</b> | 6,841.4             |
| Capital expenditure                          | <b>1,842.4</b>  | 2,448.3          | <b>2,646.8</b> | 2.3                | <b>4,489.2</b>  | 2,450.6             |

The consolidated entity operates predominantly in Australia and New Zealand. Intersegment pricing is determined on an arm's-length basis.

|                                      |                            | <i>Consolidated<br/>As at</i> |                | <i>Woolworths Limited<br/>As at</i> |
|--------------------------------------|----------------------------|-------------------------------|----------------|-------------------------------------|
|                                      | 2006                       | 2005                          | 2006           | 2005                                |
|                                      | \$m                        | \$m                           | \$m            | \$m                                 |
| <b>8 TRADE AND OTHER RECEIVABLES</b> |                            |                               |                |                                     |
| <b>Current</b>                       |                            |                               |                |                                     |
| Trade receivables                    | <b>85.1</b>                | 53.2                          | <b>35.9</b>    | 32.0                                |
| Other receivables                    | <b>963.1<sup>(1)</sup></b> | 434.0 <sup>(2)</sup>          | <b>181.6</b>   | 159.8                               |
| Loans to controlled entities         | —                          | —                             | <b>22.9</b>    | —                                   |
| Prepayments                          | <b>112.2</b>               | 108.4                         | <b>88.1</b>    | 95.4                                |
|                                      | <b>1,160.4</b>             | 595.6                         | <b>328.5</b>   | 287.2                               |
| <b>Non-current</b>                   |                            |                               |                |                                     |
| Loans to controlled entities         | —                          | —                             | <b>6,197.1</b> | 3,477.8                             |
| Prepayments                          | <b>7.4</b>                 | 8.0                           | <b>7.4</b>     | 8.0                                 |
| Other receivables                    | <b>6.6</b>                 | 8.2                           | —              | —                                   |
|                                      | <b>14.0</b>                | 16.2                          | <b>6,204.5</b> | 3,485.8                             |

|              |   |   |
|--------------|---|---|
| <b>Notes</b> | <b>(1)</b><br>This includes receivables of approximately \$727.5 million from the sale of distribution centres. | <b>(2)</b><br>This includes receivables of approximately \$242.0 million from the sale of the Woolworths support office at Norwest Business Park in Sydney. |
|--------------|---|---|

Trade and other receivables are presented net of impairment allowance.

## 9 OTHER FINANCIAL ASSETS

|  |             |     |                |       |
|--|-------------|-----|----------------|-------|
| <b>Non-current</b>                     |             |     |                |       |
| Controlled entities:                   |             |     |                |       |
| Unlisted shares at cost                | —           | —   | <b>3,094.3</b> | 151.9 |
| Fair value derivatives <sup>(1)</sup>  |             |     |                |       |
| Interest rate swaps                    | <b>55.8</b> | —   | <b>55.8</b>    | —     |
| Cross-currency swaps                   | <b>3.0</b>  | —   | <b>3.0</b>     | —     |
| Listed equity securities at fair value | —           | 0.4 | —              | —     |
| Unlisted shares at fair value          | <b>0.1</b>  | 0.1 | —              | —     |
| Other                                  | <b>0.6</b>  | 0.6 | <b>0.4</b>     | 0.4   |
|  | <b>59.5</b> | 1.1 | <b>3,153.5</b> | 152.3 |

|             |  |
|-------------|--|
| <b>Note</b> | <b>(1)</b><br>There is no requirement to recognise fair value derivatives under the accounting policies applicable to the comparative period. Such fair value derivatives are recognised in the current period under AASB 139. |
|-------------|--|

|   | Consolidated<br>As at |             | Woolworths Limited<br>As at |             |
|---|-----------------------|-------------|-----------------------------|-------------|
|   | 2006<br>\$m           | 2005<br>\$m | 2006<br>\$m                 | 2005<br>\$m |
| <b>10 PROPERTY, PLANT AND EQUIPMENT</b>                     |                       |             |                             |             |
| <b>Current</b>  |                       |             |                             |             |
| Assets held for sale <sup>(1)</sup>                         | <b>115.6</b>          | 65.4        | <b>90.7</b>                 | 0.2         |
| <b>Non-current</b>  |                       |             |                             |             |
| Development properties:                                     |                       |             |                             |             |
| At cost   | <b>178.0</b>          | 167.9       | –                           | –           |
| Less: Accumulated depreciation                              | <b>(2.6)</b>          | (2.3)       | –                           | –           |
|   | <b>175.4</b>          | 165.6       | –                           | –           |
| Freehold warehouse, retail and other properties:            |                       |             |                             |             |
| At cost   | <b>909.4</b>          | 870.6       | <b>34.8</b>                 | 96.9        |
| Less: Accumulated depreciation                              | <b>(34.2)</b>         | (40.1)      | <b>(8.1)</b>                | (7.8)       |
|   | <b>875.2</b>          | 830.5       | <b>26.7</b>                 | 89.1        |
| Leasehold improvements:                                     |                       |             |                             |             |
| At cost   | <b>993.2</b>          | 617.8       | <b>561.2</b>                | 436.8       |
| Less: Accumulated amortisation                              | <b>(420.8)</b>        | (258.3)     | <b>(183.3)</b>              | (147.7)     |
|   | <b>572.4</b>          | 359.5       | <b>377.9</b>                | 289.1       |
| Plant and equipment:  |                       |             |                             |             |
| At cost   | <b>6,330.7</b>        | 5,156.8     | <b>3,390.5</b>              | 2,959.3     |
| Less: Accumulated depreciation                              | <b>(3,897.9)</b>      | (3,153.1)   | <b>(1,594.5)</b>            | (1,418.3)   |
|   | <b>2,432.8</b>        | 2,003.7     | <b>1,796.0</b>              | 1,541.0     |
|   | <b>4,055.8</b>        | 3,359.3     | <b>2,200.6</b>              | 1,919.2     |
| <b>Total property, plant and equipment – net book value</b> | <b>4,171.4</b>        | 3,424.7     | <b>2,291.3</b>              | 1,919.4     |

**Note** (1)  
The consolidated entity intends to dispose of certain land and buildings over the next 12 months.

#### **Total property, plant and equipment – net book value**

An assessment as to the carrying value of Woolworths-owned properties as at 25 June 2006 was performed. The basis of the assessment was a combination of external market assessments and/or valuations and Woolworths' property group assessments.

External valuations are obtained every three years. Based on the most recent assessments, a provision for development losses of \$93.7 million (2005: \$67.3 million) is held as at 25 June 2006.

Reconciliations of the carrying amounts of each class of non-current property, plant and equipment at the beginning and end of the current and previous financial periods are set out in the next table.

# NOTES TO THE FINANCIAL STATEMENTS

## 10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <i>Consolidated 2006</i>  | <i>Development<br/>Properties<br/>\$m</i> | <i>Freehold Warehouse,<br/>Retail and Other<br/>Properties<br/>\$m</i> | <i>Leasehold<br/>Improvements<br/>\$m</i> | <i>Plant and<br/>Equipment<br/>\$m</i> | <i>Total<br/>\$m</i> |
|---|---|--|---|--|----------------------|
| Carrying amount at start of period  | 165.6                                     | 830.5  | 359.5                                     | 2,003.7                                | 3,359.3              |
| Additions (excluding additions arising from acquisition of controlled entities) | 55.5                                      | 480.2  | 168.8                                     | 688.8                                  | 1,393.3              |
| Additions arising from acquisition of controlled entities                       | 53.4                                      | 229.6  | 89.2                                      | 306.9                                  | 679.1                |
| Disposals   | (9.4)                                     | (677.9)  | (4.5)                                     | (54.5)                                 | (746.3)              |
| Transfer to assets held for sale  | –   | (76.9)   | –   | –                                      | (76.9)               |
| Depreciation/amortisation expense   | (1.8)                                     | (21.1)   | (64.1)                                    | (435.2)                                | (522.2)              |
| Other   | (82.8)                                    | 112.6  | 31.8                                      | (58.2)                                 | 3.4                  |
| Effect of movements in foreign exchange rates                                   | (5.1)                                     | (1.8)  | (8.3)                                     | (18.7)                                 | (33.9)               |
| <b>Carrying amount at end of period</b>   | <b>175.4</b>                              | <b>875.2</b>   | <b>572.4</b>                              | <b>2,432.8</b>                         | <b>4,055.8</b>       |

|   |              |              |              |                |                |
|---|--------------|--------------|--------------|----------------|----------------|
| <i>Consolidated 2005</i>  |              |              |              |                |                |
| Carrying amount at start of period  | 72.1         | 343.6        | 294.2        | 1,626.9        | 2,336.8        |
| Additions (excluding additions arising from acquisition of controlled entities) | 91.6         | 230.4        | 89.7         | 588.0          | 999.7          |
| Additions arising from acquisition of controlled entities                       | –            | 217.7        | 34.2         | 139.1          | 391.0          |
| Disposals   | (12.3)       | (0.8)        | (2.6)        | (12.2)         | (27.9)         |
| Depreciation/amortisation expense   | (0.4)        | (9.8)        | (41.8)       | (364.0)        | (416.0)        |
| Other   | 14.6         | 49.4         | (14.2)       | 25.9           | 67.1           |
| <b>Carrying amount at end of period</b>   | <b>165.6</b> | <b>830.5</b> | <b>359.5</b> | <b>2,003.7</b> | <b>3,359.3</b> |

Woolworths Limited 2006

|   | Development<br>Properties<br>\$m | Freehold Warehouse,<br>Retail and Other<br>Properties<br>\$m | Leasehold<br>Improvements<br>\$m | Plant and<br>Equipment<br>\$m | Total<br>\$m |
|---|----------------------------------|--|----------------------------------|-------------------------------|--------------|
| Carrying amount at start of period  | –                                | 89.1   | 289.1                            | 1,541.0                       | 1,919.2      |
| Additions (excluding additions arising from acquisition of controlled entities) | –                                | 3.7  | 112.4                            | 617.6                         | 733.7        |
| Additions arising from acquisition of controlled entities                       | –                                | –  | –                                | 10.3                          | 10.3         |
| Disposals   | –                                | (6.2)  | (1.8)                            | (20.5)                        | (28.5)       |
| Transfer to assets held for sale  | –                                | (55.8)   | –                                | –                             | (55.8)       |
| Depreciation/amortisation expense   | –                                | (1.7)  | (41.8)                           | (306.6)                       | (350.1)      |
| Other   | –                                | (2.4)  | 20.0                             | (45.8)                        | (28.2)       |
| <b>Carrying amount at end of period</b>   | –                                | 26.7   | 377.9                            | 1,796.0                       | 2,200.6      |

Woolworths Limited 2005

|   |   |       |        |         |         |
|---|---|-------|--------|---------|---------|
| Carrying amount at start of period  | – | 17.2  | 272.9  | 1,302.7 | 1,592.8 |
| Additions (excluding additions arising from acquisition of controlled entities) | – | 35.9  | 64.3   | 509.0   | 609.2   |
| Additions arising from acquisition of controlled entities                       | – | –     | –      | 0.1     | 0.1     |
| Disposals   | – | (0.3) | (1.2)  | (12.3)  | (13.8)  |
| Depreciation/amortisation expense   | – | (1.9) | (36.6) | (282.8) | (321.3) |
| Other   | – | 38.2  | (10.3) | 24.3    | 52.2    |
| <b>Carrying amount at end of period</b>   | – | 89.1  | 289.1  | 1,541.0 | 1,919.2 |

#### Impairment of tangible assets

At balance date the carrying amount of tangible assets is reviewed to determine whether there is an indication that the assets may be impaired. If such an indication exists the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of any impairment loss.

The recoverable amount has been assessed at the cash-generating unit (CGU) level, which is the smallest group of assets generating cash flows independent of other CGUs that benefit from the use of the respective tangible asset.

The recoverable amount has been determined based on the value in use which is calculated using cash flow projections from 2007 financial budgets approved by management and the Board. The cash flows are discounted to present value using pre-tax discount rates between 11% and 13% depending on the nature of the business and the country of operation. This discount rate is derived from the Group's post-tax average cost of capital.

The key assumptions used in the value in use calculations include sales growth, CODB reductions and discount rates (which have been estimated as described above). The assumptions regarding sales growth and CODB reductions are based on past experience and expectations of changes in the market.

# NOTES TO THE FINANCIAL STATEMENTS

|                            | Consolidated<br>As at |                | Woolworths Limited<br>As at |              |
|----------------------------|-----------------------|----------------|-----------------------------|--------------|
|                            | 2006<br>\$m           | 2005<br>\$m    | 2006<br>\$m                 | 2005<br>\$m  |
| <b>11 INTANGIBLES</b>      |                       |                |                             |              |
| Goodwill                   | 2,971.2               | 836.0          | 280.8                       | 278.0        |
| Brand names                | 241.1                 | 13.9           | —                           | —            |
| Liquor and gaming licences | 1,481.3               | 1,131.5        | 148.2                       | 139.7        |
| Other                      | 65.8                  | 65.0           | —                           | —            |
|                            | <b>4,759.4</b>        | <b>2,046.4</b> | <b>429.0</b>                | <b>417.7</b> |

## Reconciliation of movements in intangibles

|   | Goodwill<br>\$m | Brand<br>names<br>\$m | Liquor and<br>gaming licences<br>\$m | Other<br>\$m | Total intangibles<br>\$m |
|---|-----------------|-----------------------|--------------------------------------|--------------|--------------------------|
| <i>Consolidated 2006</i>                                  |                 |                       |                                      |              |                          |
| Carrying amount at start of period                        | 836.0           | 13.9                  | 1,131.5                              | 65.0         | 2,046.4                  |
| Additions arising from acquisition of controlled entities | 2,315.3         | 244.1                 | 393.1                                | —            | 2,952.5                  |
| Other acquisitions  | —               | —                     | 1.8                                  | 0.8          | 2.6                      |
| Disposals   | —               | —                     | (0.1)                                | —            | (0.1)                    |
| Reclassification  | 45.7            | —                     | (45.7)                               | —            | —                        |
| Effect of movements in foreign exchange rates             | (225.8)         | (16.9)                | 0.7                                  | —            | (242.0)                  |
| <b>Carrying amount at end of period</b>                   | <b>2,971.2</b>  | <b>241.1</b>          | <b>1,481.3</b>                       | <b>65.8</b>  | <b>4,759.4</b>           |

### Consolidated 2005

|   |              |             |                |             |                |
|---|--------------|-------------|----------------|-------------|----------------|
| Carrying amount at start of period                        | 401.6        | —           | 170.6          | —           | 572.3          |
| Additions arising from acquisition of controlled entities | 436.4        | 13.9        | 961.7          | 65.0        | 1,477.0        |
| Disposals   | (1.8)        | —           | —              | —           | (1.8)          |
| Other   | (0.2)        | —           | (0.9)          | —           | (1.1)          |
| <b>Carrying amount at end of period</b>                   | <b>836.0</b> | <b>13.9</b> | <b>1,131.5</b> | <b>65.0</b> | <b>2,046.4</b> |

### Woolworths Limited 2006

|   |              |              |              |
|---|--------------|--------------|--------------|
| Carrying amount at start of period                        | 278.0        | 139.7        | 417.7        |
| Additions arising from acquisition of controlled entities | 2.8          | 8.2          | 11.0         |
| Other acquisitions  | —            | 0.6          | 0.6          |
| Disposals   | —            | (0.1)        | (0.1)        |
| Other   | —            | (0.2)        | (0.2)        |
| <b>Carrying amount at end of period</b>                   | <b>280.8</b> | <b>148.2</b> | <b>429.0</b> |

### Woolworths Limited 2005

|   |              |              |              |
|---|--------------|--------------|--------------|
| Carrying amount at start of period                        | 263.5        | 128.6        | 392.1        |
| Additions arising from acquisition of controlled entities | 13.9         | 11.1         | 25.0         |
| Other   | 0.6          | —            | 0.6          |
| <b>Carrying amount at end of period</b>                   | <b>278.0</b> | <b>139.7</b> | <b>417.7</b> |

Goodwill and intangible assets with indefinite lives are tested for impairment annually at the balance date and whenever there is an indication that the asset may be impaired. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

The recoverable amount is assessed at the cash-generating unit (CGU) level, which is the smallest group of assets generating cash flows independent of other CGUs that benefit from the use of the respective intangible asset.

The recoverable amount is determined based on the value in use which is calculated using cash flow projections from 2007 financial budgets approved by management and the Board. The cash flows are discounted to present value using pre-tax discount rates between 11% and 13% depending on the nature of the business and the country of operation. This discount rate is derived from the Group's post-tax average cost of capital.

The key assumptions used in the value in use calculations include sales growth, CODB reductions and discount rates (which have been estimated as described above). The assumptions regarding sales growth and CODB reductions are based on past experience and expectations of changes in the market.

Brand names relate primarily to the Progressive Enterprises business in New Zealand. These have been assessed in conjunction with the related goodwill.

The components of goodwill are as follows:

|                            | <i>Consolidated<br/>As at</i> |                     | <i>Woolworths Limited<br/>As at</i> |                     |
|----------------------------|-------------------------------|---------------------|-------------------------------------|---------------------|
|                            | <i>2006<br/>\$m</i>           | <i>2005<br/>\$m</i> | <i>2006<br/>\$m</i>                 | <i>2005<br/>\$m</i> |
| Supermarkets – Australia   | 506.2                         | 432.5               | 280.8                               | 278.0               |
| Supermarkets – New Zealand | 1,812.1                       | –                   | –                                   | –                   |
| Consumer Electronics       | 66.0                          | 65.9                | –                                   | –                   |
| Hotels                     | 585.5                         | 336.2               | –                                   | –                   |
| Wholesale                  | 1.4                           | 1.4                 | –                                   | –                   |
|                            | <b>2,971.2</b>                | <b>836.0</b>        | <b>280.8</b>                        | <b>278.0</b>        |

No intangible assets were identified as impaired at reporting date.

## 12 TRADE AND OTHER PAYABLES

|                                |                |                |                |                |
|--------------------------------|----------------|----------------|----------------|----------------|
| Accounts payable               | 2,778.5        | 2,335.6        | 2,222.2        | 2,080.2        |
| Loans from controlled entities | –              | –              | 2,852.2        | 451.5          |
| Accruals                       | 733.0          | 521.4          | 498.7          | 437.6          |
| Unearned income                | 61.9           | 59.1           | 23.2           | 23.3           |
|                                | <b>3,573.4</b> | <b>2,916.1</b> | <b>5,596.3</b> | <b>2,992.6</b> |

## 13 OTHER FINANCIAL LIABILITIES

### Non-current

At fair value

Fair value derivatives<sup>(1)</sup>

|                      |             |          |             |          |
|----------------------|-------------|----------|-------------|----------|
| Cross-currency swaps | 70.7        | –        | 70.7        | –        |
|                      | <b>70.7</b> | <b>–</b> | <b>70.7</b> | <b>–</b> |

### Note

(1)

There is no requirement to recognise fair value derivatives under the accounting policies applicable to the comparative period. Such fair value derivatives are recognised in the current period under AASB 139.

# NOTES TO THE FINANCIAL STATEMENTS

|  | Consolidated<br>As at |             | Woolworths Limited<br>As at |             |
|--|-----------------------|-------------|-----------------------------|-------------|
|  | 2006<br>\$m           | 2005<br>\$m | 2006<br>\$m                 | 2005<br>\$m |
| <b>14 BORROWINGS</b>                         |                       |             |                             |             |
| <b>Current</b>                               |                       |             |                             |             |
| <b>Unsecured</b>                             |                       |             |                             |             |
| At amortised cost (2005: cost)               |                       |             |                             |             |
| Short term securities <sup>(1)</sup>         | 443.8                 | 140.0       | 443.8                       | 140.0       |
| Short term money market loans <sup>(2)</sup> | 42.0                  | 95.0        | 42.0                        | 95.0        |
| Bank loans <sup>(3)</sup>                    | 125.0                 | –           | 125.0                       | –           |
|  | 610.8                 | 235.0       | 610.8                       | 235.0       |
| <b>Secured</b>                               |                       |             |                             |             |
| Bank loans <sup>(4)</sup>                    | 1.5                   | 0.5         | –                           | –           |
|  | 612.3                 | 235.5       | 610.8                       | 235.0       |
| <b>Non-current</b>                           |                       |             |                             |             |
| <b>Unsecured</b>                             |                       |             |                             |             |
| At amortised cost (2005: cost)               |                       |             |                             |             |
| Long-term securities <sup>(5)</sup>          | 2,607.6               | 1,116.9     | 2,606.0                     | 1,119.1     |
| Bank loans <sup>(6)</sup>                    | 499.0                 | 884.0       | 499.0                       | 880.3       |
| Woolworths Income Notes <sup>(7)</sup>       | –                     | 600.0       | –                           | 600.0       |
| Woolworths Notes <sup>(8)</sup>              | 591.5                 | –           | 591.5                       | –           |
|  | 3,698.1               | 2,600.9     | 3,696.5                     | 2,599.4     |
| <b>Secured</b>                               |                       |             |                             |             |
| Bank loans <sup>(9)</sup>                    | 5.9                   | 9.5         | –                           | –           |
|  | 3,704.0               | 2,610.4     | 3,696.5                     | 2,599.4     |

The following items include capitalised borrowing costs and some liabilities are issued at other than face value.

| Notes  | (5)   | (6)  | (7)   | (8)  | (9)  |
|--|---|--|---|--|--|
| (1)<br>\$245.0 million (2005: \$140.0 million) Commercial Paper was on issue at period end and \$200.0 million Medium Term Notes issued in January 2002 are due to mature in January 2007. | This comprises:<br>– \$150.0 million Medium Term Notes issued in 1998, to mature August 2007. On \$70.0 million of the \$150.0 million of borrowings, interest is payable biannually at a fixed bond rate, on the remaining \$80.0 million of borrowings, interest is payable quarterly at the Bank Bill Swap Rate plus a margin. | – US\$51.6 million (A\$70.4 million) from a private placement of senior notes in the United States in 1997, maturing in September 2007.<br>– US\$500.0 million (A\$682.9 million) from a private placement of senior notes in the United States in 2005, maturing: US\$100.0 million in April 2015, US\$300.0 million in April 2017 and US\$100.0 million in April 2020.<br>– US\$725.0 million (A\$990.2 million) of senior notes issued into the US bond market under Rule 144A (Regulation S) in 2005, maturing: US\$300.0 million in November 2011 and US\$425.0 million in November 2015. | \$600.0 million Woolworths Income Notes were fully redeemed on 5 June 2006. | \$600.0 million in Woolworths Notes were issued on 5 June 2006. These notes are perpetual, unsecured, subordinated, cumulative notes. Woolworths Notes entitle holders to receive an unfranked, floating rate, cumulative distribution quarterly in arrears (which may be deferred by Woolworths at its discretion). Certain terms of the Woolworths Notes may be changed on a remarketing date (the first of which is 15 September 2011). Offset by unamortised borrowing costs of \$8.5 million. | \$5.9 million (2005: \$9.5 million) was drawn on a bank loan secured by a mortgage over land and buildings and an equitable charge over the assets of a controlled entity. |
| (2)<br>\$42.0 million (2005: \$95.0 million) money market borrowings, on an 11am call basis, were outstanding at period end.   | – \$300.0 million Medium Term Notes issued in 2005, to mature in September 2008. Interest is payable biannually at a fixed bond rate.   |  |   |  |  |
| (3)<br>\$125.0 million (2005: \$nil) was drawn on a \$400.0 million Standby facility maturing within the financial year of 2007.   | – \$350.0 million Medium Term Notes issued in 2006, to mature in March 2011. On \$200.0 million of the \$350.0 million interest is payable biannually at a fixed bond rate, on the remaining \$150.0 million, interest is payable quarterly at the Bank Bill Swap Rate plus a margin.   |  |   |  |  |
| (4)<br>\$1.5 million (2005: \$0.5 million) was drawn against a secured bank bill facility, due to mature in financial year 2007.   | – US\$50.0 million (A\$68.3 million) from a private placement of senior notes in the United States in 1997, maturing in September 2007.   | (6)<br>\$500.0 million (2005: \$800.0 million) was drawn on a five-year \$800.0 million syndicated revolving credit facility maturing in financial year 2010. Drawings are less than six months, and may be rolled over on maturity. Interest is payable on roll-over, at a rate calculated as the Bank Bill Swap Rate plus a margin. Adjusted by amortised borrowing costs of \$1.0 million.  |   |  |  |

|   | <i>Consolidated</i><br><i>As at</i> |                           | <i>Woolworths Limited</i><br><i>As at</i> |                           |
|---|-------------------------------------|---------------------------|---|---------------------------|
|   | <i>2006</i><br><i>\$m</i>           | <i>2005</i><br><i>\$m</i> | <i>2006</i><br><i>\$m</i>                 | <i>2005</i><br><i>\$m</i> |
| <b>15 FINANCING ARRANGEMENTS</b>  |                                     |                           |   |                           |
| Unrestricted access was available at balance date to the following lines of credit: |                                     |                           |   |                           |
| <b>Total facilities</b>   |                                     |                           |   |                           |
| Bank overdrafts   | <b>26.3</b>                         | 28.0                      | <b>11.0</b>                               | 11.0                      |
| Bank loan facilities  | <b>2,284.8</b>                      | 2,335.0                   | <b>2,267.0</b>                            | 2,320.0                   |
|   | <b>2,311.1</b>                      | 2,363.0                   | <b>2,278.0</b>                            | 2,331.0                   |
| <b>Used at balance date</b>   |                                     |                           |   |                           |
| Bank overdrafts   | —                                   | —                         | —   | —                         |
| Bank loan facilities  | <b>674.5</b>                        | 989.0                     | <b>667.0</b>                              | 979.0                     |
|   | <b>674.5</b>                        | 989.0                     | <b>667.0</b>                              | 979.0                     |
| <b>Unused at balance date</b>   |                                     |                           |   |                           |
| Bank overdrafts   | <b>26.3</b>                         | 28.0                      | <b>11.0</b>                               | 11.0                      |
| Bank loan facilities  | <b>1,610.3</b>                      | 1,346.0                   | <b>1,600.0</b>                            | 1,341.0                   |
|   | <b>1,636.6</b>                      | 1,374.0                   | <b>1,611.0</b>                            | 1,352.0                   |

Bank loan facilities may be drawn at any time, subject to the covenants of the lending agreements. The majority of facilities are denominated in Australian dollars with a small amount equivalent to A\$3.3 million denominated in New Zealand dollars (2005: \$nil). The bank overdraft facilities are unsecured and may be drawn at any time.

# NOTES TO THE FINANCIAL STATEMENTS

|   | Consolidated<br>As at |              | Woolworths Limited<br>As at |              |
|---|-----------------------|--------------|-----------------------------|--------------|
|   | 2006<br>\$m           | 2005<br>\$m  | 2006<br>\$m                 | 2005<br>\$m  |
| <b>16 PROVISIONS</b>  |                       |              |                             |              |
| <b>Current</b>  |                       |              |                             |              |
| Employee benefits (Note 24)   | 511.3                 | 434.2        | 409.1                       | 371.8        |
| Self-insured risks <sup>(1)</sup>   | 71.9                  | 68.1         | 66.4                        | 64.9         |
| Other <sup>(2)</sup>  | 20.8                  | 21.2         | 6.1                         | 6.1          |
|   | 604.0                 | 523.5        | 481.6                       | 442.8        |
| <b>Non-current</b>  |                       |              |                             |              |
| Employee benefits (Note 24)   | 50.5                  | 44.4         | 42.8                        | 38.4         |
| Self-insured risks <sup>(1)</sup>   | 254.9                 | 241.6        | 235.3                       | 230.1        |
| Other <sup>(2)</sup>  | 35.3                  | 4.0          | 18.5                        | 4.0          |
|   | 340.7                 | 290.0        | 296.6                       | 272.5        |
| <b>Total provisions</b>   | <b>944.7</b>          | <b>813.5</b> | <b>778.2</b>                | <b>715.3</b> |
| <b>Movements in self-insured risk provisions were as follows:</b>             |                       |              |                             |              |
| Balance at start of period  | 309.7                 | 283.0        | 295.0                       | 270.0        |
| Additional provisions recognised  | 88.8                  | 102.8        | 73.3                        | 95.9         |
| Arising from acquisition of controlled entities                               | 2.8                   | 2.8          | –                           | –            |
| Reductions arising from payments/other sacrifices of future economic benefits | (74.3)                | (78.9)       | (66.6)                      | (70.9)       |
| Effect of movements in foreign exchange rates                                 | (0.2)                 | –            | –                           | –            |
| Balance at end of period  | 326.8                 | 309.7        | 301.7                       | 295.0        |
| Current   | 71.9                  | 68.1         | 66.4                        | 64.9         |
| Non-current   | 254.9                 | 241.6        | 235.3                       | 230.1        |
| <b>Movements in other provisions were as follows:</b>                         |                       |              |                             |              |
| Balance at start of period  | 25.2                  | 11.2         | 10.1                        | 12.7         |
| Additional provisions recognised/(released)                                   | 7.8                   | 20.9         | 15.0                        | (2.5)        |
| Arising from acquisition of controlled entities                               | 34.3                  | –            | –                           | –            |
| Reductions arising from payments  | (7.8)                 | (6.9)        | (0.5)                       | (0.2)        |
| Effect of movements in foreign exchange rates                                 | (3.4)                 | –            | –                           | –            |
| Balance at end of period  | 56.1                  | 25.2         | 24.6                        | 10.1         |
| Current   | 20.8                  | 21.2         | 6.1                         | 6.1          |
| Non-current   | 35.3                  | 4.0          | 18.5                        | 4.0          |

## Notes

### (1)

The provision for self-insured risks represents the estimated liability for workers' compensation and public liability claims in all Woolworths' self-insured jurisdictions based on actuarial valuations.

### (2)

Current and non-current other provisions consist predominantly of provisions for onerous lease contracts. Current other provisions at 26 June 2005 consist predominantly of a provision for restructure in ALH.

## 17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Movements in investments in associates

|   |   |            |
|---|---|------------|
| Equity accounted amount at the beginning of the financial year  | – | 3.6        |
| Share of profit from ordinary activities before tax             | – | 3.6        |
| Share of income tax expense related to ordinary activities      | – | (1.1)      |
|   | – | <b>2.5</b> |
| Dividend received   | – | (2.5)      |
| Acquisition of controlling interest in associate <sup>(1)</sup> | – | (3.6)      |
| Equity accounted amount at the end of the financial year        | – | –          |

**Note** (1)  
During the year ended 26 June 2005, Woolworths obtained control of the ALH Group Pty Ltd (formerly known as Bruandwo Pty Ltd) which is owned 75% by Woolworths and 25% by the Bruce Mathieson Group.

|  | Consolidated<br>As at |             | Woolworths Limited<br>As at |             |
|--|-----------------------|-------------|-----------------------------|-------------|
|  | 2006<br>\$m           | 2005<br>\$m | 2006<br>\$m                 | 2005<br>\$m |

## 18 ISSUED CAPITAL

### Issued and paid-up share capital

1,171,890,672 fully paid ordinary shares (2005: 1,049,668,030)

Fully paid ordinary shares carry one vote per share and the right to dividends.

### Reconciliation of fully paid share capital

|  |                |              |                |              |
|--|----------------|--------------|----------------|--------------|
| Balance at beginning of period   | 981.0          | 575.4        | 981.0          | 575.4        |
| Issue of shares as a result of options exercised under Executive Share Option Plan | 22.5           | 104.7        | 22.5           | 104.7        |
| Issue of shares as a result of Dividend Reinvestment Plan                          | 613.1          | 297.9        | 613.1          | 297.9        |
| Incremental proceeds from sale of forfeited shares under Employee Share Plan       | 1.2            | 3.0          | 1.2            | 3.0          |
| Issue of shares as consideration for acquired entity                               | 1,330.0        | –            | 1,330.0        | –            |
| <b>Balance at end of period</b>  | <b>2,947.8</b> | <b>981.0</b> | <b>2,947.8</b> | <b>981.0</b> |

|  | No. (m)        | No. (m)        | No. (m)        | No. (m)        |
|--|----------------|----------------|----------------|----------------|
| <b>Reconciliation of fully paid share capital</b>                                  |                |                |                |                |
| Balance at beginning of period   | 1,049.7        | 1,007.7        | 1,049.7        | 1,007.7        |
| Issue of shares as a result of options exercised under executive share option plan | 3.2            | 20.0           | 3.2            | 20.0           |
| Issue of shares as a result of Dividend Reinvestment Plan                          | 35.6           | 19.5           | 35.6           | 19.5           |
| Issue of shares from sale of forfeited shares under Employee Share Plan            | 1.8            | 2.5            | 1.8            | 2.5            |
| Issue of shares as consideration for acquired entity                               | 81.6           | –              | 81.6           | –              |
| <b>Balance at end of period</b>  | <b>1,171.9</b> | <b>1,049.7</b> | <b>1,171.9</b> | <b>1,049.7</b> |

# NOTES TO THE FINANCIAL STATEMENTS

|   | Consolidated<br>As at |                | Woolworths Limited<br>As at |                |
|---|-----------------------|----------------|-----------------------------|----------------|
|   | 2006<br>\$m           | 2005<br>\$m    | 2006<br>\$m                 | 2005<br>\$m    |
| <b>18 ISSUED CAPITAL (CONTINUED)</b>          |                       |                |                             |                |
| <b>Shares held in trust</b>                   |                       |                |                             |                |
| <b>Reconciliation of shares held in trust</b> |                       |                |                             |                |
| Balance at beginning of period                | (102.2)               | (120.6)        | (102.2)                     | (120.6)        |
| Issue of shares under Employee Share Plan     | 15.1                  | 18.4           | 15.1                        | 18.4           |
| <b>Balance at end of period</b>               | <b>(87.1)</b>         | <b>(102.2)</b> | <b>(87.1)</b>               | <b>(102.2)</b> |
|   | No. (m)               | No. (m)        | No. (m)                     | No. (m)        |
| <b>Reconciliation of shares held in trust</b> |                       |                |                             |                |
| Balance at beginning of period                | 11.8                  | 14.3           | 11.8                        | 14.3           |
| Issue of shares under Employee Share Plan     | (1.8)                 | (2.5)          | (1.8)                       | (2.5)          |
| <b>Balance at end of period</b>               | <b>10.0</b>           | <b>11.8</b>    | <b>10.0</b>                 | <b>11.8</b>    |

## Share capital

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Changes to the then Corporations Law abolished the authorised and par value concept in relation to share capital issued from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

## Share options

In accordance with the provisions of the executive share option plan, as at 25 June 2006, executives had options over 30,346,968 ordinary shares, in aggregate, with 400,500 of those expiring 1 July 2009 (1999 Options), 309,375 expiring 1 July 2010 (2000 Options), 5,299,843 expiring 1 July 2011 (2001 Options), 4,612,000 expiring 31 December 2007 (2002 Options), 5,910,350 expiring 31 December 2008 (2003 Options), 7,099,500 expiring 31 December 2009 (2004 Options) and the remainder 6,715,400 Options expiring on 31 December 2010 (2005 Options).

As at 26 June 2005, executives had options over 29,020,082 ordinary shares, in aggregate, with 951,875 of those expiring 1 July 2009 (1999 Options), 2,252,125 expiring 1 July 2010 (2000 Options), 6,107,982 expiring 1 July 2011 (2001 Options), 5,386,000 expiring 31 December 2007 (2002 Options), 6,569,350 expiring 31 December 2008 (2003 Options), and the remainder, 7,752,750 expiring on 31 December 2009 (2004 Options). Executive share options carry no rights to dividends and no voting rights.

Further details of the Executive Share Option Plan are contained in Note 24 to the financial statements.

|                                      | <i>Consolidated</i><br><i>As at</i> |                           | <i>Woolworths Limited</i><br><i>As at</i> |                           |
|--------------------------------------|-------------------------------------|---------------------------|---|---------------------------|
|                                      | <i>2006</i><br><i>\$m</i>           | <i>2005</i><br><i>\$m</i> | <i>2006</i><br><i>\$m</i>                 | <i>2005</i><br><i>\$m</i> |
| <b>19 RESERVES</b>                   |                                     |                           |   |                           |
| Hedging reserve                      | (57.5)                              | –                         | (57.5)                                    | –                         |
| Foreign currency translation reserve | (276.0)                             | (0.1)                     | –   | –                         |
| Remuneration reserve                 | 28.5                                | 15.3                      | 28.5                                      | 15.3                      |
| Asset revaluation reserve            | 16.4                                | 16.4                      | –   | –                         |
|                                      | <b>(288.6)</b>                      | <b>31.6</b>               | <b>(29.0)</b>                             | <b>15.3</b>               |

#### **Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. The cumulative deferred gain or loss on the hedge is recognised in profit and loss when the hedged transaction impacts the profit or loss, consistent with applicable accounting policy.

#### **Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

#### **Remuneration reserve**

The employee remuneration reserve comprises the fair value of share-based payment plans recognised as an expense in the income statement.

#### **Asset revaluation reserve**

The asset revaluation reserve arose on acquisition of previously equity accounted investment in MGW and relates to the change in fair value of the consolidated entity's interest in non-current assets from the date of acquisition of the initial investment to the date control was achieved.

# NOTES TO THE FINANCIAL STATEMENTS

|  | Consolidated<br>As at |              | Woolworths Limited<br>As at |             |
|--|-----------------------|--------------|-----------------------------|-------------|
|  | 2006<br>\$m           | 2005<br>\$m  | 2006<br>\$m                 | 2005<br>\$m |
| <b>19 RESERVES (CONTINUED)</b>   |                       |              |                             |             |
| <b>Movements</b>   |                       |              |                             |             |
| <b>Hedging reserve</b>   |                       |              |                             |             |
| Balance at start of period   | —                     | —            | —                           | —           |
| Effect of change in accounting policy                                  | (6.5)                 | —            | (6.5)                       | —           |
| Cash flow hedges <sup>(1)</sup>  | (52.6)                | —            | (52.6)                      | —           |
| Deferred tax arising on hedges   | 1.6                   | —            | 1.6                         | —           |
| <b>Balance at end of period</b>  | <b>(57.5)</b>         | <b>—</b>     | <b>(57.5)</b>               | <b>—</b>    |
| <b>Foreign currency translation reserve</b>                            |                       |              |                             |             |
| Balance at start of period   | (0.1)                 | —            | —                           | —           |
| Net exchange differences on translation of foreign controlled entities | (275.9)               | (0.1)        | —                           | —           |
| <b>Balance at end of period</b>  | <b>(276.0)</b>        | <b>(0.1)</b> | <b>—</b>                    | <b>—</b>    |
| <b>Remuneration reserve</b>  |                       |              |                             |             |
| Balance at start of period   | 15.3                  | 5.1          | 15.3                        | 5.1         |
| Compensation on share-based payments                                   | 13.2                  | 10.2         | 13.2                        | 10.2        |
| <b>Balance at end of period</b>  | <b>28.5</b>           | <b>15.3</b>  | <b>28.5</b>                 | <b>15.3</b> |
| <b>Asset revaluation reserve</b>                                       |                       |              |                             |             |
| Balance at start of period   | 16.4                  | —            | —                           | —           |
| Adjustment resulting from reversion to cost basis                      | —                     | 23.4         | —                           | —           |
| Deferred tax arising on reversion to cost basis                        | —                     | (7.0)        | —                           | —           |
| <b>Balance at end of period</b>  | <b>16.4</b>           | <b>16.4</b>  | <b>—</b>                    | <b>—</b>    |

**Notes** (1)  
Cash flow hedges includes gains/(losses) recognised in equity and gains/(losses) taken to the income statement.

## 20 RETAINED EARNINGS

### Retained earnings attributable to the members of Woolworths Limited

|  |                |                |              |              |
|--|----------------|----------------|--------------|--------------|
| Balance at start of the period                           | 1,063.8        | 771.0          | 700.1        | 516.2        |
| Effect of change in accounting policy                    | (1.1)          | —              | (0.4)        | —            |
| Woolworths Income Notes (WINs) issue cost <sup>(1)</sup> | —              | (17.0)         | —            | (17.0)       |
| Profit attributable to members of Woolworths Limited     | 1,014.6        | 816.2          | 780.5        | 707.3        |
| Actuarial losses on defined benefit plans                | (15.0)         | (10.0)         | (15.0)       | (10.0)       |
| Tax effect of actuarial losses                           | 4.5            | 3.0            | 4.5          | 3.0          |
| Employee Share Plan dividends and forfeitures            | 2.0            | 0.4            | 2.0          | 0.4          |
| Dividends paid or provided (Note 6)                      | (613.1)        | (499.8)        | (613.1)      | (499.8)      |
| <b>Balance at end of period</b>                          | <b>1,455.7</b> | <b>1,063.8</b> | <b>858.6</b> | <b>700.1</b> |

**Notes** (1)  
Following an amendment to the WINs Trust Deed, the WINs were reclassified to non-current interest bearing liability from shareholder equity. Accordingly, the issue costs of \$17.0 million have been recorded as an adjustment to retained earnings.

## 21 EARNINGS PER SHARE

|   |              |       |
|---|--------------|-------|
| <b>Basic earnings per share (cents per share)</b> | <b>90.89</b> | 79.19 |
| Diluted earnings per share (cents per share)      | <b>90.33</b> | 78.94 |

### Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

|   | \$m            | \$m     |
|---|----------------|---------|
| Earnings (a)  | <b>1,014.6</b> | 816.2   |
|   | No. (m)        | No. (m) |
| Weighted average number <sup>(1)</sup> of ordinary shares (b) | <b>1,116.3</b> | 1,030.6 |

### Diluted earnings per share

The earnings and weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

|  | \$m            | \$m     |
|--|----------------|---------|
| Earnings (a)   | <b>1,014.6</b> | 816.2   |
|  | No. (m)        | No. (m) |
| Weighted average number <sup>(1)</sup> of shares and potential ordinary shares (c) | <b>1,123.1</b> | 1,033.9 |

(a) Earnings used in the calculations of basic and diluted earnings per share reconciles to net profit in the income statement as follows:

|  | \$m            | \$m   |
|--|----------------|-------|
| Operating net profit attributable to the members of Woolworths Limited           | <b>1,014.6</b> | 816.2 |
| <b>Earnings used in the calculations of basic and diluted earnings per share</b> | <b>1,014.6</b> | 816.2 |

(b) Options are considered to be potential ordinary shares and are therefore excluded from the weighted average number<sup>(1)</sup> of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share.

(c) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

|   | No. (m)        | No. (m) |
|---|----------------|---------|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share. | <b>1,116.3</b> | 1,030.6 |
| Shares deemed to be issued for no consideration in respect of outstanding employee options      | <b>6.8</b>     | 3.3     |
|   | <b>1,123.1</b> | 1,033.9 |

Since 25 June 2006, 2,759,053 shares (2005: 402,000) have been issued (as a result of the exercise of options). No options (2005: nil) have been issued.

#### Note

#### (1)

Weighted average number of shares has been adjusted to remove the potential ordinary shares under

the Employee Share Plan held by the custodian company, which is consolidated under AIFRS.

# NOTES TO THE FINANCIAL STATEMENTS

## 22 CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities which may become payable are shown below. No provision has been made in the Financial Statements in respect of these contingencies, however there is a provision of \$326.8 million for self-insured risks (2005: \$309.7 million), which includes liabilities relating to workers compensation claims, that has been recognised in the balance sheet at balance date.

|  | <i>Consolidated<br/>As at</i> |                     | <i>Woolworths Limited<br/>As at</i> |                     |
|--|-------------------------------|---------------------|-------------------------------------|---------------------|
|  | <i>2006<br/>\$m</i>           | <i>2005<br/>\$m</i> | <i>2006<br/>\$m</i>                 | <i>2005<br/>\$m</i> |
| <b>Guarantees</b>  |                               |                     |                                     |                     |
| Bank guarantees <sup>(1)</sup>   | 52.8                          | 23.4                | 8.7                                 | 9.1                 |
| Workers compensation self-insurance guarantees <sup>(2)</sup>  | 362.4                         | 304.5               | 362.4                               | 304.5               |
| <b>Litigation</b>  |                               |                     |                                     |                     |
| Litigation in progress or threatened against the Company and certain of its controlled entities                  | 13.6                          | 17.1                | 13.6                                | 17.1                |
| <b>Other</b>   |                               |                     |                                     |                     |
| Outstanding letters of credit issued to suppliers  | 38.1                          | 41.1                | 20.6                                | 24.5                |
| Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned group <sup>(3)</sup> | —                             | —                   | 320.0                               | 262.5               |
|  | 466.9                         | 386.1               | 725.3                               | 617.7               |

| Notes | (1)   | (2)  | (3)  |
|-------|---|--|--|
|       | This item mainly comprises guarantees relating to conditions set out in development applications for sale of properties in the normal course of business. | State WorkCover authorities require guarantees against workers compensation self-insurance liabilities. The guarantee is based on independent actuarial advice of the outstanding liability. Guarantees held at each balance date do not fully represent the liability at these dates due to delays in issuing the guarantees. | As disclosed in Note 28 the Company has entered into a deed of cross guarantee with certain wholly-owned controlled entities. The amount disclosed as a contingent liability represents total liabilities of the group of companies party to that class order excluding intercompany loans. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee being more or less favourable than currently expected. The deed of cross guarantee will continue to operate for the foreseeable future. |

|  | <i>Consolidated</i><br><i>As at</i> |                           | <i>Woolworths Limited</i><br><i>As at</i> |                           |
|--|-------------------------------------|---------------------------|---|---------------------------|
|  | <i>2006</i><br><i>\$m</i>           | <i>2005</i><br><i>\$m</i> | <i>2006</i><br><i>\$m</i>                 | <i>2005</i><br><i>\$m</i> |
| <b>23 COMMITMENTS FOR EXPENDITURE</b>  |                                     |                           |   |                           |
| <b>Capital expenditure commitments</b>   |                                     |                           |   |                           |
| Estimated capital expenditure under firm contracts, not provided for in these Financial Statements, payable:           |                                     |                           |   |                           |
| Not later than one year  | <b>265.0</b>                        | 618.0                     | <b>179.8</b>                              | 332.3                     |
| Later than one year, not later than two years  | <b>2.6</b>                          | 76.5                      | <b>0.3</b>                                | 76.5                      |
|  | <b>267.6</b>                        | 694.5                     | <b>180.1</b>                              | 408.8                     |
| <b>Operating lease commitments</b>   |                                     |                           |   |                           |
| Future minimum rentals under non-cancellable operating leases not provided for in these Financial Statements, payable: |                                     |                           |   |                           |
| Not later than one year  | <b>1,057.9</b>                      | 883.5                     | <b>753.2</b>                              | 685.2                     |
| Later than one year, not later than five years   | <b>3,756.3</b>                      | 2,971.2                   | <b>2,702.2</b>                            | 2,361.6                   |
| Later than five years  | <b>7,552.3</b>                      | 6,505.2                   | <b>5,191.1</b>                            | 4,549.8                   |
|  | <b>12,366.5</b>                     | 10,359.9                  | <b>8,646.5</b>                            | 7,596.6                   |
| <b>Total commitments for expenditure</b>   | <b>12,634.1</b>                     | 11,054.4                  | <b>8,826.6</b>                            | 8,005.4                   |

The commitments set out above do not include contingent turnover rentals, which are charged on many of the retail premises leased by the Company and its controlled entities. These rentals are calculated as a percentage of the turnover of the store occupying the premises, with the percentage and turnover threshold at which the additional rentals commence varying with each lease agreement.

The consolidated entity and the Company lease retail premises and warehousing facilities for periods of up to 40 years. The operating lease commitments include leases for the Norwest office and distribution centres. Generally the lease agreements are for initial terms of between 10 and 15 years and most include multiple renewal options for additional five-year terms. Under most leases, the consolidated entity and the Company are responsible for property taxes, insurance, maintenance and expenses related to the leased properties. However, many of the more recent lease agreements have been negotiated on a gross or semi-gross basis, which eliminates or significantly reduces the lessee's exposure to operational charges associated with the properties.

# NOTES TO THE FINANCIAL STATEMENTS

|   | Consolidated<br>As at |             | Woolworths Limited<br>As at |             |
|---|-----------------------|-------------|-----------------------------|-------------|
|   | 2006<br>\$m           | 2005<br>\$m | 2006<br>\$m                 | 2005<br>\$m |
| <b>24 EMPLOYEE BENEFITS</b>   |                       |             |                             |             |
| The aggregate employee benefit liability recognised and included in the Financial Statements is as follows: |                       |             |                             |             |
| Provision for employee benefits   |                       |             |                             |             |
| Current (Note 16)   | <b>511.3</b>          | 434.2       | <b>409.1</b>                | 371.8       |
| Non-current (Note 16)   | <b>50.5</b>           | 44.4        | <b>42.8</b>                 | 38.4        |
| Accrued liability for defined benefit obligations (included in other non-current liabilities)               | <b>38.0</b>           | 32.0        | <b>38.0</b>                 | 32.0        |
| Accrued salaries and wages (included in trade and other payables)   | <b>191.6</b>          | 177.9       | <b>164.8</b>                | 162.8       |
|   | <b>791.4</b>          | 688.5       | <b>654.7</b>                | 605.0       |

## Defined benefit superannuation plans

The following disclosures in relation to defined benefit superannuation plans comprise two sections:

- (a) liability for defined benefit obligation – sets out the accounting for the plan as recognised in the financial statements of the consolidated entity and the Company in accordance with AASB 119 Employee Benefits; and
- (b) funding of vested benefits – sets out the consolidated entity's approach to funding the accrued vested benefits payable under the plan. This approach is in accordance with applicable superannuation laws' guidelines and uses different assumptions to the measurement of benefits in section (a).

**(a) Liability for defined benefit obligation**

|   | 25 June 2006<br>\$m | As at<br>26 June 2005<br>\$m |
|---|---------------------|------------------------------|
| Defined benefit obligation <sup>(1)</sup> | (1,282)             | (1,075)                      |
| Fair value of assets                      | 1,244               | 1,043                        |
| Liability for defined benefit obligations | (38)                | (32)                         |
| Experience adjustments – liabilities      | 102                 | 52                           |
| Experience adjustments – assets           | (71)                | (41)                         |

The consolidated entity and the Company have used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A(p) above for each annual reporting period prospectively from the transition date.

The consolidated entity and Company make contributions to a defined benefit plan, Woolworths Group Superannuation Plan (WGSP) that provides superannuation benefits for employees upon retirement.

The Company sponsors the plan which consists of an accumulation benefit funded by a defined contribution section of membership as well as a defined benefits section. The plan also pays allocated pensions to a small number of pensioners.

The members and assets of the Woolworths Group Superannuation Scheme (WGSS) were transferred to the AMP Signature Super Master Trust under successor fund conditions on 6 June 2006. The new fund will provide the same superannuation benefits for employees on retirement as the plan had up to 5 June 2006.

All disclosures in this Note are for the consolidated entity and the Company.

**Movements in the net liability for defined benefit obligations recognised in the balance sheet**

|  | 25 June 2006<br>\$m | As at<br>26 June 2005<br>\$m |
|--|---------------------|------------------------------|
| Opening net liability for defined obligations                | (32)                | (31)                         |
| Contributions by employer                                    | 96                  | 82                           |
| Expense recognised in the income statement                   | (87)                | (73)                         |
| Actuarial losses recognised directly in equity (Note 20)     | (15)                | (10)                         |
| <b>Closing net liability for defined benefit obligations</b> | <b>(38)</b>         | <b>(32)</b>                  |

Actuarial losses recognised in the statement of recognised income and expense during the year were \$15 million (2005: \$10 million), with cumulative actuarial losses of \$25 million.

**Note** (1)  
Includes contribution tax liability.

# NOTES TO THE FINANCIAL STATEMENTS

25 June 2006 *As at* 26 June 2005  
\$m \$m

## 24 EMPLOYEE BENEFITS (CONTINUED)

Changes in the present value of the defined benefit obligation are as follows:

|   |              |              |
|---|--------------|--------------|
| Opening defined benefit obligation        | 1,075        | 926          |
| Current service cost                      | 100          | 99           |
| Interest cost                             | 70           | 46           |
| Actuarial losses                          | 86           | 51           |
| Employee contributions                    | 76           | 80           |
| Benefits paid                             | (125)        | (127)        |
| <b>Closing defined benefit obligation</b> | <b>1,282</b> | <b>1,075</b> |

Changes in the fair value of fund assets are as follows:

|  |              |              |
|--|--------------|--------------|
| Opening fair value of fund assets        | 1,043        | 895          |
| Expected return <sup>(1)</sup>           | 83           | 72           |
| Actuarial gains <sup>(1)</sup>           | 71           | 41           |
| Contributions by employer                | 96           | 82           |
| Employee contributions                   | 76           | 80           |
| Benefits paid                            | (125)        | (127)        |
| <b>Closing fair value of fund assets</b> | <b>1,244</b> | <b>1,043</b> |

**Note** (1)  
The actual return on plan assets was \$154 million (2005: \$113 million).

The fair value of assets includes no amounts relating to any of the Company's own financial instruments nor any property occupied by, or other assets used by, the Company.

The major categories of fund assets as a percentage of total fund assets are as follows:

|                           | %   | %   |
|---------------------------|-----|-----|
| Overseas equities         | 27% | 26% |
| Australian equities       | 27% | 33% |
| Fixed interest securities | 21% | 21% |
| Property                  | 13% | 10% |
| Alternatives              | 9%  | 4%  |
| Cash                      | 3%  | 6%  |

Expense recognised in the income statement

|                                | \$m       | \$m       |
|--------------------------------|-----------|-----------|
| Current service costs          | 100       | 99        |
| Interest cost                  | 70        | 46        |
| Expected return on fund assets | (83)      | (72)      |
|                                | <b>87</b> | <b>73</b> |

The expense is recognised in the balances disclosed in Note 2(d).

The defined benefit obligations have been determined by the plan actuary, Mr John Burnett, FIAA, Watson Wyatt, using the projected unit cost method. The following are the principal actuarial assumptions used.

|                                | 25 June 2006<br>% | As at<br>26 June 2005<br>% |
|--------------------------------|-------------------|----------------------------|
| Discount rate (gross of tax)   | 5.79%             | 5.11%                      |
| Discount rate (net of tax)     | 4.90%             | 4.30%                      |
| Expected return on fund assets | 7.20%             | 7.90%                      |
| Future salary increases        | 4.00%             | 3.00%                      |

The expected returns on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each asset class are net of investment tax and investment fees.

Contributions for permanent salaried employees of the Company and its controlled entities are made to certain Company sponsored superannuation funds including the plan. These superannuation funds provide lump sum accumulation benefits to members on retirement or death. The Company and certain of its controlled entities are legally obliged to contribute to the Company-sponsored plan at fixed rates as set out in the Trust Deed and Rules and the Participation Deed between the Company and AMP Superannuation Limited. Members contribute to the plan at fixed rates dependent upon their membership category.

The expected Company and employee contributions to the WGSP for the 2007 financial year are \$95.0 million and \$42.0 million respectively.

The Company is also obliged to contribute at fixed rates to defined contribution retirement plans for certain employees under industrial agreements, fund choice legislation and the Superannuation Guarantee Legislation. The Company and its controlled entities contribute to various industry-based superannuation funds and to the plan for non-salaried employees.

#### (b) Funding of vested benefits

The Company funds the benefits payable from the plan using a method which provides funding up to members' vested benefits. Vested benefits are those benefits that would be currently payable to members on retirement or resignation from the Company or its controlled entities that do not depend on any other factor.

This funding method is permitted by the Plan Participation Deed, Plan Rules and superannuation law and defers the cost of funding members' benefits up until the time the Company financed benefits become vested in the members. Annual actuarial reviews are performed to monitor the scheme's funding position.

WGSS vested benefits based on the last actuarial review, and assets at net market value based on the last annual financial report dated 31 August 2005, are set out below.

|  | 2005<br>\$m            | 2004<br>\$m          | 2003<br>\$m          |
|--|------------------------|----------------------|----------------------|
| WGSS assets at net market value                            | 1,079.8                | 899.0                | 769.0                |
| Members vested benefits reserve <sup>(1)</sup>             | 1,076.6 <sup>(2)</sup> | 893.5 <sup>(3)</sup> | 762.9 <sup>(4)</sup> |
| Excess of WGSS assets over members vested benefit reserves | 3.2                    | 5.5                  | 6.1                  |

#### Notes

(1) Members vested benefits reserves are the sum of members vested benefits plus the Additional Death Benefit Reserve.

(2) Actual members vested benefits reserves as at 31 August 2005.

(3) Actual members vested benefits reserves as at 31 August 2004.

(4) Actual members vested benefits reserves as at 31 August 2003.

# NOTES TO THE FINANCIAL STATEMENTS

## 24 EMPLOYEE BENEFITS (CONTINUED)

### Valuation of vested and accrued benefits for funding purposes

Full actuarial valuations of WGSS are made at intervals of no more than three years. The last actuarial valuation was as at 31 August 2005. A report dated 31 May 2006 by actuary John Burnett, FIAA, concluded that the available net assets of WGSS were sufficient to meet all benefits payable in the event of WGSS winding up, or the voluntary or compulsory termination of the employment of each member within the Company and its controlled entities.

Member accrued benefits, based on the last actuarial report, and the last annual financial report of WGSS dated 31 August 2005, were \$1,106.2 million. Accrued benefits are the actuarial value of the benefits that the WGSS is expected to pay at some future date and represent the sum of the members' accrued benefits plus the Additional Death Benefit Reserve.

If the accrued benefits funding method was used for the scheme for the year ended 31 August 2005, a comparison of Woolworths Super's assets to members accrued benefits reserves would show a deficit estimated to be \$26.4 million (at 31 August 2004 \$30.2 million). There is no obligation on the part of Woolworths Limited to fund this deficit.

### Share-based payments

#### Executive Option Plan (Long-Term Incentive Plan)

Long-term incentives have been in place since 1993 and have been provided through various executive option plans. Since 1999, long-term incentives have been provided through the Executive Option Plan which was designed to reward executives for share price and earnings growth. The Executive Option Plan has the following features:

- ~ the exercise price is set at the weighted average market price of a Woolworths Limited ordinary share on the five trading days prior to the date approved by the Board as the effective date of options for the purpose of determining the exercise period and performance hurdles (offer date);
- ~ an exercise period that commences after five years, subject to performance hurdles being met and with a maximum exercise period of five and a half years (10 years for options issued prior to 2002);
- ~ upon exercise, each option entitles the option holder to one ordinary fully paid Woolworths Limited share (there is no settlement in cash);
- ~ vesting is subject to two performance hurdles based on cumulative Earnings Per Share (EPS) growth and relative Total Shareholder Return (TSR) measured over the performance period in addition to a service condition. EPS and TSR offer a balance between internal and external performance indicators and are aligned to shareholder experiences;
- ~ the performance measures, EPS growth and relative TSR each represent 50% of the options granted;
- ~ EPS is the non-dilutive EPS which is measured as the net profit of the consolidated entity after outside equity interests divided by the weighted average number of shares on issue (including ordinary shares and dividend reinvestment allotments) over the performance period;
- ~ options subject to the EPS performance hurdle vest in four tranches, dependent on attaining average annual growth of either 10% or 11% as follows:

| <i>Tranche</i> | <i>Percentage of Options in total grant that may be exercised</i> | <i>Performance hurdle to be achieved for vesting</i> |
|----------------|---|--|
| Tranche 1      | 12.5%   | 4 year 10% EPS                                       |
| Tranche 2      | 12.5%   | 4 year 11% EPS                                       |
| Tranche 3      | 12.5%   | 5 year 10% EPS                                       |
| Tranche 4      | 12.5%   | 5 year 11% EPS                                       |

- ~ the fifth tranche (50% of options) is linked to relative TSR and measures the growth in the Company's share price plus dividends notionally reinvested in the Company's shares comparative to a peer group, measured over five years from the offer date but averaged for three months to eliminate volatility. This reflects the increase in value delivered to shareholders over the performance period;
- ~ TSR performance is measured against comparator companies comprised of the S&P/ASX 100 Industrials Index, excluding companies in the ASX Banks and Finance Accumulation Index, ASX All Resources and ASX Trusts and any companies in the comparator group that have merged, had a share reconstruction or been delisted as at the measurement date;
- ~ the percentage of the total number of options granted that vest is dependent on Woolworths Limited's ranking relative to the performance of the above comparator companies. The following table sets out the TSR vesting schedule:

*Woolworths TSR equals or exceeds the following percentile of the peer group*

*Percentage of options in total grant that vest and may be exercised*

|                 |       |
|-----------------|-------|
| 60th percentile | 12.5% |
| 65th percentile | 25.0% |
| 70th percentile | 37.5% |
| 75th percentile | 50.0% |

The following table summarises movements for the financial year ended 25 June 2006 for outstanding options:

| <i>Offer Date</i> | <i>Expiry Date</i> | <i>Exercise Price</i> | <i>No. of options<br/>27 June 2005</i> | <i>No. of options<br/>granted<br/>during year</i> | <i>No. of options<br/>exercised<br/>during year</i> | <i>No. of options<br/>lapsed<br/>during year</i> | <i>No. of options<br/>25 June 2006</i> | <i>No. of options<br/>exercisable<br/>25 June 2006</i> |
|-------------------|--------------------|-----------------------|--|---|---|--|--|--|
| 1/07/1999         | 1/07/2009          | \$5.11                | 951,875                                | ~   | (551,375)   | ~  | 400,500                                | 400,500  |
| 1/07/2000         | 1/07/2010          | \$6.17                | 2,252,125                              | ~   | (1,942,750)   | ~  | 309,375                                | 309,375  |
| 1/07/2001         | 1/07/2011          | \$10.89               | 6,107,982                              | ~   | (710,426)   | (97,713)   | 5,299,843                              | 521,627  |
| 1/07/2002         | 31/12/2007         | \$12.94               | 5,386,000                              | ~   | ~   | (774,000)  | 4,612,000                              | ~  |
| 1/07/2003         | 31/12/2008         | \$12.60               | 6,569,350                              | ~   | ~   | (659,000)  | 5,910,350                              | ~  |
| 1/07/2004         | 31/12/2009         | \$11.54               | 7,752,750                              | ~   | ~   | (653,250)  | 7,099,500                              | ~  |
| 1/07/2005         | 31/12/2010         | \$16.46               | ~                                      | 6,906,300   | ~   | (190,900)  | 6,715,400                              | ~  |
|                   |                    |                       | <b>29,020,082</b>                      | <b>6,906,300</b>                                  | <b>(3,204,551)</b>                                  | <b>(2,374,863)</b>                               | <b>30,346,968</b>                      | <b>1,231,502</b>                                       |

The weighted average share price during the financial year was \$17.34.

The following table summarises movements for the financial year ended 26 June 2005 for outstanding options:

| <i>Offer Date</i> | <i>Expiry Date</i> | <i>Exercise Price</i> | <i>No. of options<br/>28 June 2004</i> | <i>No. of options<br/>granted<br/>during year</i> | <i>No. of options<br/>exercised<br/>during year</i> | <i>No. of options<br/>lapsed<br/>during year</i> | <i>No. of options<br/>27 June 2005</i> | <i>No. of options<br/>exercisable<br/>27 June 2005</i> |
|-------------------|--------------------|-----------------------|--|---|---|--|--|--|
| 1/07/1999         | 1/07/2009          | \$5.11                | 20,794,375                             | ~   | (19,318,043)  | (524,457)  | 951,875                                | 951,875  |
| 1/07/2000         | 1/07/2010          | \$6.17                | 2,586,250                              | ~   | (328,125)   | (6,000)  | 2,252,125                              | 2,252,125  |
| 1/07/2001         | 1/07/2011          | \$10.89               | 6,739,000                              | ~   | (360,686)   | (270,332)  | 6,107,982                              | 447,898  |
| 1/07/2002         | 31/12/2007         | \$12.94               | 6,162,000                              | ~   | ~   | (776,000)  | 5,386,000                              | ~  |
| 1/07/2003         | 31/12/2008         | \$12.60               | 7,331,350                              | ~   | ~   | (762,000)  | 6,569,350                              | ~  |
| 1/07/2004         | 31/12/2009         | \$11.54               | ~                                      | 7,752,750   | ~   | ~  | 7,752,750                              | ~  |
|                   |                    |                       | <b>43,612,975</b>                      | <b>7,752,750</b>                                  | <b>(20,006,854)</b>                                 | <b>(2,338,789)</b>                               | <b>29,020,082</b>                      | <b>3,651,898</b>                                       |

# NOTES TO THE FINANCIAL STATEMENTS

## 24 EMPLOYEE BENEFITS (CONTINUED)

The weighted average share price during the financial year was \$14.38.

The fair value of the services received in return for share options granted are measured by reference to the fair value of the share options granted. The fair value of the services is recognised as an expense on a straight-line basis over the vesting period and is determined by multiplying the fair value per option by the number of options expected to vest. During the financial year ended 25 June 2006, an expense of \$10.47 million (2005: \$7.5 million) was recognised in the income statement in relation to options issued under the Executive Option Plan.

The estimate of the fair value per option is measured based on the Monte Carlo simulation option pricing model performed by an independent valuer. The fair value is measured at the grant date which for the purposes of measurement is the date of unconditional offer by the Company and acceptance by the employee. This date differs to the offer date above, adjusted for assumed early exercise.

The contractual exercise period of the options set out above is used as an input into the model. Other inputs are:

| <i>Offer Date</i> | <i>Share price<br/>at grant date</i> | <i>Exercise<br/>price</i> | <i>Expected<br/>Volatility<sup>(1)</sup></i> | <i>Dividend<br/>yield</i> | <i>Risk free<br/>interest rate</i> | <i>Weighted average<br/>fair value of<br/>options granted<sup>(2)</sup></i> |
|-------------------|--------------------------------------|---------------------------|--|---------------------------|------------------------------------|---|
| 1/07/2003         | \$11.18                              | \$12.94                   | 18%  | 4.0%                      | 5.15%                              | \$1.16  |
| 1/07/2004         | \$15.32                              | \$12.60                   | 17%  | 3.2%                      | 5.50%                              | \$3.88  |
| 1/07/2005         | \$17.05                              | \$11.54                   | 16%  | 3.4%                      | 5.40%                              | \$2.22  |

| <b>Notes</b> | <b>(1)</b>   | <b>(2)</b>  |
|--------------|--|---|
|              | The expected volatility is based on the historical implied volatility calculated based on the weighted average remaining life of the share options adjusted for any expected changes to future volatility due to publicly available information. | In accordance with AIFRS transition rules, an expense has only been recognised for the fair value of options granted on or after 7 November 2002. |

The probability of achieving market performance conditions (TSR) is incorporated into the determination of the fair value per option. No adjustment is made to the expense for options that fail to meet the market condition. Non-market performance conditions (EPS and service condition) are not taken into account in the grant date fair value measurement. Instead the number of options expected to vest are adjusted over the vesting period in determining the expense to be recognised in the income statement.

### Employee Share Plan (Share Plan)

The Share Plan was established to enable all employees (other than executive officers) the opportunity to participate in the acquisition of shares in the Company at market price with an interest-free loan from the Company to finance the acquisition. Loans are limited in recourse to the proceeds of sale of shares acquired. Dividends and other distributions on the shares are applied to repay the loan. The loan may be repaid at any time after three years and in any event must be settled when the employee ceases employment or at the end of 10 years from grant or when a takeover offer is accepted for the shares, whichever is the earliest. Upon settlement, if the employee elects not to repay the loan, the shares will be sold and the funds received after payment of costs and expenses will be applied to repay the loan. All shares acquired under the Share Plan are held by a wholly-owned subsidiary of the Company (Woolworths Custodian Pty Limited) as Trustee of the Share Plan. At any time after three years from the date of acquisition a participant may request the Trustee to transfer the shares, but only if the loan made to acquire those shares is repaid in full. Shares may be transferred earlier at the discretion of the Directors on the employee's death or retirement but only if the loan made to acquire the shares is repaid in full. The Trustee may exercise the voting rights attached to the shares in the manner directed by the Directors until they are transferred to the participant.

As at 25 June 2006, there were 20,848 (2005: 24,092) participating employees who held a total of 10,027,062 (2005: 11,811,971) shares. The total amount receivable by the Company in relation to these shares was \$71,461,253 as at 25 June 2006 (2005: \$74,414,734). During the 52 week period ended 25 June 2006, no shares were issued.

Due to the non-recourse nature of the loan, the loan is considered to be an option for accounting purposes as the employee is exposed to equity appreciation of the Company shares over the loan period with the option whether to repay the loan. The vesting period is three years from the offer date conditional on the employee remaining employed over this period. Any shares forfeited are sold on-market and the proceeds of this sale are contributed to the Woolworths Group Superannuation Plan. The number and weighted average exercise prices (being the loan value) of these options is as follows.

|  | <i>Weighted average<br/>exercise price<br/>2006</i> | <i>No. of<br/>options<br/>2006</i> | <i>Weighted average<br/>exercise price<br/>2005</i> | <i>No. of<br/>options<br/>2005</i> |
|--|---|------------------------------------|---|------------------------------------|
| Balance at the beginning of the period | <b>\$7.51</b>                                       | <b>11,811,971</b>                  | \$7.64  | 14,261,125                         |
| Forfeited during the period            | <b>\$8.67</b>                                       | <b>(723,777)</b>                   | \$8.55  | (1,241,637)                        |
| Exercised during the period            | <b>\$6.08</b>                                       | <b>(1,061,132)</b>                 | \$4.12  | (1,207,517)                        |
| Balance at the end of the period       | <b>\$7.13</b>                                       | <b>10,027,062</b>                  | \$7.51  | 11,811,971                         |
| Exercisable at the end of the period   | <b>\$7.13</b>                                       | <b>10,027,062</b>                  | \$6.43  | 9,629,010                          |

The weighted average share price during the period was \$17.34 (2005: \$14.38).

### Employee Share Issue Plan (ESIP)

The ESIP allowed for the issue of shares to eligible employees for no monetary consideration. The ESIP complies with the various conditions specified by Government taxation legislation which enabled permanent employees to obtain a benefit of up to the \$1,000 per employee per annum by way of a tax-free concession on discounts under employee incentive schemes.

During the 52 week period ended 25 June 2006 no shares (2005: \$nil) were issued to qualifying employees.

### Executive Management Share Plan (EMSP)

The EMSP allows any executive management, including any Executive Director, to forgo some of their future pre-tax remuneration to acquire shares in the Company on-market at prevailing market prices on the ASX. During the 52 week period ended 25 June 2006, 10,412 (2005: 13,224) shares were purchased under the EMSP. No additional expense is recognised in relation to these shares as they are acquired out of salary sacrificed remuneration.

# NOTES TO THE FINANCIAL STATEMENTS

## 25 KEY MANAGEMENT PERSONNEL

### Directors and executives

All key management personnel were employed by Woolworths Limited during the year. The following is a list of the key management personnel of Woolworths Limited and their positions at the date of this report.

*Current position title*

### Executive Directors

|                                 |   |
|---------------------------------|---|
| Roger Campbell Corbett          | Group Managing Director and Chief Executive Officer |
| Michael Luscombe <sup>(1)</sup> | Chief Operating Officer                             |

### Non-executive Directors

|                           |   |
|---------------------------|---|
| James Alexander Strong    | Chairman of the Board and member of the Audit Committee and People Policy Committee                           |
| Leon Michael L'Huillier   | Non-executive Director, member of the Audit Committee and Chair of the Woolworths Group Superannuation Scheme |
| Adrienne Elizabeth Clarke | Non-executive Director and member of the People Policy Committee  |
| Roderick Sheldon Deane    | Non-executive Director and member of the People Policy Committee <sup>(2)</sup>                               |
| Diane Jennifer Grady      | Non-executive Director and member of the Audit Committee <sup>(2)</sup>                                       |
| John Frederick Astbury    | Non-executive Director and Chair of the Audit Committee   |

### Executives

|                              |   |
|------------------------------|---|
| Steve Bradley                | Chief Logistics and Information Officer             |
| Marty Hamnett <sup>(3)</sup> | Managing Director – Progressive Enterprises Limited |
| Naum Onikul <sup>(4)</sup>   | Director of Supermarkets                            |
| Tom Pockett <sup>(5)</sup>   | Chief Financial Officer                             |

### Notes

**(1)** Mr Luscombe was appointed Chief Operating Officer on 1 June 2006 and it has been announced that Mr Luscombe will become CEO on 1 October 2006. Prior to 1 June 2006, he was Director of Supermarkets.

**(2)** Dr Deane assumed the Chair of the People Policy Committee in August 2006, following the retirement of Ms Grady from the Committee as Chair in August 2006.

**(3)** Mr Hamnett was appointed Managing Director – Progressive Enterprises Limited on 26 April 2006. Prior to this appointment Mr Hamnett was Director of Business Development.

**(4)** Mr Onikul was appointed Director of Supermarkets on 1 July 2006. Prior to this appointment Mr Onikul was the Director of Liquor and Petrol.

**(5)** On 1 June 2006 Mr Pockett was appointed Finance Director which will take effect in November 2006.

Mr Brookes was part of the key management personnel in 2005 and was appointed Director of Marketing on 1 July 2005. Mr Brookes resigned from the Company on 12 April 2006.

Total remuneration for key management personnel for the Group and the Company during the financial year are set out below.

### Remuneration by category

|                              | 2006<br>\$ | Consolidated<br>2005<br>\$ |
|------------------------------|------------|----------------------------|
| Short-term employee benefits | 13,413,472 | 12,985,157                 |
| Post-employment benefits     | 4,081,291  | 957,723                    |
| Other long-term benefits     | 2,522,390  | 3,204,444                  |
| Share-based payments         | 1,079,766  | 904,346                    |
|                              | 21,096,919 | 18,051,670                 |

As a result of the adoption of AIFRS, the basis for measuring the following elements of remuneration in the comparative period have changed:

- ~ amounts for defined benefit plans have been included based on an allocation of the current service cost and recognised past service cost for each employee;
- ~ amounts for accrued annual leave have been included in short-term employee benefits; and
- ~ amounts for accrued long service leave have been included in other long-term benefits.

Comparative balances have been amended to reflect this change.

#### Equity instrument disclosures relating to key management personnel

Details of equity instruments provided as compensation to key management personnel and shares issued on exercise, together with terms and conditions of the options, are disclosed in tables in section 3.2 of the Remuneration Report on pages 46 to 50.

#### Share holdings

The number of fully paid ordinary shares in the Company held during the 52 weeks ended 25 June 2006 by each Director and other key management personnel of the Group, including their related parties, is set out below.

| 2006             | Opening balance<br>No. | Shares issued<br>under NEDSP <sup>(1)</sup><br>No. | Other changes <sup>(2)</sup><br>No. | Closing balance<br>No. |
|------------------|------------------------|--|-------------------------------------|------------------------|
| <b>Directors</b> |                        |  |                                     |                        |
| J F Astbury      | 8,386                  | 2,051  | 42                                  | 10,479                 |
| A E Clarke       | 38,766                 | 2,051  | 682                                 | 41,499                 |
| R C Corbett      | 293,165                | ~  | ~                                   | 293,165                |
| R S Deane        | 40,000                 | ~  | ~                                   | 40,000                 |
| D J Grady        | 33,801                 | ~  | 869                                 | 34,670                 |
| L M L'Huillier   | 119,044                | ~  | (59,044)                            | 60,000                 |
| J A Strong       | 68,137                 | 1,879  | ~                                   | 70,016                 |

#### Notes

##### (1)

Comprises shares issued under the Non-executive Directors' Share Plan (NEDSP).

##### (2)

Comprises new shares issued as a result of the Dividend Reinvestment Plan on the same basis as transactions by other shareholders and on-market transactions.

| 2006                                  | Opening balance<br>No. | Received on<br>exercise of options <sup>(1)</sup><br>No. | Other changes<br>No. | Closing balance<br>No. |
|---------------------------------------|------------------------|--|----------------------|------------------------|
| <b>Other key management personnel</b> |                        |  |                      |                        |
| S Bradley                             | 61,863                 | 262,500  | (54,926)             | 269,437                |
| M Hamnett                             | 5,000                  | ~  | ~                    | 5,000                  |
| M Luscombe                            | 656,926                | 75,000   | (323,636)            | 408,290                |
| N Onikul                              | 500,000                | ~  | (302,009)            | 197,991                |

#### Notes

##### (1)

The amount paid per share exercised was \$6.17 and no amounts remain unpaid. No other options were exercised by key management personnel.

Mr Pockett held no shares at the beginning of, or during the financial year.

# NOTES TO THE FINANCIAL STATEMENTS

## 25 KEY MANAGEMENT PERSONNEL (CONTINUED)

| 2005             | Opening balance<br>No. | Shares issued<br>under NEDSP <sup>(1)</sup><br>No. | Net<br>other changes <sup>(2)</sup><br>No. | Closing balance<br>No. |
|------------------|------------------------|--|--|------------------------|
| <b>Directors</b> |                        |  |  |                        |
| J F Astbury      | 7,835                  | 551  | ~  | 8,386                  |
| A E Clarke       | 35,669                 | 2,414  | 683  | 38,766                 |
| R C Corbett      | 3,341,165              | ~  | (3,048,000)                                | 293,165                |
| R S Deane        | 40,000                 | ~  | ~  | 40,000                 |
| D J Grady        | 33,031                 | ~  | 770  | 33,801                 |
| L M L'Huillier   | 119,044                | ~  | ~  | 119,044                |
| J A Strong       | 65,925                 | 2,212  | ~  | 68,137                 |

| Notes | (1)  | (2)   |
|-------|--|---|
|       | Comprises shares issued under the Non-executive Directors' Share Plan (NEDSP). | Comprises new shares issued as a result of the Dividend Reinvestment Plan on the same basis as transactions by other shareholders and on-market transactions. |

| 2005                                  | Opening balance<br>No. | Received on<br>exercise of options<br>No. | Other changes<br>No. | Closing balance<br>No. |
|---------------------------------------|------------------------|---|----------------------|------------------------|
| <b>Other key management personnel</b> |                        |   |                      |                        |
| S Bradley                             | 59,002                 | 437,500                                   | (434,639)            | 61,863                 |
| B Brookes                             | 234,936                | 750,000                                   | (469,570)            | 515,366                |
| T Flood <sup>(1)</sup>                | 26,430                 | 350,000                                   | (349,220)            | 27,210                 |
| M Hamnett                             | 5,000                  | 300,000                                   | (300,000)            | 5,000                  |
| M Luscombe                            | 187,230                | 537,500                                   | (67,804)             | 656,926                |
| N Onikul                              | 131,685                | 750,000                                   | (381,685)            | 500,000                |

| Note | (1)                              |
|------|----------------------------------|
|      | Mr Flood retired 31 August 2004. |

### Option holdings

The numbers of options over ordinary shares in the Company held during the 52 weeks ended 25 June 2006 by each Director and other key management personnel of the Group, including their related parties, are set out below.

| 2006       | Opening<br>Balance<br>No. | Options<br>Granted as<br>Remuneration<br>No. | Options<br>Exercised<br>No. | Closing Balance<br>No. | Balance<br>vested as at<br>25 June 2006<br>No. | Vested but<br>not exercisable<br>No. | Vested and<br>exercisable<br>No. | Options vested<br>during year<br>No. |
|------------|---------------------------|--|-----------------------------|------------------------|--|--------------------------------------|----------------------------------|--------------------------------------|
| S Bradley  | 672,500                   | 80,000                                       | (262,500)                   | 490,000                | ~  | ~                                    | ~                                | 175,000                              |
| M Hamnett  | 460,000                   | 40,000                                       | ~                           | 500,000                | 100,000  | ~                                    | 100,000                          | 50,000                               |
| M Luscombe | 485,000                   | 80,000                                       | (75,000)                    | 490,000                | ~  | ~                                    | ~                                | 50,000                               |
| N Onikul   | 160,000                   | 80,000                                       | ~                           | 240,000                | ~  | ~                                    | ~                                | ~                                    |
| T Pockett  | 500,000                   | 80,000                                       | ~                           | 580,000                | ~  | ~                                    | ~                                | ~                                    |

No other key management personnel hold options.

All share options issued to the key management personnel during the financial year were made in accordance with the provisions of the Executive Option Plan. The executives in the table above were granted options on 1 July 2005. The exercise value of the options granted was \$16.46 per option. Further details of the terms and conditions of the Executive Option Plan and the options granted during the financial year are contained in Note 24 to the Financial Statements.

| 2005       | Opening<br>Balance<br>No. | Options<br>Granted as<br>Remuneration<br>No. | Options<br>Exercised<br>No. | Closing Balance<br>No. | Balance<br>vested as at<br>26 June 2005<br>No. | Vested but<br>not exercisable<br>No. | Vested and<br>exercisable<br>No. | Options vested<br>during year<br>No. |
|------------|---------------------------|--|-----------------------------|------------------------|--|--------------------------------------|----------------------------------|--------------------------------------|
| S Bradley  | 960,000                   | 150,000                                      | (437,500)                   | 672,500                | 87,500   | 87,500                               | —                                | 225,000                              |
| M Hamnett  | 610,000                   | 150,000                                      | (300,000)                   | 460,000                | 50,000   | 37,500                               | 12,500                           | 250,000                              |
| M Luscombe | 872,500                   | 150,000                                      | (537,500)                   | 485,000                | 25,000   | 25,000                               | —                                | 350,000                              |
| N Onikul   | 810,000                   | 100,000                                      | (750,000)                   | 160,000                | —  | —                                    | —                                | 500,000                              |
| T Pockett  | 350,000                   | 150,000                                      | —                           | 500,000                | —  | —                                    | —                                | —                                    |

#### Loans to key management personnel

There were no loans to Directors of the Company or key management personnel.

## 26 RELATED PARTIES

#### Parent entity

The ultimate parent entity is Woolworths Limited, a company incorporated in New South Wales. The wholly-owned Group consists of Woolworths Limited and its wholly-owned controlled entities.

#### Subsidiaries

Disclosures relating to interests in subsidiaries are set out in Note 29.

#### Transactions within the Group

During the financial period and previous financial periods, Woolworths Limited advanced and repaid loans to and received loans from, and provided treasury, accounting, legal, taxation and administrative services to, other entities within the Group.

Entities within the Group also exchanged goods and services in sale and purchase transactions. All transactions occurred on the basis of normal commercial terms and conditions.

The details of revenue, interest and dividends transacted within the Group and with other partly-owned controlled entities are presented below:

|                 | Consolidated<br>As at |            | Woolworths Limited<br>As at |            |
|-----------------|-----------------------|------------|-----------------------------|------------|
|                 | 2006<br>\$            | 2005<br>\$ | 2006<br>\$                  | 2005<br>\$ |
| Revenue         | —                     | —          | —                           | 2,777,988  |
| Dividend income | —                     | 3,618,766  | —                           | 2,450,000  |
| Interest income | —                     | 418,139    | 128,544,086                 | 25,107,644 |

The balances of loans to or from controlled entities is shown in Note 8 and Note 12.

#### Directors and key management personnel

Disclosures relating to Directors and key management personnel are set out in Note 25 and in the Remuneration Report, set out in Section 3 and Section 4 (except for sub-section 4.6) of the Directors' Report.

# NOTES TO THE FINANCIAL STATEMENTS

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## 27 FINANCIAL INSTRUMENTS

### **(a) Financial risk management objectives**

The consolidated entity's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the consolidated entity's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- ~ forward foreign exchange contracts to hedge the exchange risk arising on:
  - ~ the import of goods for resale and capital expenditure;
  - ~ the balances between Australian and New Zealand group entities;
- ~ cross-currency swaps to manage the foreign currency risk associated with foreign currency borrowings; and
- ~ interest rate swaps to mitigate the risk of rising interest rates.

### **(b) Significant accounting policies**

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the Financial Statements.

### **(c) Foreign currency risk management**

The consolidated entity has exposure to movements in foreign currency exchange rates through term borrowings and anticipated purchases of inventory and equipment, which are denominated in foreign currencies. In order to hedge against the majority of this exposure, the consolidated entity enters into forward exchange contracts and cross-currency swap agreements. The term borrowings are fully hedged.

#### **Forward exchange contracts and foreign currency options**

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to cover foreign currency payments and receipts of up to 100% of the exposure generated.

At period end, the details of outstanding forward contracts and foreign currency options and collars, stated in Australian dollar equivalents are:

| Outstanding contracts           | Average exchange rate |           | Foreign currency |              | Contract value |             | Movement in fair value |             | Total fair value |             |
|---------------------------------|-----------------------|-----------|------------------|--------------|----------------|-------------|------------------------|-------------|------------------|-------------|
|                                 | 2006                  | 2005      | 2006<br>FC'm     | 2005<br>FC'm | 2006<br>\$m    | 2005<br>\$m | 2006<br>\$m            | 2005<br>\$m | 2006<br>\$m      | 2005<br>\$m |
| <b>Hedging imports</b>          |                       |           |                  |              |                |             |                        |             |                  |             |
| <b>Forward contracts</b>        |                       |           |                  |              |                |             |                        |             |                  |             |
| Maturing:                       |                       |           |                  |              |                |             |                        |             |                  |             |
| Within 12 months                |                       |           |                  |              |                |             |                        |             |                  |             |
| Buy United States dollars       | 0.75                  | 0.77      | 67.7             | 61.0         | 90.7           | 79.4        | 1.9                    | 0.1         | 92.6             | 79.5        |
| Buy euros                       | 0.60                  | 0.63      | 9.9              | 16.1         | 16.5           | 25.7        | 0.6                    | (0.2)       | 17.1             | 25.5        |
| Buy Great Britain pounds        | -                     | 0.41      | -                | 2.9          | -              | 7.2         | -                      | (0.3)       | -                | 6.9         |
| <b>Foreign currency options</b> |                       |           |                  |              |                |             |                        |             |                  |             |
| <b>Collars</b>                  |                       |           |                  |              |                |             |                        |             |                  |             |
| Maturing:                       |                       |           |                  |              |                |             |                        |             |                  |             |
| Within six months               |                       |           |                  |              |                |             |                        |             |                  |             |
| United States dollars           | -                     | 0.75/0.78 | -                | 4.5          | -              | 6.0         | -                      | -           | -                | 6.0         |
| <b>Hedging balance sheet</b>    |                       |           |                  |              |                |             |                        |             |                  |             |
| <b>Forward contracts</b>        |                       |           |                  |              |                |             |                        |             |                  |             |
| Buy New Zealand dollars         | 1.21                  | -         | 276.3            | -            | 229.0          | -           | 0.3                    | -           | 229.3            | -           |

As at reporting date, the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is \$2.8 million (2005: \$0.4 million losses). In the current year, these unrealised gains have been recognised through the income statement.

The net investment in New Zealand is not hedged for currency fluctuation as the value of the investment is not currently expected to be realised through disposal.

# NOTES TO THE FINANCIAL STATEMENTS

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Foreign currency risk management (continued)

#### Cross-currency swap agreements

To hedge the risk of adverse movements in foreign exchange rates in relation to US dollar denominated Senior Notes issued by the consolidated entity, it enters into cross-currency swap agreements under which it agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate.

The following table details the cross-currency swaps outstanding at reporting date.

| Outstanding contracts             | Average interest rate |              | Average exchange rate |       | Contract value |             | Fair Value         |             |
|-----------------------------------|-----------------------|--------------|-----------------------|-------|----------------|-------------|--------------------|-------------|
|                                   | 2006<br>%             | 2005<br>%    | 2006                  | 2005  | 2006<br>\$m    | 2005<br>\$m | 2006<br>\$m        | 2005<br>\$m |
| <b>Buy United States Dollars</b>  |                       |              |                       |       |                |             |                    |             |
| Maturing:                         |                       |              |                       |       |                |             |                    |             |
| Floating rates                    |                       |              |                       |       |                |             |                    |             |
| One to two years <sup>(1)</sup>   | BBSW +41.5bp          | ~            | 0.745                 | ~     | 67.1           | ~           | 2.7 <sup>(5)</sup> | ~           |
| Two to three years <sup>(1)</sup> | ~                     | BBSW +41.5bp | ~                     | 0.745 | ~              | 67.1        | ~                  | (0.8)       |
| Five years plus <sup>(2)</sup>    | BBSW +64bp            | BBSW +60bp   | 0.753                 | 0.787 | 1,627.1        | 635.3       | (87.4)             | 24.1        |
|                                   |                       |              |                       |       | 1,694.2        | 702.4       | (84.7)             | 23.3        |
| Maturing:                         |                       |              |                       |       |                |             |                    |             |
| Fixed                             |                       |              |                       |       |                |             |                    |             |
| One to two years <sup>(3)</sup>   | 7.10%                 | ~            | 0.745                 | ~     | 67.1           | ~           | 1.1 <sup>(4)</sup> | ~           |
| Two to three years <sup>(3)</sup> | ~                     | 7.10%        | ~                     | 0.745 | ~              | 67.1        | ~                  | 2.0         |
| Five years plus <sup>(3)</sup>    | ~                     | ~            | ~                     | ~     | ~              | ~           | ~                  | ~           |
|                                   |                       |              |                       |       | 67.1           | 67.1        | 1.1                | 2.0         |

| Notes  | (2)  | (3)   | (5)   |
|--|--|---|---|
| (1)<br>These swap contracts have fair value hedge designation. | These swap instruments include an interest rate swap component which has been disclosed in the interest rate swap contract section below and have therefore been designated as cash flow hedges. | These swap contracts have cash flow hedge designation.                            | These fair value calculations include interest accruals of \$0.3 million. |
|  |  | (4)<br>These fair value calculations include interest accruals of \$15.6 million. |   |

### (d) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

#### Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

| Outstanding floating for<br>fixed contracts | Average contracted fixed interest rate |           | Notional principal amount |                | Fair value                |               |
|---|--|-----------|---------------------------|----------------|---------------------------|---------------|
|   | 2006<br>%                              | 2005<br>% | 2006<br>\$m               | 2005<br>\$m    | 2006<br>\$m               | 2005<br>\$m   |
| <b>Forward contracts</b>                    |  |           |                           |                |                           |               |
| Less than one year                          | 6.27%                                  | 5.81%     | 240.0                     | 100.0          | (0.4)                     | (0.2)         |
| One to two years                            | 5.59%                                  | 6.28%     | 385.0                     | 40.0           | 2.8                       | (3.4)         |
| Two to three years                          | 5.83%                                  | 5.70%     | 370.0                     | 215.0          | 2.3                       | (1.2)         |
| Three to four years                         | 5.55%                                  | 5.97%     | 50.0                      | 370.0          | 1.2                       | (3.0)         |
| Four to five years                          | 5.86%                                  | 5.80%     | 250.0                     | 200.0          | 4.3                       | (2.3)         |
| Five years plus                             | 5.84%                                  | 5.88%     | 1,627.1                   | 735.3          | 45.4                      | (19.4)        |
|   |  |           | <b>2,922.1</b>            | <b>1,660.3</b> | <b>55.6<sup>(1)</sup></b> | <b>(29.5)</b> |

The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value, with the exception of one \$67 million swap which is designated as a fair value hedge and also stated at fair value. All swaps have been designated and are effective as hedges.

#### Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk at 25 June 2006:

| 2006                             | Floating<br>Interest rate<br>\$m | One year<br>or less<br>\$m | One to<br>two years<br>\$m | Fixed interest maturing in:  |                               |                              |                  | Over<br>five years<br>\$m | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m | Effective<br>interest rate<br>% |
|----------------------------------|----------------------------------|----------------------------|----------------------------|------------------------------|-------------------------------|------------------------------|------------------|---------------------------|------------------------------------|--------------|---------------------------------|
|                                  |                                  |                            |                            | Two to<br>three years<br>\$m | Three to<br>four years<br>\$m | Four to<br>five years<br>\$m |                  |                           |                                    |              |                                 |
| <b>Financial assets</b>          |                                  |                            |                            |                              |                               |                              |                  |                           |                                    |              |                                 |
| Cash and deposits                | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 525.9                              | 525.9        | ~                               |
| Trade and other receivables      | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 1,054.8                            | 1,054.8      | ~                               |
| Foreign currency contracts       | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 2.8                                | 2.8          | ~                               |
| Interest rate swaps              | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 55.8                               | 55.8         | ~                               |
| Currency swaps                   | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 3.0                                | 3.0          | ~                               |
| Other financial assets           | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 0.7                                | 0.7          | ~                               |
|                                  | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 1,643.0                            | 1,643.0      | ~                               |
| <b>Financial liabilities</b>     |                                  |                            |                            |                              |                               |                              |                  |                           |                                    |              |                                 |
| Accounts payable                 | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 2,778.5                            | 2,778.5      | ~                               |
| Accruals                         | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 733.0                              | 733.0        | ~                               |
| Unearned income                  | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 61.9                               | 61.9         | ~                               |
| Provisions                       | ~                                | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 944.7                              | 944.7        | ~                               |
| Short-term securities            | 244.1                            | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | ~                                  | 244.1        | 5.92%                           |
| Other bank loans:                |                                  |                            |                            |                              |                               |                              |                  |                           |                                    |              |                                 |
| Fixed                            | ~                                | 0.5                        | ~                          | ~                            | ~                             | ~                            | ~                | 5.9                       | ~                                  | 6.4          | 6.80%                           |
| Variable                         | 667.0                            | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | ~                                  | 667.0        | 6.12%                           |
| Other loans                      | 0.4                              | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | 1.1                                | 1.5          | 6.21%                           |
| Variable rate domestic notes     | 230.0                            | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | ~                                  | 230.0        | 6.28%                           |
| Fixed rate domestic notes        | ~                                | 199.7                      | 70.2                       | 299.3                        | ~                             | 197.9                        | ~                | ~                         | ~                                  | 767.1        | 6.08%                           |
| Interest rate swaps              | (2,922.1)                        | 240.0                      | 385.0                      | 370.0                        | 50.0                          | 250.0                        | 1,627.1          | ~                         | ~                                  | ~            | ~                               |
| USD notes                        | ~                                | 138.7                      | ~                          | ~                            | ~                             | ~                            | 1,669.9          | ~                         | ~                                  | 1,808.6      | 6.50%                           |
| WOW Notes                        | 591.5                            | ~                          | ~                          | ~                            | ~                             | ~                            | ~                | ~                         | ~                                  | 591.5        | 7.07%                           |
| Currency swaps                   | 1,694.2                          | (67.1)                     | ~                          | ~                            | ~                             | ~                            | (1,627.1)        | 70.7                      | ~                                  | 70.7         | ~                               |
|                                  | 505.1                            | 511.8                      | 455.2                      | 669.3                        | 50.0                          | 447.9                        | 1,675.9          | 4,589.9                   | 8,905.0                            | ~            | ~                               |
| <b>Net financial liabilities</b> | <b>(505.1)</b>                   | <b>(511.8)</b>             | <b>(455.2)</b>             | <b>(669.3)</b>               | <b>(50.0)</b>                 | <b>(447.9)</b>               | <b>(1,675.9)</b> | <b>(2,946.9)</b>          | <b>(7,262.0)</b>                   | <b>~</b>     | <b>~</b>                        |

#### Note

(1)  
This fair value calculation includes accrued interest as recorded in trade and other payables of \$0.2 million.

# NOTES TO THE FINANCIAL STATEMENTS

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

| 2005  | Floating<br>interest<br>rate<br>\$m | Fixed interest maturing in: |                             |                           | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m | Average<br>interest<br>rate<br>% |
|---|-------------------------------------|-----------------------------|-----------------------------|---------------------------|------------------------------------|--------------|----------------------------------|
|   |                                     | One year<br>or less<br>\$m  | One to<br>five years<br>\$m | Over<br>five years<br>\$m |                                    |              |                                  |
| Maturity profile of financial instruments (continued) |                                     |                             |                             |                           |                                    |              |                                  |
| Financial assets                                      |                                     |                             |                             |                           |                                    |              |                                  |
| Cash and deposits                                     | 36.5                                | ..                          | ..                          | ..                        | 397.3                              | 433.8        | 5.50%                            |
| Trade and other receivables                           | ..                                  | ..                          | ..                          | ..                        | 495.4                              | 495.4        | ..                               |
| Other financial assets                                | ..                                  | ..                          | ..                          | ..                        | 1.1                                | 1.1          | ..                               |
|   | 36.5                                | —                           | —                           | —                         | 893.8                              | 930.3        | —                                |
| Financial liabilities                                 |                                     |                             |                             |                           |                                    |              |                                  |
| Accounts payable                                      | ..                                  | ..                          | ..                          | ..                        | 2,335.6                            | 2,335.6      | ..                               |
| Accruals  | ..                                  | ..                          | ..                          | ..                        | 521.4                              | 521.4        | ..                               |
| Unearned income                                       | ..                                  | ..                          | ..                          | ..                        | 59.1                               | 59.1         | ..                               |
| Provisions  | ..                                  | ..                          | ..                          | ..                        | 813.5                              | 813.5        | ..                               |
| Short-term securities                                 | 140.0                               | ..                          | ..                          | ..                        | ..                                 | 140.0        | 5.77%                            |
| Other bank loans:                                     |                                     |                             |                             |                           |                                    |              |                                  |
| Fixed   | ..                                  | ..                          | 7.0                         | ..                        | ..                                 | 7.0          | 6.80%                            |
| Variable  | 981.9                               | ..                          | ..                          | ..                        | ..                                 | 981.9        | 6.08%                            |
| Other loans   | ..                                  | ..                          | ..                          | ..                        | 1.1                                | 1.1          | ..                               |
| Variable rate domestic notes                          | 80.0                                | ..                          | ..                          | ..                        | ..                                 | 80.0         | 5.34%                            |
| Fixed rate domestic notes                             | ..                                  | ..                          | 270.0                       | ..                        | ..                                 | 270.0        | 6.66%                            |
| USD notes   | ..                                  | ..                          | 134.2                       | 631.7                     | ..                                 | 765.9        | 6.37%                            |
| WfNs  | 600.0                               | ..                          | ..                          | ..                        | ..                                 | 600.0        | 7.68%                            |
| Interest rate swaps                                   | (1,660.3)                           | 100.0                       | 825.0                       | 735.3                     | ..                                 | ..           | 6.01%                            |
| Cross-currency swaps:                                 |                                     |                             |                             |                           |                                    |              |                                  |
| Fixed/floating  | 702.4                               | ..                          | (67.1)                      | (635.3)                   | ..                                 | ..           | 6.30%                            |
|   | 844.0                               | 100.0                       | 1,169.1                     | 731.7                     | 3,730.7                            | 6,575.5      | ..                               |
| Net financial liabilities                             | (807.5)                             | (100.0)                     | (1,169.1)                   | (731.7)                   | (2,836.9)                          | (5,645.2)    | —                                |

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults and does not require collateral in respect of financial assets. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are approved by the Audit Committee. The consolidated entity measures credit risk on a fair value basis.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any allowance for doubtful debts.

The recognised financial assets of the consolidated entity include amounts receivable arising from unrealised gains on derivative financial instruments. For derivatives, which are deliverable, credit risk may also arise from the potential failure of the counterparties to meet their obligations under the respective contracts at maturity.

As at 25 June 2006, no material credit risk exposure existed in relation to potential counterparty failure on such financial instruments.

### Liquidity risk

Liquidity risk arises through the possibility that sales income may be reduced due to adverse factors or through unusually large amounts falling due for payment.

The consolidated entity maintains a liquidity reserve in the form of undrawn bilateral standby facilities of at least \$1 billion with unexpired tenors of at least 12 months at all times.

### Fair value of financial assets and financial liabilities

The carrying value of cash and cash equivalents, financial assets and non-interest bearing monetary financial liabilities of the consolidated entity approximates their fair value (2005: net fair value) and as such they have been omitted from these disclosures.

The fair value of other monetary financial assets and liabilities is based upon market prices where a market exists or the expected future cash flows, discounted where appropriate by current interest rates for assets and liabilities with similar risk profiles.

For interest rate and cross-currency swaps, the fair value has been determined by the net present value of cash flows due under the contracts, using a discount rate appropriate to the type and maturity of the contract. For forward foreign currency contracts, the fair value is taken to be the unrealised gain or loss at period-end calculated by reference to the current forward rates for contracts with similar maturity profiles.

|   | Carrying<br>amount<br>\$m | As at<br>25 June 2006<br>Fair<br>value<br>\$m | Carrying<br>amount<br>\$m | As at<br>26 June 2005<br>Fair<br>value<br>\$m |
|---|---------------------------|---|---------------------------|---|
| <b>Financial liabilities</b>                                    |                           |   |                           |   |
| Bank loans <sup>(1)</sup>                                       | 679.7                     | 680.7   | 989.0                     | 989.0   |
| Short-term securities <sup>(3,4)</sup>                          | 448.8                     | 449.3   | 140.0                     | 139.6   |
| Other loans <sup>(1,2,3)</sup>                                  | 3,227.7                   | 3,216.5                                       | 1,720.5                   | 1,824.8                                       |
| <b>Total<sup>(5)</sup></b>                                      | <b>4,356.2</b>            | <b>4,346.5</b>                                | <b>2,849.5</b>            | <b>2,953.4</b>                                |
| <b>Financial assets/(liabilities)</b>                           |                           |   |                           |   |
| Forward foreign currency contracts and foreign exchange options | 2.8                       | 2.8   | —                         | (0.4)   |
| Interest rate swaps   | 55.6                      | 55.6  | (0.3)                     | (29.5)  |
| Cross-currency swaps  | (83.6)                    | (83.6)  | (8.7)                     | 25.3  |
| <b>Total<sup>(6)</sup></b>                                      | <b>(25.2)</b>             | <b>(25.2)</b>                                 | <b>(9.0)</b>              | <b>(4.6)</b>                                  |

### Notes

For the 2006 financial year the carrying amount for financial liabilities is based on the principal outstanding adjusted for:

**(1)** unamortised borrowing costs (total of \$13.9 million);

**(2)** the effect of revaluation of USD borrowings (total of \$50.4 million);

**(3)** unamortised premium/discount on issue of MTNs (total of \$1.6 million);

**(4)** unamortised prepaid interest on CP issued (total of \$0.9 million);

**(5)** accrued interest as recorded in trade and other payables (\$39.9 million); and

**(6)** accrued interest as recorded in trade and other payables (\$16.1 million).

# NOTES TO THE FINANCIAL STATEMENTS

## 28 DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.

It is a condition of the class order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee (Deed). Under the Deed the Company guarantees the payment of all debts of each of the subsidiaries in full, in the event of a winding up. The subsidiaries in turn guarantee the payment of the debts of the Company in full in the event that it is wound up.

### **The subsidiaries that are party to the Deed are:**

A.C.N. 001 259 301 Pty Limited  
 Advantage Supermarkets Pty Ltd  
 Advantage Supermarkets WA Pty Ltd  
 Andmist Pty. Limited  
 Australian Liquor and Grocery Wholesalers Pty Ltd  
 Australian Safeway Stores Pty. Ltd.  
 Barjok Pty Ltd  
 Calvartan Pty. Limited  
 Cenijade Pty. Limited  
 Charmtex Pty Ltd  
 Dentra Pty. Limited  
 Dick Smith (Wholesale) Pty Ltd  
 Dick Smith Electronics Franchising Pty Ltd  
 Dick Smith Electronics Pty Limited  
 Dick Smith Electronics Staff Superannuation Fund Pty Limited  
 Dick Smith Management Pty Ltd  
 Drumstar Pty Ltd  
 DSE Holdings Pty Limited  
 Fabcot Pty Ltd  
 Gembond Pty. Limited  
 GreenGrocer.com.au Pty Ltd  
 Grocery Wholesalers Pty Ltd  
 InterTAN Australia Pty Ltd  
 Jack Butler & Staff Pty. Ltd.  
 Josona Pty Ltd  
 Leasehold Investments Pty Ltd  
 Mac's Liquor Stores Pty Limited  
 Naïos Pty Ltd  
 PEH (NZ IP) Pty Ltd  
 Philip Leong Stores Pty Limited  
 Progressive Enterprises Holdings Limited  
 QFD Pty. Limited  
 Queensland Property Investments Pty Ltd  
 Shellbelt Pty. Limited  
 Universal Wholesalers Pty Limited  
 Weetah Pty. Limited

Woolies Liquor Stores Pty. Ltd  
 Woolstar Pty. Limited  
 Woolworths Australian Communities Foundation Pty Limited, formerly known as Barmos Pty Limited  
 Woolworths Custodian Pty Ltd  
 Woolworths Executive Superannuation Scheme Pty Limited  
 Woolworths Group Superannuation Scheme Pty Limited  
 Woolworths (International) Pty Limited  
 Woolworths Management Pty Ltd  
 Woolworths (Project Finance) Pty. Limited  
 Woolworths Properties Pty Limited  
 Woolworths (Publishing) Pty Ltd  
 Woolworths (Q'land) Pty Limited  
 Woolworths (R & D) Pty Limited  
 Woolworths (South Australia) Pty Limited  
 Woolworths Townsville Nominee Pty Ltd  
 Woolworths Trustee No. 2 Limited  
 Woolworths Trust Management Pty Limited  
 Woolworths (Victoria) Pty Limited  
 Woolworths (W.A.) Pty Limited

A consolidated income statement and consolidated balance sheet for the closed group representing the Company and the subsidiaries noted on pages 136 and 137, which are party to the Deed as at 25 June 2006 is set out below.

The following controlled entities (see Note 29) are excluded from this consolidation:

Australian Independent Retailers Pty Ltd  
 Statewide Independent Wholesalers Limited  
 DSE (NZ) Limited  
 David Reid Electronics (1992) Limited  
 Dick Smith Electronics Limited  
 Kiaora Lands Pty Limited  
 Woolstar Investments Limited  
 Woolworths Insurance Pte Limited  
 DSE Investments Inc.  
 Breeders Rights International Pty Ltd  
 Bergam Pty Limited  
 ALH Group Pty Ltd, formerly known as Bruandwo Pty Ltd  
 ALH Group Property Holdings Pty Limited,  
 (formerly known as Bruandwo Property Holdings Pty Ltd)  
 Albion Charles Hotel (BMG) Pty Ltd  
 Balaciava Hotel (BMG) Pty Ltd  
 Chelsea Heights Hotel (BMG) Pty Ltd  
 Cherry Hill Tavern (BMG) Pty Ltd  
 Courthouse Brunswick Hotel (BMG) Pty Ltd  
 Courthouse Hotel Footscray (BMG) Pty Ltd  
 Croxton Park Hotel (BMG) Pty Ltd  
 Daisy's Club Hotel (BMG) Pty Ltd  
 Excelsior Hotel (BMG) Pty Ltd  
 First and Last Hotel (BMG) Pty Ltd

Glengala Hotel (BMG) Pty Ltd  
 Lyndhurst Club Hotel (BMG) Pty Ltd  
 Manningham Hotel (BMG) Pty Ltd  
 Milanos Hotel (BMG) Pty Ltd  
 Monash Hotel (BMG) Pty Ltd  
 Moreland Hotel (BMG) Pty Ltd  
 Nu Hotel (BMG) Pty Ltd  
 Oakleigh Junction Hotel (BMG) Pty Ltd  
 Palace Hotel Hawthorn (BMG) Pty Ltd  
 Powel Hotel Footscray (BMG) Pty Ltd  
 Preston Hotel (BMG) Pty Ltd  
 Queensbridge Hotel (BMG) Pty Ltd  
 Racecourse Hotel (BMG) Pty Ltd  
 Shoppingtown Hotel (BMG) Pty Ltd  
 Waitzing Matilda Hotel (BMG) Pty Ltd  
 Wheelers Hill Hotel (BMG) Pty Ltd  
 Australian Leisure and Hospitality Group Limited  
 ALH Group (No. 1) Pty Ltd  
 MGW Hotels Pty Ltd  
 Kawana Waters Tavern No. 3 Pty Ltd,  
 (formerly known as Kawana Waters Hotel No. 3 Pty Ltd)  
 Kawana Waters Tavern No. 1 Pty Ltd,  
 (formerly known as Kawana Waters Hotel No. 1 Pty Ltd)  
 Kawana Waters Tavern No. 2 Pty Ltd,  
 (formerly known as Kawana Waters Hotel No. 2 Pty Ltd)  
 Dapara Pty Ltd  
 Stadform Developments Pty Limited  
 Fenbridge Pty. Ltd.  
 Vicpoint Pty Ltd  
 Aceridge Pty Limited  
 Chatswood Hills Tavern Pty Ltd  
 Taverner Hotel Group Pty. Ltd.  
 Amprok Pty. Ltd.  
 Auspubs Pty Ltd  
 Cooling Zephyr Pty Ltd  
 The Common Link Pty Ltd  
 E.G. Functions Pty. Ltd.  
 Elizabeth Tavern Pty. Ltd.  
 FG Joint Venture Pty Ltd  
 Fountain Jade Pty. Ltd.  
 Hadwick Pty Ltd  
 Markessa Pty. Ltd.  
 Playford Tavern Pty Ltd  
 Seaford Hotel Pty. Limited  
 The Second P Pty Ltd  
 Kilirand Hotels (Hailam) Pty. Ltd.  
 Ashwick (Vic.) No.88 Pty. Ltd.  
 Warm Autumn Pty. Ltd.  
 Werribee Plaza Tavern Pty. Ltd.  
 Woolworths (HK) Sales Limited  
 Woolworths (HK) Procurement Limited

Woolworths Wholesale (India) Private Limited  
 WOW (NZ) Supermarkets Limited  
 WOW (NZ) Finance Limited  
 WOW (NZ) Holdings Limited  
 FAL Insurance Limited  
 Progressive Enterprises Limited  
 Caledonian Leasing Limited  
 Countdown Foodmarkets Limited  
 Foodtown Supermarkets Limited  
 Fresh Zone Limited  
 General Distributors Limited  
 S R Brands Limited  
 Supervalu/FreshChoice Limited  
 The Supply Chain Limited  
 Wholesale Services Limited  
 Wholesale Distributors Limited  
 Woolworths (New Zealand) Limited

# NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 25 June 2006

Consolidated  
2006      2005  
\$m      \$m

## 28 DEED OF CROSS GUARANTEE (CONTINUED)

### INCOME STATEMENT

|  |                 |                 |
|--|-----------------|-----------------|
| Revenues from the sale of goods                  | 31,883.1        | 29,358.8        |
| Other operating revenue                          | 109.8           | 128.7           |
| <b>Total revenue from operations</b>             | <b>31,992.9</b> | <b>29,487.5</b> |
| Cost of sales                                    | (24,114.1)      | (22,226.9)      |
| <b>Gross profit</b>                              | <b>7,878.8</b>  | <b>7,260.6</b>  |
| Other revenue                                    | 110.9           | 89.1            |
| Other income                                     | 16.7            | ..              |
| Share of profit in associated company            | -               | 2.5             |
| Branch expenses                                  | (5,034.8)       | (4,645.7)       |
| Administration expenses                          | (1,590.7)       | (1,502.7)       |
| <b>Earnings before interest and tax</b>          | <b>1,381.1</b>  | <b>1,203.8</b>  |
| Financial expense                                | (261.9)         | (123.2)         |
| Financial income                                 | 188.4           | 48.1            |
| <b>Net financing cost</b>                        | <b>(73.6)</b>   | <b>(75.2)</b>   |
| <b>Net profit before income tax expense</b>      | <b>1,307.5</b>  | <b>1,128.6</b>  |
| Income tax expense                               | (382.2)         | (322.5)         |
| <b>Net profit after income tax expense</b>       | <b>925.3</b>    | <b>806.1</b>    |
| <b>Reconciliation of retained profits</b>        |                 |                 |
| Retained profit at the beginning of the period   | 1,036.6         | 753.9           |
| Net profit after income tax expense              | 925.3           | 806.1           |
| Dividends paid or provided                       | (613.1)         | (499.8)         |
| W&Ns issue costs                                 | -               | (17.0)          |
| Actuarial losses on defined benefit plans        | (15.0)          | (10.0)          |
| Other  | 1.9             | 3.4             |
| <b>Retained profits at the end of the period</b> | <b>1,335.7</b>  | <b>1,036.6</b>  |

As at 25 June 2006

Consolidated  
2006      2005  
\$m      \$m

## BALANCE SHEET

### Current assets

|                             |         |         |
|-----------------------------|---------|---------|
| Cash                        | 361.3   | 329.8   |
| Trade and other receivables | 1,094.1 | 565.0   |
| Inventories                 | 1,973.8 | 1,858.9 |
| Assets held for sale        | 110.5   | 65.4    |
| Other financial assets      | 2.8     | ..      |

|                             |                |                |
|-----------------------------|----------------|----------------|
| <b>Total current assets</b> | <b>3,542.5</b> | <b>2,819.0</b> |
|-----------------------------|----------------|----------------|

### Non-current assets

|                               |         |         |
|-------------------------------|---------|---------|
| Trade and other receivables   | 1,992.2 | 1,807.6 |
| Other financial assets        | 3,348.8 | 70.6    |
| Property, plant and equipment | 2,986.2 | 2,921.0 |
| Intangibles                   | 662.0   | 606.9   |
| Deferred tax asset            | 303.0   | 273.5   |

|                                 |                |                |
|---------------------------------|----------------|----------------|
| <b>Total non-current assets</b> | <b>9,292.2</b> | <b>5,679.6</b> |
|---------------------------------|----------------|----------------|

|                     |                 |                |
|---------------------|-----------------|----------------|
| <b>Total assets</b> | <b>12,834.7</b> | <b>8,498.6</b> |
|---------------------|-----------------|----------------|

### Current liabilities

|                          |         |         |
|--------------------------|---------|---------|
| Trade and other payables | 3,269.5 | 2,754.4 |
| Borrowings               | 610.8   | 235.0   |
| Current tax liabilities  | 96.5    | 115.7   |
| Provisions               | 534.2   | 487.0   |

|                                  |                |                |
|----------------------------------|----------------|----------------|
| <b>Total current liabilities</b> | <b>4,511.0</b> | <b>3,592.1</b> |
|----------------------------------|----------------|----------------|

### Non-current liabilities

|                             |         |         |
|-----------------------------|---------|---------|
| Borrowings                  | 3,696.5 | 2,599.4 |
| Other financial liabilities | 70.7    | ..      |
| Provisions                  | 310.1   | 288.4   |
| Other                       | 79.0    | 88.0    |

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| <b>Total non-current liabilities</b> | <b>4,156.3</b> | <b>2,975.8</b> |
|--------------------------------------|----------------|----------------|

|                          |                |                |
|--------------------------|----------------|----------------|
| <b>Total liabilities</b> | <b>8,667.3</b> | <b>6,567.9</b> |
|--------------------------|----------------|----------------|

|                   |                |                |
|-------------------|----------------|----------------|
| <b>Net assets</b> | <b>4,167.4</b> | <b>1,930.7</b> |
|-------------------|----------------|----------------|

### Equity

|                      |         |         |
|----------------------|---------|---------|
| Issued capital       | 2,947.8 | 981.0   |
| Shares held in trust | (87.1)  | (102.2) |
| Reserves             | (29.0)  | 15.3    |
| Retained earnings    | 1,335.7 | 1,036.6 |

|   |                |                |
|---|----------------|----------------|
| <b>Equity attributable to the members of Woolworths Limited</b> | <b>4,167.4</b> | <b>1,930.7</b> |
|---|----------------|----------------|

|                     |                |                |
|---------------------|----------------|----------------|
| <b>Total equity</b> | <b>4,167.4</b> | <b>1,930.7</b> |
|---------------------|----------------|----------------|

# NOTES TO THE FINANCIAL STATEMENTS

Place of incorporation

Beneficial holding  
2006 2005  
% %

## 29 CONTROLLED ENTITY DISCLOSURES

### Woolworths Limited NSW

#### Controlled entities of Woolworths Limited:

|   |      |     |     |
|---|------|-----|-----|
| • Woolworths Properties Pty Limited                             | NSW  | 100 | 100 |
| Controlled entity of Woolworths Properties Pty Limited:         |      |     |     |
| 1. QFD Pty. Limited   | ACT  | 100 | 100 |
| 2. Dentra Pty. Limited  | ACT  | 100 | 100 |
| Controlled entity of Dentra Pty Limited:                        |      |     |     |
| 1. Weetah Pty. Limited  | NT   | 100 | 100 |
| • Woolworths (Q'land) Pty Limited                               | NSW  | 100 | 100 |
| • Queensland Property Investments Pty Ltd                       | QLD  | 100 | 100 |
| • Woolworths (Victoria) Pty Limited                             | VIC  | 100 | 100 |
| Controlled entity of Woolworths (Victoria) Pty Limited:         |      |     |     |
| 1. Statewide Independent Wholesalers Limited                    | TAS  | 60  | 60  |
| • Woolworths (South Australia) Pty Limited                      | SA   | 100 | 100 |
| • Woolworths (W.A.) Pty Limited                                 | WA   | 100 | 100 |
| • Australian Liquor and Grocery Wholesalers Pty Ltd             | NT   | 100 | 100 |
| • Woolworths Trust Management Pty Limited                       | NSW  | 100 | 100 |
| • Woolworths Trustee No. 2 Pty Limited                          | NSW  | 100 | 100 |
| • Woolworths (Publishing) Pty Ltd                               | QLD  | 100 | 100 |
| • Woolworths Australian Communities Foundation Pty Limited      | NSW  | 100 | 100 |
| • Charmtex Pty Ltd  | NSW  | 100 | 100 |
| • Universal Wholesalers Pty Limited                             | NSW  | 100 | 100 |
| • Grocery Wholesalers Pty Ltd                                   | NSW  | 100 | 100 |
| • Australian Independent Retailers Pty Ltd                      | VIC  | 49  | 49  |
| • DSE Holdings Pty Limited                                      | NSW  | 100 | 100 |
| Controlled entities of DSE Holdings Pty Limited:                |      |     |     |
| 1. Dick Smith Electronics Pty Limited                           | NSW  | 100 | 100 |
| Controlled entities of Dick Smith Electronics Pty Limited:      |      |     |     |
| 1. Dick Smith Electronics Staff Superannuation Fund Pty Limited | NSW  | 100 | 100 |
| 2. Dick Smith (Wholesale) Pty Ltd                               | NSW  | 100 | 100 |
| 3. Dick Smith Management Pty Ltd                                | NSW  | 100 | 100 |
| 4. Dick Smith Electronics Franchising Pty Ltd                   | NSW  | 100 | 100 |
| 5. DSE (NZ) Limited   | NZ   | 100 | 100 |
| Controlled entities of DSE (NZ) Limited:                        |      |     |     |
| 1. David Reid Electronics (1992) Limited                        | NZ   | 100 | 100 |
| 2. Dick Smith Electronics Limited                               | UK   | 100 | 100 |
| 3. InterTAN Australia Pty Ltd                                   | NSW  | 100 | 100 |
| • Woolworths Custodian Pty Ltd                                  | NSW  | 100 | 100 |
| • Fabcot Pty Ltd  | NSW  | 100 | 100 |
| Controlled entity of Fabcot Pty Ltd:                            |      |     |     |
| 1. Kiaora Lands Pty Limited                                     | NSW  | 100 | 100 |
| • Nalos Pty Ltd   | NSW  | 100 | 100 |
| • Barjok Pty Ltd  | NSW  | 100 | 100 |
| • Josona Pty Ltd  | NSW  | 100 | 100 |
| • Woolstar Investments Limited                                  | NZ   | 100 | 100 |
| • Woolworths Insurance Pte Limited                              | SING | 100 | 100 |
| • DSE Investments Inc.  | USA  | 100 | 100 |
| • A.C.N. 001 259 301 Pty Limited                                | NSW  | 100 | 100 |
| • Woolstar Pty. Limited   | ACT  | 100 | 100 |
| • Woolworths (R & D) Pty Limited                                | NSW  | 100 | 100 |
| Controlled entity of Woolworths (R & D) Pty Limited:            |      |     |     |
| 1. Breeders Rights International Pty Ltd                        | VIC  | 100 | 100 |
| • Advantage Supermarkets Pty Ltd                                | WA   | 100 | 100 |
| Controlled entity of Advantage Supermarkets Pty Ltd:            |      |     |     |
| 1. Advantage Supermarkets WA Pty Ltd                            | WA   | 100 | 100 |
| • Andmyst Pty. Limited  | NSW  | 100 | 100 |

|   | <i>Place of incorporation</i>  | <i>Beneficial holding</i><br>2006<br>%  | 2005<br>%   |
|---|--|---|---|
| <ul style="list-style-type: none"> <li>Woolworths (Project Finance) Pty. Limited</li> <li>GreenGrocer.com.au Pty Ltd</li> <li>Cenijade Pty. Limited</li> <li>Shellbelt Pty. Limited</li> <li>Gembond Pty. Limited</li> <li>Philip Leong Stores Pty Limited</li> <li>Woolies Liquor Stores Pty. Ltd.</li> <li>Calvartan Pty. Limited</li> <li>Australian Safeway Stores Pty. Ltd.</li> <li>Jack Butler &amp; Staff Pty. Ltd.</li> <li>Woolworths Group Superannuation Scheme Pty Ltd</li> <li>Woolworths Executive Superannuation Scheme Pty Limited</li> <li>Mac's Liquor Stores Pty Limited</li> <li>Bergam Pty Limited</li> <li>ALH Group Pty Ltd, formerly Bruandwo Pty Ltd</li> </ul> | NSW<br>NSW<br>NSW<br>NSW<br>NSW<br>QLD<br>SA<br>ACT<br>VIC<br>QLD<br>QLD<br>QLD<br>QLD<br>NSW<br>VIC | 100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>75<br>75 | 100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>100<br>75<br>75 |
| Controlled entities of ALH Group Pty Ltd:   |  |   |   |
| 1. ALH Group Property Holdings Pty Limited, formerly Bruandwo Property Holdings Pty Ltd   | VIC  | 100   | 100   |
| 2. Albion Charles Hotel (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 3. Balaclava Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 4. Chelsea Heights Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 5. Cherry Hill Tavern (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 6. Courthouse Brunswick Hotel (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 7. Courthouse Hotel Footscray (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 8. Croxton Park Hotel (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 9. Daisey's Club Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 10. Excelsior Hotel (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 11. First and Last Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 12. Glengala Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 13. Lyndhurst Club Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 14. Manningham Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 15. Milanos Hotel (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 16. Monash Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 17. Moreland Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 18. Nu Hotel (BMG) Pty Ltd  | VIC  | 100   | ~   |
| 19. Oakleigh Junction Hotel (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 20. Palace Hotel Hawthorn (BMG) Pty Ltd   | VIC  | 100   | ~   |
| 21. Powel Hotel Footscray (BMG) Pty Ltd   | VIC  | 100   | ~   |

# NOTES TO THE FINANCIAL STATEMENTS

| Place of incorporation | Beneficial holding |           |
|------------------------|--------------------|-----------|
|                        | 2006<br>%          | 2005<br>% |

## 29 CONTROLLED ENTITY DISCLOSURES (CONTINUED)

|  |     |     |     |
|--|-----|-----|-----|
| 22. Preston Hotel (BMG) Pty Ltd  | VIC | 100 | ..  |
| 23. Queensbridge Hotel (BMG) Pty Ltd                                   | VIC | 100 | ..  |
| 24. Racecourse Hotel (BMG) Pty Ltd                                     | VIC | 100 | ..  |
| 25. Shoppingtown Hotel (BMG) Pty Ltd                                   | VIC | 100 | ..  |
| 26. Waltzing Matilda Hotel (BMG) Pty Ltd                               | VIC | 100 | ..  |
| 27. Wheelers Hill Hotel (BMG) Pty Ltd                                  | VIC | 100 | ..  |
| 28. Australian Leisure and Hospitality Group Limited                   | VIC | 100 | 100 |
| Controlled entity of Australian Leisure and Hospitality Group Limited: |     |     |     |
| 1. ALH Group (No. 1) Pty Ltd   | QLD | 100 | 100 |
| 29. MGW Hotels Pty Ltd   | QLD | 100 | 100 |
| Controlled entities of MGW Hotels Pty Ltd:                             |     |     |     |
| 1. Kawana Waters Tavern No. 3 Pty Ltd                                  | QLD | 100 | 100 |
| Controlled entity of Kawana Waters Tavern No. 3 Pty Ltd:               |     |     |     |
| 1. Kawana Waters Tavern No. 1 Pty Ltd                                  | QLD | 100 | 100 |
| 2. Kawana Waters Tavern No. 2 Pty Ltd                                  | QLD | 100 | 100 |
| 3. Dapara Pty Ltd  | NSW | 100 | 100 |
| Controlled entity of Dapara Pty Ltd:                                   |     |     |     |
| 1. Stadform Developments Pty. Limited                                  | QLD | 100 | 100 |
| 4. Fenbridge Pty. Ltd.   | QLD | 100 | 100 |
| 5. Vicpoint Pty Ltd  | QLD | 100 | 100 |
| 6. Aceridge Pty Limited  | QLD | 100 | 100 |
| 7. Chatswood Hills Tavern Pty. Ltd.                                    | VIC | 100 | 100 |
| 30. Taverner Hotel Group Pty. Ltd.                                     | VIC | 100 | ..  |
| Controlled entities of Taverner Hotel Group Pty. Ltd.:                 |     |     |     |
| 1. Amprok Pty. Ltd.  | VIC | 100 | ..  |
| 2. Auspubs Pty Ltd   | VIC | 100 | ..  |
| 3. Cooling Zephyr Pty Ltd  | VIC | 100 | ..  |
| 4. The Common Link Pty Ltd   | VIC | 100 | ..  |
| 5. E.G. Functions Pty. Ltd.  | VIC | 100 | ..  |
| 6. Elizabeth Tavern Pty. Ltd.  | SA  | 100 | ..  |
| 7. FG Joint Venture Pty Ltd  | VIC | 100 | ..  |
| 8. Fountain Jade Pty. Ltd.   | VIC | 100 | ..  |
| 9. Hadwick Pty Ltd   | SA  | 100 | ..  |
| 10. Markessa Pty. Ltd.   | VIC | 100 | ..  |
| 11. Playford Tavern Pty Ltd  | SA  | 100 | ..  |
| 12. Seaford Hotel Pty. Limited   | VIC | 100 | ..  |
| 13. The Second P Pty Ltd   | VIC | 100 | ..  |
| 14. Kilrand Hotels (Hallam) Pty. Ltd.                                  | VIC | 100 | ..  |
| Controlled entities of Kilrand Hotels (Hallam) Group Pty Ltd:          |     |     |     |
| 1. Ashwick (Vic.) No.88 Pty. Ltd.                                      | VIC | 100 | ..  |
| 15. Warm Autumn Pty. Ltd.  | VIC | 100 | ..  |
| 16. Werribee Plaza Tavern Pty. Ltd.                                    | VIC | 100 | ..  |
| • Leasehold Investments Pty Ltd  | WA  | 100 | 100 |
| • Woolworths Townsville Nominee Pty Ltd                                | VIC | 100 | 100 |

|   | <i>Place of incorporation</i> | <i>Beneficial holding</i><br>2006<br>% | 2005<br>% |
|---|-------------------------------|--|-----------|
| • Woolworths (International) Pty Limited                          | VIC                           | 100                                    | ~         |
| Controlled entities of Woolworths (International) Pty Limited:    |                               |  |           |
| 1. Woolworths (HK) Sales Limited                                  | HK                            | 100                                    | ~         |
| 2. Woolworths (HK) Procurement Limited                            | HK                            | 100                                    | ~         |
| 3. Woolworths Wholesale (India) Private Limited                   | IN                            | 100                                    | ~         |
| 4. WOW (NZ) Supermarkets Limited                                  | NZ                            | 100                                    | ~         |
| Controlled entity of WOW (NZ) Supermarkets Limited:               |                               |  |           |
| 1. WOW (NZ) Finance Limited, formerly Foodland N.Z. Finance Ltd   | NZ                            | 100                                    | ~         |
| Controlled entity of WOW (NZ) Finance Limited:                    |                               |  |           |
| 1. WOW (NZ) Holdings Limited, formerly Foodland (NZ) Holdings Ltd | NZ                            | 100                                    | ~         |
| Controlled entities of WOW (NZ) Holdings Limited:                 |                               |  |           |
| 1. FAL Insurance Limited  | NZ                            | 100                                    | ~         |
| 2. Progressive Enterprises Limited                                | NZ                            | 100                                    | ~         |
| Controlled entities of Progressive Enterprises Limited:           |                               |  |           |
| 1. Caledonian Leasing Limited                                     | NZ                            | 100                                    | ~         |
| 2. Countdown Foodmarkets Limited                                  | NZ                            | 100                                    | ~         |
| 3. Foodtown Supermarkets Limited                                  | NZ                            | 100                                    | ~         |
| 4. Fresh Zone Limited   | NZ                            | 100                                    | ~         |
| 5. General Distributors Limited                                   | NZ                            | 100                                    | ~         |
| 6. S R Brands Limited   | NZ                            | 100                                    | ~         |
| 7. Supervalu/FreshChoice Limited                                  | NZ                            | 100                                    | ~         |
| 8. The Supply Chain Limited                                       | NZ                            | 100                                    | ~         |
| 9. Wholesale Services Limited                                     | NZ                            | 100                                    | ~         |
| Controlled entity of Wholesale Services Limited:                  |                               |  |           |
| 1. Wholesale Distributors Limited                                 | NZ                            | 100                                    | ~         |
| 10. Woolworths (New Zealand) Limited                              | NZ                            | 100                                    | ~         |
| • Woolworths Management Pty Ltd                                   | VIC                           | 100                                    | ~         |
| • Progressive Enterprises Holdings Limited                        | VIC                           | 100                                    | ~         |
| Controlled entities of Progressive Enterprises Holdings Limited:  |                               |  |           |
| 1. Drumstar Pty Ltd   | WA                            | 100                                    | ~         |
| 2. PEH (NZ IP) Pty Ltd  | VIC                           | 100                                    | ~         |

# NOTES TO THE FINANCIAL STATEMENTS

## 30 BUSINESS ACQUISITIONS

| <i>Entity/business acquired<br/>2006</i>  | <i>Principal activity</i>      | <i>Date of<br/>acquisition</i> | <i>Proportion of<br/>ownership acquired</i> | <i>Cost of acquisition<br/>\$m</i> |
|---|--------------------------------|--------------------------------|---|------------------------------------|
| <b>Changes in the composition of the Group</b>  |                                |                                |   |                                    |
| Progressive Enterprises Holdings Limited and its controlled entities  | Supermarkets                   | 2/11/2005                      | 100%  | 2,289.0 <sup>(1)</sup>             |
| 26 hotels and eight club management contracts previously owned by interests associated with the Bruce Mathieson Group | Hotels and liquor retail       | 1/07/2005                      | 75%   | 390.9 <sup>(2)</sup>               |
| 33 leasehold hotels comprising the Taverner Hotel Group   | Hotels                         | 6/02/2006                      | 75%   | 377.1                              |
| Miscellaneous businesses  | Supermarkets and liquor retail | various                        | ~   | 179.7                              |
| Total   |                                |                                |   | 3,236.7                            |

| <b>Notes</b> | <b>(1)</b>   | <b>(2)</b>  |
|--------------|--|---|
|              | The cost of acquisition includes consideration paid in cash, and consideration paid via the issuance of 81,592,689 shares in Woolworths Limited, plus acquisition costs. At the close of trading on 2 November 2005, shares in Woolworths Limited were trading at \$16.30 per share. | The cost of acquisition includes cash consideration and consideration paid via the issuance of 191,700,000 shares in ALH Group Pty Ltd at a price of \$1 per share, plus acquisition costs. |

2005

|                          |                                |            |     |                        |
|--------------------------|--------------------------------|------------|-----|------------------------|
| ALH                      | Hotels and liquor retail       | 31/10/2004 | 75% | 1,275.7 <sup>(1)</sup> |
| MGW                      | Hotels and liquor retail       | 2/01/2005  | 25% | 11.7 <sup>(2)</sup>    |
| Miscellaneous businesses | Supermarkets and liquor retail | various    | ~   | 95.3                   |
| Total                    |                                |            |     | 1,382.7                |

| <b>Notes</b> | <b>(1)</b>  | <b>(2)</b>  |
|--------------|---|---|
|              | Acquisition of all the issued capital in ALH by Woolworths Limited 75% owned controlled entity ALH Group Pty Ltd. | Acquisition of an additional 25% interest in MGW to give Woolworths a 75% ownership interest. |

### Acquisition of Progressive Enterprises Holdings Limited and its controlled entities

On 2 November 2005, the consolidated entity acquired all the shares in Progressive Enterprises Holdings Limited and its controlled entities for \$959,005,951 in cash and the issue of 81,592,689 shares in Woolworths Limited. At the close of trading on 2 November 2005, shares in Woolworths Limited were trading at \$16.30 per share.

The acquired entity operates supermarket chains throughout New Zealand and also owns a number of supermarkets in Australia.

Since acquisition, the business has contributed \$2,851.3 million in revenue and \$39.5 million in net profit after tax to the consolidated entity.

All the shares in the following companies were acquired as part of the acquisition:

*Companies registered in New Zealand*

|                                  |                                |
|----------------------------------|--------------------------------|
| Foodland N.Z. Finance Limited    | Wholesale Services Limited     |
| Foodland (N.Z.) Holdings Limited | General Distributors Limited   |
| FAL Insurance Limited            | The Supply Chain Limited       |
| Progressive Enterprises Limited  | Wholesale Distributors Limited |
|                                  | Caledonian Leasing Limited     |

Drumstar Pty Ltd  
PEH (NZ IP) Pty Ltd  
Progressive Enterprises Holdings Limited

The acquisition had the following effect on the consolidated entity's assets and liabilities:

|  | Woolworths<br>recognised values<br>\$'000 | Fair value<br>adjustments<br>\$'000 | Notes | Acquired amounts<br>\$'000 |
|--|---|-------------------------------------|-------|----------------------------|
| Cash   | 54,090                                    | ~                                   |       | 54,090                     |
| Receivables                                    | 41,440                                    | ~                                   |       | 41,440                     |
| Inventories                                    | 258,362                                   | (1,641)                             |       | 260,003                    |
| Prepayments and other assets                   | 5,780                                     | ~                                   |       | 5,780                      |
| Property, plant and equipment                  | 366,704                                   | (26,217)                            | 1     | 392,921                    |
| Intangible assets                              | 244,663                                   | 158,279                             | 2     | 86,384                     |
| Deferred tax asset                             | 48,228                                    | 14,581                              | 3     | 33,647                     |
| Accounts payable                               | (286,049)                                 | ~                                   |       | (286,049)                  |
| Accruals                                       | (82,713)                                  | ~                                   |       | (82,713)                   |
| Current tax liabilities                        | (6,803)                                   | ~                                   |       | (6,803)                    |
| Provisions                                     | (74,724)                                  | (18,080)                            | 4     | (56,644)                   |
| Interest bearing liabilities                   | (353,693)                                 | ~                                   |       | (353,693)                  |
| <b>Net identifiable assets and liabilities</b> | <b>215,285</b>                            | <b>126,922</b>                      |       | <b>88,363</b>              |
| Goodwill on acquisition                        | <b>2,073,682</b>                          |                                     |       |                            |
| Consideration paid, satisfied in cash          | 959,006                                   |                                     |       |                            |
| Consideration paid via equity issuance         | 1,329,961                                 |                                     |       |                            |
|  | <b>2,288,967</b>                          |                                     |       |                            |
| Cash acquired                                  | 54,090                                    |                                     |       |                            |
| <b>Net cash outflow</b>                        | <b>904,916</b>                            |                                     |       |                            |

**Notes**

(1)  
Property, plant and equipment in both Australia and New Zealand were subjected to fair value assessments upon acquisition in accordance with AASB 3.

(2)  
An independent firm was engaged to conduct an external valuation of trademarks acquired. A value of \$244.1 million was determined on the basis of the "relief from royalty" method.

(3)  
The fair value adjustments booked upon acquisition has resulted in an uplift to the entity's deferred tax asset.

(4)  
Represents onerous lease commitments identified and provided for in accordance with AASB 3.

At December 2005, the initial accounting had been determined provisionally. Revisions have been made to the fair value assessment for inventories, property, plant and equipment and provisions for onerous leases in accordance with AASB 3.

The cash consideration above includes costs incurred by the consolidated entity in relation to the acquisition.

Goodwill has arisen on acquisition of Progressive Enterprises Holdings Limited and its controlled entities primarily because of the capacity of the business to generate recurring revenue streams in the future and as the Company believes that it will be able to introduce additional synergies to the benefit of the overall business.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 BUSINESS ACQUISITIONS (CONTINUED)

### Acquisition of hotels and club management contracts associated with Bruce Mathieson

On 1 July 2005, ALH Group Pty Ltd (ALH Group), (formerly Bruandwo Pty Ltd) a 75% owned subsidiary of Woolworths Limited, acquired 26 hotels and eight club management contracts previously owned by interests associated with Bruce Mathieson for \$199.2 million in cash, inclusive of acquisition costs and 191.7 million shares issued at a price of \$1 per share. Since acquisition, the business has contributed \$108.7 million in revenue and \$19.0 million in net profit after tax to the consolidated entity before outside equity interests of \$4.75 million.

The acquisition had the following effect on the consolidated entity's assets and liabilities:

|  | <i>Woolworths<br/>recognised values<br/>\$'000</i> | <i>Fair value<br/>adjustments<br/>\$'000</i> | <i>Notes</i> | <i>Acquired amounts<br/>\$'000</i> |
|--|--|--|--------------|------------------------------------|
| Cash   | 4,833  |  |              | 4,833                              |
| Inventories                                    | 1,709  |  |              | 1,709                              |
| Property, plant and equipment                  | 208,406  | 17,409                                       | 1            | 190,997                            |
| Intangible assets                              | 125,000  | 125,000                                      | 2            | -                                  |
| Deferred tax asset                             | 985  |  |              | 985                                |
| Employee provisions                            | (3,282)  |  |              | (3,282)                            |
| <b>Net identifiable assets and liabilities</b> | <b>337,651</b>                                     | <b>142,409</b>                               |              | <b>195,242</b>                     |
| Goodwill on acquisition                        | <b>53,204</b>                                      |  |              |                                    |
|  | 390,855  |  |              |                                    |
| Consideration paid/payable                     | 199,155  |  |              |                                    |
| Consideration paid via equity issuance         | 191,700  |  |              |                                    |
|  | <b>390,855</b>                                     |  |              |                                    |
| Cash acquired                                  | 4,833  |  |              |                                    |
| <b>Current and future cash flows</b>           | <b>194,322</b>                                     |  |              |                                    |

| <b>Notes</b> | <b>(1)</b>  | <b>(2)</b>   |
|--------------|---|--|
|              | An independent firm was engaged to conduct an external valuation of property, plant and equipment. This formed the basis of the fair value adjustments booked upon acquisition. | An independent firm was engaged to conduct an external valuation of the liquor and gaming licences acquired which have been valued at \$125 million. |

Goodwill has arisen on acquisition because of management expertise and customer relationships and synergies that the Company believes will benefit the overall business.

### Acquisition of Taverner Hotel Group Pty Ltd

On 6 February 2006, ALH Group Pty Ltd acquired all the shares in Taverner Hotel Group Pty Ltd (THG) for \$377.1 million in cash, inclusive of acquisition costs.

THG comprised 33 leasehold hotels located in Victoria (18), South Australia (12) and New South Wales (3). Included in this portfolio are a number of "icon" hotels such as Matthew Flinders, Village Tavern and Castle Hill Tavern. THG was the second largest gaming operator in Australia with approximately 2,000 gaming machines and around 1,900 employees.

THG provides an excellent strategic fit with the existing ALH Group hotel business providing premium complementary locations and an additional 27 retail liquor locations of which five Dan Murphy's future site opportunities exist.

This acquisition consolidates ALH Group's position in a highly fragmented industry in a highly profitable business segment. Since acquisition, the business has contributed \$85.6 million in revenue and \$6.9 million in net profit after tax to the consolidated entity before outside equity interests of \$1.7 million.

The acquisition had the following effect on the consolidated entity's assets and liabilities:

|  | <i>Woolworths<br/>recognised values<br/>\$'000</i> | <i>Fair value<br/>adjustments<br/>\$'000</i> | <i>Notes</i> | <i>Acquired amounts<br/>\$'000</i> |
|--|--|--|--------------|------------------------------------|
| Cash   | 7,866  | ~  |              | 7,866                              |
| Receivables                                    | 1,535  | ~  |              | 1,535                              |
| Inventories                                    | 4,743  | ~  |              | 4,743                              |
| Prepayments and other assets                   | 1,977  | ~  |              | 1,977                              |
| Current tax asset                              | 2,627  | ~  |              | 2,627                              |
| Property, plant and equipment                  | 43,727   | ~  |              | 43,727                             |
| Intangible assets – liquor licences            | 200,000  | 199,600                                      | 1            | 400                                |
| Deferred tax asset                             | 2,936  | ~  |              | 2,936                              |
| Accounts payable                               | (16,057)   | ~  |              | (16,057)                           |
| Current tax liabilities                        | (1,090)  | ~  |              | (1,090)                            |
| Provisions                                     | (9,773)  | ~  |              | (9,773)                            |
| <b>Net identifiable assets and liabilities</b> | <b>238,491</b>                                     | <b>199,600</b>                               |              | <b>38,891</b>                      |
| Goodwill on acquisition                        | <b>138,648</b>                                     |  |              |                                    |
| Consideration paid                             | <b>377,139</b>                                     |  |              |                                    |
| Cash acquired                                  | 7,866  |  |              |                                    |
| <b>Net cash outflow</b>                        | <b>369,273</b>                                     |  |              |                                    |

**Note** (1)  
An independent firm was engaged to conduct an external valuation of the liquor and gaming licences acquired which have been valued at \$200 million.

The initial accounting for the acquisition has been determined provisionally at the acquisition date. Goodwill has arisen on acquisition because of management expertise and customer relationships and synergies that the Company believes will benefit the overall business.

# NOTES TO THE FINANCIAL STATEMENTS

## 31 EXPLANATION OF TRANSITION TO AIFRS

### Notes to the reconciliation of implementation of AIFRS

As stated in significant accounting policies Note 1, these are the first full year Financial Statements of the consolidated entity and the Company prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

The consolidated entity changed its accounting policies on 28 June 2004 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Reporting Standards, (AASB 1), with 28 June 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 27 June 2005. An explanation of how the transition from previous Australian GAAP (AGAAP) to AIFRS has affected the balance sheet, income statement and cash flows of the consolidated entity and the Company is set out in the following notes and the tables that accompany the notes.

### A Reclassifications

#### Revenue

The AGAAP definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of “grossing up” the income statement. Under AIFRS the proceeds on disposal will no longer be disclosed as revenue. For the consolidated entity an amount of \$303.4 million (Company: \$17.1 million) was reclassified from other non-operating revenue to branch expenses for the 52 weeks ended 26 June 2005. The net gain on disposal of \$10.2 million (Company: \$4.9 million) for the 52 weeks ended 26 June 2005 was reclassified from branch expenses to other income. In addition, some \$37.2 million (Company: \$31.8 million) of operational expense has been reclassified from branch and administration expenses to other non-operating revenue in the 52 weeks ended 25 June 2006.

Dividend income of \$3.6 million (Company: \$2.4 million) has been reclassified from other non-operating revenue to financial income in the 52 weeks ended 26 June 2005.

#### Reserves

Woolworths has utilised the option available in AASB 1 to reclassify the capital profits reserve and general reserves to retained earnings. This transfer resulted in a decrease in these reserve balances of \$66.2 million (Company: \$2.6 million) and \$46.9 million (Company: \$45.5 million) respectively as at 28 June 2004 with a corresponding increase in retained earnings.

#### Assets held for sale

Under AIFRS, non-current assets classified as held for sale, are presented separately as current assets on the balance sheet. A non-current asset is classified as held for sale if:

- ~ its carrying amount will be recovered principally through a sale transaction rather than through continuing use;

- ~ the asset (or disposal group) is available for immediate sale in its current condition; and
- ~ its sale is highly probable.

The consolidated entity applied AASB 5 Non-current Assets Held for Sale and Discontinued Operations, prospectively from 28 June 2004 to assets held for sale and discontinued operations. There is no adjustment at transition date.

At 26 June 2005, for the consolidated entity this resulted in \$45.3 million (Company: \$nil) of assets being reclassified from non-current property, plant and equipment to current assets.

#### Trade and other receivables

Under AGAAP current and non-current other assets comprising prepayments and deferred costs were presented separately from current and non-current receivables, respectively, on the face of the balance sheet. Under AIFRS current and non-current other assets are grouped together with current and non-current receivables, respectively and presented as trade and other receivables on the face of the balance sheet. At the date of transition, this has the effect of decreasing current other assets and correspondingly increasing current trade and other receivables by \$112.3 million (Company: \$100.4 million). Non-current other assets decrease by \$5.7 million (Company: \$5.7 million) with a corresponding increase in non-current trade and other receivables at 28 June 2004.

At 26 June 2005, current and non-current other assets decrease by \$109.2 million (Company: \$96.1 million) and \$10.9 million (Company: \$10.9 million), respectively, with a corresponding increase in current and non-current trade and other receivables, respectively.

#### Trade and other payables

Under AGAAP accounts payables and accruals were presented separately on the face of the balance sheet. Under AIFRS trade payables and accruals are grouped together and presented as trade and other payables on the face of the balance sheet. At the date of transition this has the effect of decreasing accruals by \$554.5 million (Company: \$442.7 million) with a corresponding increase in trade and other payables. At 26 June 2005, accruals decreased by \$651.9 million (Company: \$456.7 million) with a corresponding increase in trade and other payables.

#### Intercompany balances

Intercompany receivables were presented net of intercompany payables under AGAAP. Under AIFRS, as there is no legal right of offset of receivables against payables owing from different counterparties, intercompany receivables are presented gross of intercompany payables. At the date of transition this has the effect of increasing the Company's non-current trade and other receivables and current trade and other payables by \$436.8 million.

At 26 June 2005, the presentation of intercompany balances at gross increases the Company's non-current trade and other receivables and current trade and other payables by \$451.4 million.

#### **Provision for development losses**

Provisions for development losses were presented in accruals under AGAAP. Under AIFRS this is presented in property, plant and equipment to write down the value of properties to their estimated recoverable amounts. At the date of transition this has the effect of decreasing both accruals and property, plant and equipment by \$58.9 million (Company: \$nil).

At 26 June 2005, accruals, assets held for sale and property, plant and equipment decrease by \$75.6 million (Company: \$nil), \$8.1 million (Company: \$nil) and \$67.5 million (Company: \$nil), respectively.

#### **Provision for long service leave**

Under AGAAP classification between current and non-current portions of the provision for long service leave was based on historic trends of payments and utilisation. Under AIFRS, provision for long service leave is classified as current when the employees' entitlements vest, consistent with the requirements of AASB 119 Employee Benefits. This has the effect of increasing the current portion of the provision for long service leave by \$122.2 million (Company: \$106.2 million) at the date of transition, with a corresponding decrease in the non-current portion.

At 26 June 2005, the current portion of the provision increased by \$126.4 million (Company: \$111.3 million) with a corresponding decrease in the non-current portion.

#### **Investment in associate**

Under AGAAP investment in associate with a carrying value of \$3.6 million (Company: \$nil) at 28 June 2004 was presented separately from other financial assets on the face of the balance sheet. Under AIFRS this balance is classified in other financial assets.

### **B Property, plant and equipment**

On initial adoption of AIFRS, the Directors have elected that property, plant and equipment will be measured at cost. As permitted by the election available under AASB 1, certain items of property, plant and equipment that were previously revalued were restated at cost on transition. Consequently, the asset revaluation reserve balance of \$63.3 million (Company: \$nil) relating to these assets was adjusted against property, plant and equipment as at 28 June 2004 and depreciation of \$10.3 million (Company: \$nil) relating to the revaluations recognised prior to transition was reversed against retained earnings on transition. The remaining balance in the asset revaluation reserve of \$8.6 million (Company: \$0.6 million) represents revaluations that relate to assets disposed of in prior periods. This balance was transferred to retained earnings on transition. For the

52 week period ended 26 June 2005, further depreciation of \$1.2 million (Company: \$nil) relating to the previous revalued amounts was reversed from the AIFRS income statement.

AIFRS requires that all research activities in relation to a project be expensed as incurred, including evaluative and certain feasibility expenditure. Previously this expenditure was capitalised if it was expected, beyond reasonable doubt, to be recoverable. The carrying value of assets that have previously been capitalised up to the transition date amounting to \$18.9 million (Company: \$16.8 million), net of accumulated amortisation, was adjusted against retained earnings. During the 52 weeks ended 26 June 2005 a further \$9.8 million (Company: \$9.8 million) of assets, net of accumulated amortisation, which were capitalised under AGAAP were written off to the income statement under AIFRS.

### **C Leased assets**

#### **Operating lease expenditure**

Under AASB 117 Leases, operating lease expenses are recognised on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Fixed rate increases to lease rental payments, excluding contingent or index-based rental increases, such as CPI, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term. An asset or liability arises for the difference between the amount paid and the lease expense brought to account on a straight-line basis. Under AGAAP, fixed rental escalations were recognised as an expense in the period that they were incurred.

This has resulted in the recognition of a deferred rental expense liability of \$53.3 million (Company: \$50.9 million) and a corresponding reduction in retained earnings as at transition date. There has been a decrease in the rental expense with a corresponding reduction in the liability of \$3.8 million (Company: \$6.6 million) for the 52 weeks ended 26 June 2005. A further \$2.4 million (Company: \$nil) was recognised against goodwill on acquisition of ALH during 2005.

#### **D Business combinations**

The consolidated entity has applied AASB 3 Business Combinations, to all business combinations that have occurred since 28 June 2004 (the date of transition to AIFRS).

The restructuring provision recognised on the acquisition of ALH under AGAAP as at 26 June 2005 does not meet the recognition requirements under AIFRS. As a result goodwill and profit before tax for the 52 weeks ended 26 June 2005 have decreased by \$9.2 million (Company: \$nil). This adjustment is net of tax of \$3.9 million (Company: \$nil).

# NOTES TO THE FINANCIAL STATEMENTS

## 31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

### E Intangible assets

#### Goodwill

Goodwill represents the difference between the cost of a business combination and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to the transition date, goodwill has been included on the basis of its deemed cost, being its written down value recorded under previous AGAAP as at 28 June 2004.

#### Amortisation

From 28 June 2004, goodwill and intangible assets with indefinite useful life will not be subject to amortisation but instead will be tested for impairment annually and whenever there is an indication of impairment. Changes in useful life on transition to AIFRS are accounted for prospectively. As a result, the carrying amount of goodwill has increased by \$41.8 million (Company: \$22.5 million) at 26 June 2005, being the reversal of the goodwill amortisation charge for the 52 weeks ended 26 June 2005.

### F Impairment

For the consolidated entity and the Company no impairment loss has been identified either on transition to AIFRS, or for the 52 weeks ended 26 June 2005.

### G Foreign currency

#### Financial Statements of foreign operations

On initial adoption of AIFRS, as permitted by the elections available under AASB 1, the foreign currency translation reserve was reset to zero as at 28 June 2004 with an offsetting decrease in retained earnings of the consolidated entity of \$0.4 million (Company: \$nil). From 28 June 2004, the net assets and related goodwill on consolidation related to foreign operations have been restated at year end spot rates in accordance with AASB 121 The Effects of Changes in Foreign Exchange Rates.

### H Employee benefits

#### Defined benefit plans

Woolworths is the employer-sponsor of a defined benefit superannuation fund. Under AIFRS, the employer sponsor is required to recognise a liability (or asset) where the present value of the defined benefit obligation, adjusted for unrecognised past service cost exceeds (is less than) the fair value of the underlying net assets of the fund (hereinafter referred to as the "defined benefit obligation").

The resulting liability or asset is grossed up for any contributions tax as required by AASB 119 Employee Benefits (AASB 119) (revised). The basis of calculating the defined benefit obligation and related expenses under AIFRS, and the treatment of actuarial gains and losses is set out in Note 1Q.

Under previous AGAAP, Woolworths recognised contributions to the superannuation funds as an expense when due and payable and did not recognise any liability or asset in relation to fund deficits or surpluses unless there was a current obligation to fund the deficit. Woolworths' contributions to the defined benefit superannuation funds were determined on a vested benefit basis. The additional funding that would be required if Woolworths were to have funded the accrued benefits have been disclosed in the Woolworths Annual Report for the 52 weeks ended 27 June 2004. The 2005 Annual Report disclosed a shortfall of \$25.0 million (Company: \$25.0 million) as of the latest actuarial valuation performed, being 31 August 2002.

At the date of transition, an amount of \$31.0 million (Company: \$31.0 million), including cumulative actuarial gains and losses existing at that time, was recognised as a liability of the consolidated entity and the Company with a corresponding decrease in retained earnings.

For the 52 weeks ended 26 June 2005 the adjustment in the consolidated entity to recognise the increase in the defined benefit obligation for the financial year is \$1.0 million (Company: \$1.0 million). An expense relating to the defined benefit plan of \$73.0 million (Company: \$73.0 million) was recognised under AIFRS with a further \$10.0 million (Company: \$10.0 million) recognised directly in retained earnings (representing the actuarial gains and losses for the period). The previous AGAAP expense for the 52 week period ended 26 June 2005, being the contributions paid by the consolidated entity to the fund, of \$82.0 million (Company: \$82.0 million) is reversed under AIFRS. This resulted in a net increase to the net profit before tax compared to previous AGAAP for the 52 week period ended 26 June 2005 of \$9.0 million (Company: \$9.0 million) (being the \$73.0 million (Company: \$73 million) expense required by AIFRS less the \$82.0 million (Company: \$82.0 million) expense determined using previous AGAAP). At 26 June 2005 the defined benefit liability is \$32.0 million (Company: \$32.0 million).

#### Annual leave

Under previous AGAAP, annual leave was recognised at the amounts expected to be paid to settle the obligation including associated on-costs. Under AIFRS, where this amount is not expected to be settled within one year it has been discounted to its present value using the Commonwealth Government bond rate approximating the expected settlement of the obligation. At transition the annual leave provision was reduced by \$2.3 million (Company: \$2.3 million). As at 26 June 2005, the value of the discount to the annual leave provision had increased by \$0.2 million (Company: \$0.2 million).

### I Share-based payments

#### Equity-based remuneration (including options)

Under AIFRS, equity settled share-based payments form part of the remuneration of employees (including executives). Under AGAAP the Company did not recognise an expense

for any share-based remuneration, including equity settled share-based payments such as options. The accounting policies relating to the recognition of share-based payments under AIFRS are set out in Note 1Q.

As permitted by the elections available under AASB 1, Woolworths did not retrospectively recognise the fair value of share-based payments that have vested prior to 1 January 2005. Furthermore, no adjustment was made for share-based payments granted before 7 November 2002.

On transition to AIFRS, retained earnings of the consolidated entity decreased and reserves increased by \$5.1 million (Company: \$5.1 million). For the 52 weeks ended 26 June 2005, employee benefits expense and reserves increased by \$10.2 million (Company: \$10.2 million).

#### **Employee Share Plan (ESP)**

The Group operates an Employee Share Plan (ESP) whereby it provides interest-free loans to selected employees to purchase shares in the Company. All shares acquired under the ESP are held by a wholly-owned subsidiary of Woolworths as trustee of the share plan trust. Dividends paid by Woolworths are used to repay the employee loans (after payment of a portion of the dividend to the employee to cover any tax liabilities). The loans are limited recourse and if the employee elects not to repay the loan, the underlying shares are sold to recover the outstanding loan balance.

Certain employee receivables (loans) in respect of the Woolworths ESP were sold in 2002 to a financial institution. Under AIFRS a liability equal to that part of these receivable balances not yet repaid by the employee will be recognised as a liability as the financial institution has recourse to the Company until the share plan vesting conditions have been satisfied. At transition, this has resulted in an increase in liabilities in the consolidated entity of \$19.2 million (Company: \$19.2 million) with \$5.1 million (Company: \$5.1 million) being disclosed as a current liability and \$14.1 million (Company: \$14.1 million) as non-current. At 26 June 2005, this gave rise to an increase in liabilities in the consolidated entity of \$14.3 million (Company: \$14.3 million) with \$4.3 million (Company: \$4.3 million) being disclosed as a current liability and the balance of \$10.0 million (Company: \$10.0 million) being disclosed as a non-current liability.

Under AIFRS, the ESP entitlements and associated limited recourse loans to the employees are considered to be an option until the employee repays the loan. The options are accounted for as set out above and the fair value adjustments are included in the equity-based remuneration adjustment above. Further, under AIFRS, the consolidated entity and the Company are considered able to control the shares held in trust until the loan is repaid. Accordingly, at transition, the underlying shares and loan to the employee are eliminated on consolidation of the share trust reducing the consolidated entity's net assets and net equity by

\$108.9 million (Company: \$108.9 million). The equity component comprises \$120.6 million (Company: \$120.6 million) being the initial share issue price less \$11.7 million (Company: \$11.7 million) of dividends on shares held in trust applied to reduce the related loan value. Any shares forfeited are sold on market and the proceeds of this sale are contributed to the Woolworths Group Superannuation Plan.

For the 52 week period ended 26 June 2005, the consolidation resulted in receivables and net equity decreasing by \$87.3 million (Company: \$87.3 million) including a \$3.1 million (Company: \$3.1 million) increase in share capital relating to incremental proceeds from the sale of forfeited shares on-market, and cash has increased by \$1.5 million (Company: \$1.5 million).

#### **J Inventory**

Woolworths receives settlement discounts from suppliers for early payment of amounts due. Under AGAAP these amounts were recognised as revenue when earned. Under AIFRS, settlement discounts and rebates received from vendors are recognised as a reduction of cost of sales (or inventory) rather than as revenue. This has resulted in a reduction in inventory and retained earnings of the consolidated entity on transition to AIFRS of approximately \$8.0 million (Company: \$8.0 million) relating to the reduction in the cost of stock-on-hand at period end as a result of including settlement discounts in the valuation of inventory. The adjustment relating to the 52 weeks ended 26 June 2005 is a decrease in inventory and a corresponding increase in cost of sales of \$0.3 million (Company: \$0.3 million).

Settlement discounts, rebates and other purchase allowances totalling \$472.2 million (Company: \$396.2 million), previously recognised in other operating revenue have been reclassified to cost of sales for the 52 week period ended 26 June 2005.

#### **K Make good provisions**

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in its original condition. These obligations relate to wear and tear on the premises and not dismantling obligations. The operating lease payments do not include an element for repairs/overhauls. Under AGAAP, the costs of refurbishment are not recognised until it is probable that the expenditure will be incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date. At the date of transition, an amount of \$6.4 million (Company: \$6.4 million) was recognised as a liability of the consolidated entity with a corresponding decrease in retained earnings. This provision has not been utilised during the 52 weeks ended 26 June 2005. The adjustment relating to the 52 weeks ended 26 June 2005 is an increase in the provision of \$0.5 million (Company: \$0.5 million).

# NOTES TO THE FINANCIAL STATEMENTS

## 31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

### L Revenue – fuel discount vouchers

Woolworths issues fuel discount vouchers (on shopper dockets) to supermarket and BIG W customers in recognition of their loyalty. Under AGAAP, the full amount of the supermarket and BIG W sales were recognised as revenue with no provision raised for ongoing obligations associated with discount vouchers. This treatment recognised that substantially all of the transaction had been completed and the incremental cost of honoring discount vouchers was not material.

Under AASB 118 revenue components of multi-element transactions must be treated separately at fair value, where there are ongoing performance or delivery obligations. Accordingly, under AIFRS a proportion of revenue recognised on supermarket and BIG W sales is deferred, reflecting the ongoing obligation associated with unredeemed fuel vouchers. The provision arising is released in a pattern reflecting the historical redemption of fuel discount vouchers.

At the date of transition, an amount of \$3.3 million (Company: \$3.3 million) was recognised as a liability of the consolidated entity and the Company with a corresponding decrease in retained earnings. The adjustment relating to the 52 weeks ended 26 June 2005 is an increase in the provision of \$0.5 million (Company: \$0.5 million).

### M Taxation

The AIFRS transition adjustments set out elsewhere in this note resulted in a net increase to the deferred tax asset of \$47.1 million (Company: \$46.1 million), recognised against retained earnings. In addition, deferred tax balances are now shown on a net basis to the extent that they are payable to or receivable from the same taxation authority. Accordingly, deferred tax liabilities of \$4.5 million (Company: \$3.6 million) were reclassified to the net deferred tax asset at transition.

For the 52 week period ended 26 June 2005, the net increase in deferred tax assets was \$22.6 million (Company: \$5.7 million) and comprised:

- ~ \$47.1 million (Company: \$46.1 million) increase as a result of the transition to AIFRS recognised against retained earnings;
- ~ \$1.1 million (Company: \$1.8 million) decrease for the tax effect of AIFRS adjustments for the 52 week period ended 26 June 2005 increasing income tax expense;
- ~ \$3.0 million (Company: \$3.0 million) increase for the tax effect of items recognised directly in retained earnings for the 52 week period ended 26 June 2005;
- ~ \$14.0 million (Company: \$nil) decrease for the tax effect of the revaluation of MGW licences on the change from equity accounting to consolidation, recognised \$7.0 million (Company: \$nil) in asset revaluation reserve and \$7.0 million (Company: \$nil) in outside equity interests;

- ~ \$12.4 million (Company: \$12.8 million) decrease for the reclassification of deferred tax liabilities to net deferred tax assets; and
- ~ \$28.8 million decrease in deferred tax assets of the Company arising from the application of UIG Interpretation 1052 Tax Consolidation Accounting, described in the following section.

### Tax consolidation

The consolidated entity had applied UIG Abstract 52 Income Tax Accounting Under the Tax Consolidation System for tax consolidation purposes under AGAAP, resulting in the Company as the head entity of the tax consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax consolidated group. Under AIFRS, the consolidated entity has adopted UIG Interpretation 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability or asset and deferred tax asset from tax losses. The entities in the Australian tax consolidated group have revised the tax funding arrangement to address only current tax amounts and deferred tax assets from tax losses so that no contributions or distributions to equity participants are expected to arise in the future. There is no impact from implementation of UIG interpretation 1052 on the consolidated entity as at transition or for the 52 week period ended 26 June 2005 as upon consolidation the inter-company balances are eliminated.

For the Company, the application of UIG Interpretation 1052 resulted in a reduction of the deferred tax asset balance by \$28.8 million at the date of transition with a corresponding increase in intercompany receivables.

Tax expense of the Company decreased by \$22.9 million at the date of transition, which is recognised in retained earnings, with a corresponding increase in intercompany receivables. For the 52 week period ended 26 June 2005, tax expense of the Company decreased by \$34.7 million with a corresponding increase in intercompany receivables.

### N Debt establishment costs

Capitalised establishment costs were previously disclosed as other assets. Under AIFRS, such costs are included in interest bearing liabilities. An amount of \$3.6 million (Company: \$3.6 million) was reclassified from assets to liabilities at 26 June 2005.

### O Outside equity interest

Adjustments made under AIFRS have been allocated to outside equity interest to the extent that these adjustments are in respect of the ALH Group. The allocation of the impact of these adjustments is based on the 25% outside equity interest share.

### Statement of cash flows

The above adjustments had no impact on the statement of cash flows for the 52 week period ended 26 June 2005, other than for some reclassifications.

|   |       | Consolidated                    |                   | Woolworths Limited              |                   |
|---|-------|---------------------------------|-------------------|---------------------------------|-------------------|
|   | Notes | Transition<br>28 June 04<br>\$m | 26 June 05<br>\$m | Transition<br>28 June 04<br>\$m | 26 June 05<br>\$m |
| <b>Retained earnings</b>  |       |                                 |                   |                                 |                   |
| The effect of the above adjustments on retained earnings is as follows:   |       |                                 |                   |                                 |                   |
| Property, plant and equipment ~ non-capitalisable items                   | B     | (18.9)                          | ~                 | (16.8)                          | ~                 |
| Property, plant and equipment ~ depreciation saving on write-back to cost | B     | 10.3                            | ~                 | ~                               | ~                 |
| Capital profit reserve transfer   | A     | 66.2                            | ~                 | 2.6                             | ~                 |
| General reserve transfer  | A     | 46.9                            | ~                 | 45.5                            | ~                 |
| Foreign currency translation reserve transfer                             | G     | (0.4)                           | ~                 | ~                               | ~                 |
| Asset revaluation reserve transfer  | B     | 8.6                             | ~                 | 0.6                             | ~                 |
| Defined benefit plan  | H     | (31.0)                          | (10.0)            | (31.0)                          | (10.0)            |
| Rent straight-line adjustment   | C     | (53.3)                          | ~                 | (50.9)                          | ~                 |
| Fuel discount vouchers  | L     | (3.3)                           | ~                 | (3.3)                           | ~                 |
| Equity-based remuneration   | I     | (5.1)                           | ~                 | (5.1)                           | ~                 |
| Annual leave discounting  | H     | 2.3                             | ~                 | 2.3                             | ~                 |
| Make good provision   | K     | (6.4)                           | ~                 | (6.4)                           | ~                 |
| Inventory   | J     | (8.0)                           | ~                 | (8.0)                           | ~                 |
| Consolidation of Employee Share Plan                                      | I     | 11.7                            | 0.4               | 11.7                            | 0.4               |
| Deferred tax  | M     | 47.1                            | 3.0               | 46.1                            | 3.0               |
| Tax consolidation   |       | ~                               | ~                 | 22.9                            | ~                 |
| Total adjustment to retained earnings                                     |       | 66.7                            | (6.6)             | 10.2                            | (6.6)             |
| <b>Attributable to:</b>   |       |                                 |                   |                                 |                   |
| Equity holders of the parent  |       | 66.7                            | (6.6)             | 10.2                            | (6.6)             |
| Outside equity interest   |       | ~                               | ~                 | ~                               | ~                 |
|   |       | 66.7                            | (6.6)             | 10.2                            | (6.6)             |
| Retained earnings (AGAAP)   |       | 704.3                           | 978.0             | 506.0                           | 645.6             |
| Transition retained earnings adjustment                                   |       | 66.7                            | 66.7              | 10.2                            | 10.2              |
| AIFRS current period retained earnings adjustment                         |       | ~                               | (6.6)             | ~                               | (6.6)             |
| AIFRS profit after tax amendments   |       | ~                               | 25.7              | ~                               | 50.9              |
| Closing retained earnings (AIFRS)   |       | 771.0                           | 1,063.8           | 516.2                           | 700.1             |

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

# NOTES TO THE FINANCIAL STATEMENTS

## 31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

### 2005 balance sheets

The effect of the above adjustments on the balance sheets of the consolidated entity and the Company as at 26 June 2005 are as follows:

|   | Notes   | Previous GAAP<br>\$m | Consolidated<br>As at 26 June 2005<br>Effect of transition<br>to AIFRS<br>\$m | AIFRS<br>\$m | Previous GAAP<br>\$m | Woolworths Limited<br>As at 26 June 2005<br>Effect of transition<br>to AIFRS<br>\$m | AIFRS<br>\$m |
|---|---------|----------------------|---|--------------|----------------------|---|--------------|
| <b>Assets</b>   |         |                      |   |              |                      |   |              |
| Cash  | I       | 432.3                | 1.5   | 433.8        | 311.7                | 1.5   | 313.2        |
| Trade and other receivables                                 | A       | 490.0                | 105.6   | 595.6        | 194.7                | 92.5  | 287.2        |
| Inventories   | J       | 1,977.3              | (7.7)   | 1,969.6      | 1,526.7              | (7.7)   | 1,519.0      |
| Assets held for sale  | A       | 28.2                 | 37.2  | 65.4         | 0.2                  | ~   | 0.2          |
| Other   | A       | 109.2                | (109.2)   | ~            | 96.1                 | (96.1)  | ~            |
| Total current assets  |         | 3,037.0              | 27.4  | 3,064.4      | 2,129.4              | (9.8)   | 2,119.6      |
| Trade and other receivables                                 | A,I     | 79.8                 | (63.6)  | 16.2         | 3,011.4              | 474.4   | 3,485.8      |
| Other financial assets                                      |         | 1.1                  | ~   | 1.1          | 152.3                | ~   | 152.3        |
| Property, plant and equipment                               | A,B     | 3,552.6              | (193.3)   | 3,359.3      | 1,945.9              | (26.7)  | 1,919.2      |
| Intangibles   | D,E     | 2,011.4              | 35.0  | 2,046.4      | 395.2                | 22.5  | 417.7        |
| Deferred tax assets   | M       | 265.1                | 22.6  | 287.7        | 238.4                | 5.7   | 244.1        |
| Other   | A       | 10.9                 | (10.9)  | ~            | 10.9                 | (10.9)  | ~            |
| Total non-current assets                                    |         | 5,920.9              | (210.2)   | 5,710.7      | 5,754.1              | 465.0   | 6,219.1      |
| Total assets  |         | 8,957.9              | (182.8)   | 8,775.1      | 7,883.5              | 455.2   | 8,338.7      |
| <b>Liabilities</b>  |         |                      |   |              |                      |   |              |
| Trade and other payables                                    | A       | 2,335.6              | 580.5   | 2,916.1      | 2,080.2              | 912.4   | 2,992.6      |
| Accruals  | A       | 651.9                | (651.9)   | ~            | 456.7                | (456.7)   | ~            |
| Borrowings  |         | 235.5                | ~   | 235.5        | 235.0                | ~   | 235.0        |
| Current tax liabilities                                     |         | 105.5                | ~   | 105.5        | 115.9                | ~   | 115.9        |
| Provisions  | A,H,K,L | 393.5                | 130.0   | 523.5        | 327.9                | 114.9   | 442.8        |
| Total current liabilities                                   |         | 3,722.0              | 58.6  | 3,780.6      | 3,215.7              | 570.6   | 3,786.3      |
| Borrowings  | N       | 2,614.0              | (3.6)   | 2,610.4      | 2,603.0              | (3.6)   | 2,599.4      |
| Deferred tax liabilities                                    | M       | 12.4                 | (12.4)  | ~            | 12.8                 | (12.8)  | ~            |
| Provisions  | A,K     | 412.4                | (122.4)   | 290.0        | 379.8                | (107.3)   | 272.5        |
| Other   | C,H,I   | ~                    | 93.9  | 93.9         | ~                    | 86.3  | 86.3         |
| Total non-current liabilities                               |         | 3,038.8              | (44.5)  | 2,994.3      | 2,995.6              | (37.4)  | 2,958.2      |
| Total liabilities   |         | 6,760.8              | 14.1  | 6,774.9      | 6,211.3              | 533.2   | 6,744.5      |
| Net assets  |         | 2,197.1              | (196.9)   | 2,000.2      | 1,672.2              | (78.0)  | 1,594.2      |
| <b>Equity</b>   |         |                      |   |              |                      |   |              |
| Issued capital  | I       | 977.9                | 3.1   | 981.0        | 977.9                | 3.1   | 981.0        |
| Shares held in trust  | I       | ~                    | (102.2)   | (102.2)      | ~                    | (102.2)   | (102.2)      |
| Reserves  | A,B,G,I | 207.9                | (176.3)   | 31.6         | 48.7                 | (33.4)  | 15.3         |
| Retained earnings   |         | 978.0                | 85.8  | 1,063.8      | 645.6                | 54.5  | 700.1        |
| Equity attributable to the members<br>of Woolworths Limited |         | 2,163.8              | (189.6)   | 1,974.2      | 1,672.2              | (78.0)  | 1,594.2      |
| Minority interest   | O       | 33.3                 | (7.3)   | 26.0         | ~                    | ~   | ~            |
| Total equity  |         | 2,197.1              | (196.9)   | 2,000.2      | 1,672.2              | (78.0)  | 1,594.2      |

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

## Reconciliation of profit for financial year ended 26 June 2005

|                                       | Notes       | Previous GAAP<br>\$m | Consolidated<br>Effect of transition<br>to AIFRS<br>\$m | AIFRS<br>\$m | Previous GAAP<br>\$m | Woolworths Limited<br>Effect of transition<br>to AIFRS<br>\$m | AIFRS<br>\$m |
|---------------------------------------|-------------|----------------------|---|--------------|----------------------|---|--------------|
| Revenue from the sale of goods        |             | 31,352.5             | ~   | 31,352.5     | 26,027.8             | ~   | 26,027.8     |
| Other operating revenue               | J           | 600.9                | (472.2)   | 128.7        | 516.4                | (396.2)   | 120.2        |
| Total revenue from operations         |             | 31,953.4             | (472.2)   | 31,481.2     | 26,544.2             | (396.2)   | 26,148.0     |
| Cost of sales                         | A,J,L       | (24,150.8)           | 471.9   | (23,678.9)   | (20,100.2)           | 396.0   | (19,704.2)   |
| Gross profit                          |             | 7,802.6              | (0.3)   | 7,802.3      | 6,444.0              | (0.2)   | 6,443.8      |
| Other revenue                         | A           | 365.4                | 270.2   | 95.2         | 63.0                 | 12.3  | 75.3         |
| Other income                          | A           | ~                    | 10.2  | 10.2         | ~                    | 4.9   | 4.9          |
| Share of profit in associated company |             | 2.5                  | ~   | 2.5          | ~                    | ~   | ~            |
| Branch expenses                       | A,C,E       | (5,361.5)            | 331.6   | (5,029.9)    | (4,142.2)            | 32.5  | (4,109.7)    |
| Administration expenses               | A,B,C,H,I,K | (1,526.0)            | (52.2)  | (1,578.2)    | (1,296.6)            | (33.9)  | (1,330.5)    |
| Earnings before interest and tax      |             | 1,283.0              | 19.1  | 1,302.1      | 1,068.2              | 15.6  | 1,083.8      |
| Financial expense                     |             | (164.1)              | ~   | (164.1)      | (122.6)              | ~   | (122.6)      |
| Financial income                      | A           | 10.4                 | 3.6   | 14.0         | 32.1                 | 2.4   | 34.5         |
| Net financing cost                    |             | (153.7)              | 3.6   | (150.1)      | (90.5)               | 2.4   | (88.1)       |
| Net profit before income tax expense  |             | 1,129.3              | 22.7  | 1,152.0      | 977.7                | 18.0  | 995.7        |
| Income tax expense                    | M           | (337.7)              | 2.9   | (334.8)      | (321.3)              | 32.9  | (288.4)      |
| Profit after income tax expense       |             | 791.6                | 25.6  | 817.2        | 656.4                | 50.9  | 707.3        |
| Net profit attributable to:           |             |                      |   |              |                      |   |              |
| Equity holders of the parent entity   |             | 790.5                | 25.7  | 816.2        | 656.4                | 50.9  | 707.3        |
| Minority interest                     |             | 1.1                  | (0.1)   | 1.0          | ~                    | ~   | ~            |
| Profit for the period                 |             | 791.6                | 25.6  | 817.2        | 656.4                | 50.9  | 707.3        |
| Basic EPS (cents per share)           |             | 75.74                |   | 79.19        |                      |   |              |
| Diluted EPS (cents per share)         |             | 75.35                |   | 78.94        |                      |   |              |

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

# NOTES TO THE FINANCIAL STATEMENTS

## 31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

### 2004 transition balance sheets

The effect of the above adjustments on the balance sheets of the consolidated entity and the Company on transition to AIFRS, being 28 June 2004, are as follows:

|   | Notes   | Previous GAAP<br>\$m | Consolidated<br>As at 28 June 2004<br>Effect of transition<br>to AIFRS<br>\$m | AIFRS<br>\$m | Previous GAAP<br>\$m | Woolworths Limited<br>As at 28 June 2004<br>Effect of transition<br>to AIFRS<br>\$m | AIFRS<br>\$m |
|---|---------|----------------------|---|--------------|----------------------|---|--------------|
| <b>Assets</b>   |         |                      |   |              |                      |   |              |
| Cash  |         | 348.9                | –   | 348.9        | 314.9                | –   | 314.9        |
| Trade and other receivables                                 | A       | 208.6                | 112.3   | 320.9        | 169.7                | 100.4   | 270.1        |
| Inventories   | J       | 1,847.0              | (8.0)   | 1,839.0      | 1,472.3              | (8.0)   | 1,464.3      |
| Assets held for sale  |         | 259.6                | –   | 259.6        | 26.2                 | –   | 26.2         |
| Other   | A       | 112.3                | (112.3)   | –            | 100.4                | (100.4)   | –            |
| Total current assets  |         | 2,776.4              | (8.0)   | 2,768.4      | 2,083.5              | (8.0)   | 2,075.5      |
| Trade and other receivables                                 | A,I     | 96.4                 | (84.0)  | 12.4         | 1,049.8              | 404.5   | 1,454.3      |
| Investments using the equity method                         | A       | 3.6                  | (3.6)   | –            | –                    | –   | –            |
| Other financial assets                                      | A       | 28.0                 | 3.6   | 31.6         | 106.0                | –   | 106.0        |
| Property, plant and equipment                               | A,B     | 2,467.6              | (130.8)   | 2,336.8      | 1,609.6              | (16.8)  | 1,592.8      |
| Intangibles   |         | 572.3                | –   | 572.3        | 392.1                | –   | 392.1        |
| Deferred tax assets   | M       | 195.4                | 42.6  | 238.0        | 195.9                | 13.7  | 209.6        |
| Other   | A       | 5.7                  | (5.7)   | –            | 5.7                  | (5.7)   | –            |
| Total non-current assets                                    |         | 3,369.0              | (177.9)   | 3,191.1      | 3,359.1              | 395.7   | 3,954.8      |
| Total assets  |         | 6,145.4              | (185.9)   | 5,959.5      | 5,442.6              | 387.7   | 5,830.3      |
| <b>Liabilities</b>  |         |                      |   |              |                      |   |              |
| Trade and other payables                                    | A,I     | 2,176.3              | 500.7   | 2,677.0      | 1,994.4              | 884.6   | 2,879.0      |
| Accruals  | A       | 554.5                | (554.5)   | –            | 442.7                | (442.7)   | –            |
| Borrowings  |         | 18.0                 | –   | 18.0         | 17.0                 | –   | 17.0         |
| Current tax liabilities                                     |         | 132.2                | –   | 132.2        | 133.0                | –   | 133.0        |
| Provisions  | A,H,K,L | 348.0                | 125.6   | 473.6        | 316.7                | 109.6   | 426.3        |
| Total current liabilities                                   |         | 3,229.0              | 71.8  | 3,300.8      | 2,903.8              | 551.5   | 3,455.3      |
| Borrowings  |         | 494.8                | –   | 494.8        | 483.3                | –   | 483.3        |
| Deferred tax liabilities                                    | M       | 4.5                  | (4.5)   | –            | 3.6                  | (3.6)   | –            |
| Provisions  | A,K     | 364.6                | (118.2)   | 246.4        | 338.8                | (102.2)   | 236.6        |
| Other   | C,H,I   | –                    | 98.4  | 98.4         | –                    | 96.0  | 96.0         |
| Total non-current liabilities                               |         | 863.9                | (24.3)  | 839.6        | 825.7                | (9.8)   | 815.9        |
| Total liabilities   |         | 4,092.9              | 47.5  | 4,140.4      | 3,729.5              | 541.7   | 4,271.2      |
| Net assets  |         | 2,052.5              | (233.4)   | 1,819.1      | 1,713.1              | (154.0)   | 1,559.1      |
| <b>Equity</b>   |         |                      |   |              |                      |   |              |
| Issued capital  |         | 575.4                | –   | 575.4        | 575.4                | –   | 575.4        |
| Shares held in trust  | I       | –                    | (120.6)   | (120.6)      | –                    | (120.6)   | (120.6)      |
| Reserves  | A,B,G,I | 184.6                | (179.5)   | 5.1          | 48.7                 | (43.6)  | 5.1          |
| Retained earnings   |         | 704.3                | 66.7  | 771.0        | 506.0                | 10.2  | 516.2        |
| Equity attributable to the members<br>of Woolworths Limited |         | 1,464.3              | (233.4)   | 1,230.9      | 1,130.1              | (154.0)   | 976.1        |
| Woolworths Income Notes                                     |         | 583.0                | –   | 583.0        | 583.0                | –   | 583.0        |
| Minority interest   |         | 5.2                  | –   | 5.2          | –                    | –   | –            |
| Total equity  |         | 2,052.5              | (233.4)   | 1,819.1      | 1,713.1              | (154.0)   | 1,559.1      |

The reconciliation above should be read in conjunction with the notes as set out on pages 146 to 150.

## Financial instruments

### Change in accounting policy

In the current financial year the consolidated entity adopted for the first time AASB 132 Financial Instruments: Disclosure and Presentation (AASB 132) and AASB 139 Financial Instruments: Recognition and Measurement (AASB 139). This change in accounting policy resulted from the election made in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity (retained earnings and hedging reserve) at 27 June 2005.

The impact on the balance sheet as at 27 June 2005 is set out below. The notes below describe the major components of these impacts. The transitional provisions will not have any effect in future reporting periods.

Application of AASB 132 and AASB 139 prospectively from 27 June 2005 for the consolidated entity and the Company:

|                                       | Notes | Closing balance<br>26 June 2005<br>Dr/(Cr)<br>\$m | Impact of change<br>in accounting<br>policy<br>Dr/(Cr)<br>\$m | AIFRS<br>opening balance<br>27 June 2005<br>Dr/(Cr)<br>\$m |
|---------------------------------------|-------|---|---|--|
| Foreign exchange derivative liability | 1     | ~   | (0.4)   | (0.4)  |
| Hedge asset:                          |       |   |   |  |
| Cross-currency swaps                  | 3     | ~   | 34.0  | 34.0   |
| Deferred tax asset (net)              | 4     | 287.7   | 3.3   | 291.0  |
| Borrowings                            | 3     | (2,845.9)   | (14.6)  | (2,860.5)  |
| Hedge liability:                      |       |   |   |  |
| Interest rate swaps                   | 2     | ~   | (29.2)  | (29.2)   |
| Hedging reserve                       | 1,2,3 | ~   | 6.9   | 6.9  |
| Retained earnings                     | 1,2,3 | (1,063.8)   | ~   | (1,063.8)  |
| Total                                 |       | (3,622.0)   | ~   | (3,622.0)  |

# NOTES TO THE FINANCIAL STATEMENTS

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## 31 EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

### (1) Foreign exchange contracts

Under AIFRS, foreign exchange derivatives are required to be recognised at fair value on the balance sheet. Fair value represents the difference between the contracted forward rate and the period end forward rate and represents an unrealised discounted (at applicable current interest rates) gain or loss on the contract at a point in time. At 27 June 2005, the fair value of the forward foreign exchange contracts represented an unrealised loss of \$0.4 million (Company: \$0.4 million) resulting in the recognition of foreign exchange derivatives liability of \$0.4 million (Company: \$0.4 million) and debit to the hedging reserve in equity of \$0.4 million (Company: \$0.4 million).

### (2) Interest rate swaps – cash flow hedges

Under AIFRS, the interest rate swaps used to hedge the consolidated entity's interest bearing liability exposure are required to be recognised at fair value on the balance sheet. Fair value represents the present value (discounted at applicable current interest rates) at reporting date of the net future interest coupons associated with the swap. At 27 June 2005, the fair value of interest rate swaps totalled \$29.2 million (Company: \$29.2 million) resulting in the recognition of a hedge liability (non-current) of \$29.2 million (Company: \$29.2 million) with an equal amount debited to the hedge reserve in equity.

### (3) Cross-currency swaps and foreign denominated debt

The consolidated entity has entered into cross-currency swaps related to its USD denominated loans. Under AIFRS the swaps are recognised at fair value on the balance sheet. Fair value of a cross-currency swap represents the aggregate of the present value (discounted at applicable current interest rates) at reporting date of the future interest rate coupons under the swap and the difference between the contracted forward exchange rate in the swap and the period end forward exchange rate. At 27 June 2005, these swaps had a fair value of \$34 million (Company: \$34 million) and accordingly a hedge asset (non-current) was recognised.

Simultaneously, under AIFRS, the foreign denominated debt has also been restated to period end exchange rates resulting in net increase to the debt of \$14.6 million (Company: \$14.6 million).

A hedge asset of \$34 million (Company: \$34 million) is recognised with a corresponding increase to interest-bearing liabilities of \$14.6 million (Company: \$14.6 million) and \$19.4 million (Company: \$19.4 million) in a hedging reserve.

### (4) Tax effect

The tax effect of the above adjustments was to increase the net deferred tax asset at 26 June 2005 by \$3.3 million (Company: \$3.3 million) recognised as \$0.5 million (Company: \$0.5 million) to retained earnings and \$2.8 million (Company: \$2.8 million) to the hedging reserve.

# DIRECTORS' DECLARATION

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The Directors declare that:

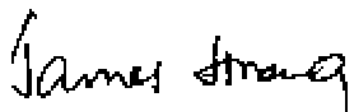
- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the Deed of Cross Guarantee is such that each company which is party to the Deed guarantees to each creditor payment in full of any debt in accordance with the Deed of Cross Guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 28 to the Financial Statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



**James Strong**  
Chairman



**Roger Corbett**  
Group Managing Director/CEO

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF WOOLWORTHS LIMITED



Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1220 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9322 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

## Scope

### The financial report, compensation disclosures and directors' responsibility

The financial report comprises the balance sheets, income statements, statement of cash flows, statements of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Woolworths Limited (the company) and the consolidated entity, for the financial year ended 25 June 2006 as set out on pages 75 to 157. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" set out in Section 3 "Executive Remuneration including Executive Directors" and Section 4 "Non-executive Directors' Remuneration" (except for Sub-Section 4.6 "Appointment Letters, Deeds of Access, Insurance and Indemnity, Disclosure Deeds") of the directors' report, and not in the financial report. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the *Corporations Regulations 2001*.

### Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the

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*Corporations Act 2001* so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial positions, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the compensation disclosures in the directors' report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

#### **Audit opinion**

In our opinion:

(1) the financial report of Woolworths Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial positions as at 25 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(2) the compensation disclosures that are contained in Section 3 "Executive Remuneration including Executive Directors" and Section 4 "Non-executive Directors' Remuneration" (except for Sub-Section 4.6 "Appointment Letters, Deeds of Access, Insurance and Indemnity, Disclosure Deeds") under the heading "Remuneration Report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.



DELOITTE TOUCHE TOHMATSU



Rod Smith  
Partner  
Chartered Accountants  
Sydney, 22 September 2006

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 19 September 2006.

## Number of shareholders

There were 336,400 shareholders, holding 1,184,676,787 fully paid ordinary shares.

## Distribution of equity securities

(a) Analysis of numbers of shareholders by size of holding:

| <i>Range of fully paid ordinary (FPO) shares/options*</i> | <i>Number of<br/>FPO holders</i> | <i>Number of<br/>FPO shares</i> | <i>Number of<br/>Option holders</i> |
|---|----------------------------------|---------------------------------|-------------------------------------|
| 1 ~ 1,000   | 190,201                          | 75,846,227                      | —                                   |
| 1,001 ~ 5,000   | 128,221                          | 251,278,410                     | 274                                 |
| 5,001 ~ 10,000  | 12,119                           | 86,062,250                      | 353                                 |
| 10,001 ~ 100,000  | 5,648                            | 114,881,341                     | 929                                 |
| 100,001 ~ and over  | 211                              | 656,608,559                     | 23                                  |
| <b>Total</b>  | <b>336,400</b>                   | <b>1,184,676,787</b>            | <b>1,579</b>                        |

(b) There were 8,028 holders of less than a marketable parcel of ordinary shares.

## 20 largest shareholders

The names of the 20 largest holders of shares are listed below:

| <i>Name</i>   | <i>Number of fully paid<br/>ordinary shares</i> | <i>Percentage of<br/>issued capital%</i> |
|---|---|--|
| 1 JP Morgan Nominees Australia Limited              | 161,188,530                                     | 13.61                                    |
| 2 National Nominees Limited                         | 126,255,480                                     | 10.66                                    |
| 3 Westpac Custodian Nominees Limited                | 112,208,364                                     | 9.47                                     |
| 4 Citicorp Nominees Pty Limited                     | 31,690,577                                      | 2.68                                     |
| 5 Queensland Investment Corporation                 | 29,127,216                                      | 2.46                                     |
| 6 ANZ Nominees Limited (cash income account)        | 17,841,662                                      | 1.51                                     |
| 7 Cogent Nominees Pty Limited                       | 15,694,439                                      | 1.32                                     |
| 8 ANZ Nominees Limited (income reinvest plan)       | 13,209,015                                      | 1.11                                     |
| 9 AMP Life Limited                                  | 11,837,709                                      | 1.00                                     |
| 10 HSBC Custody Nominees (Australia) Limited        | 11,697,463                                      | 0.99                                     |
| 11 Woolworths Custodian Pty Ltd                     | 9,649,968                                       | 0.81                                     |
| 12 Australian Foundation Investment Company Limited | 6,203,729                                       | 0.52                                     |
| 13 Perpetual Trustee Company Limited                | 4,759,761                                       | 0.40                                     |
| 14 Citicorp Nominees Pty Limited                    | 4,670,078                                       | 0.39                                     |
| 15 Australian Nominees Pty Limited                  | 4,434,714                                       | 0.37                                     |
| 16 Cogent Nominees Pty Limited                      | 3,710,093                                       | 0.31                                     |
| 17 IAG Nominees Pty Limited                         | 3,568,988                                       | 0.30                                     |
| 18 Australian Nominees Pty Limited                  | 3,255,104                                       | 0.27                                     |
| 19 Citicorp Nominees Pty Limited                    | 3,243,540                                       | 0.27                                     |
| 20 Argo Investments Limited                         | 3,141,723                                       | 0.27                                     |

## Substantial shareholders

As at 19 September 2006 there were no substantial shareholders in the Company that had provided substantial shareholding notices.

## Unquoted equity securities

As at 19 September 2006 there were 27,125,027 options granted over unissued ordinary shares in the Company to employees.

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### **Woolworths Notes**

On 26 October 2005, Woolworths announced that it intended to redeem the WINs in early 2006. On 3 April 2006, the Company announced to the ASX an offer of perpetual, unsecured, subordinated, cumulative notes at \$100 each (Woolworths Notes) to raise up to \$600 million and lodged with the Australian Securities and Investments Commission a prospectus for the Offer. The Offer comprised an Eligible WINs Holder Offer, a Broker Firm Offer and an Institutional Offer.

On 5 June 2006, the Company redeemed all \$600 million in face value of the WINs and allotted all six million Woolworths Notes. Normal settlement trading for the Woolworths Notes on ASX commenced on 9 June 2006. Woolworths Notes are quoted under the ASX code WOWHB.

### **Voting rights**

On a show of hands, at a General Meeting of the Company, every member present in person or by proxy shall have one vote and upon a poll each person present in person or by proxy shall have one vote for each ordinary share held.

### **Shareholder enquiries**

Enquiries and correspondence regarding shareholdings should be directed to Woolworths Limited Share Registrar: Computershare Investor Services Pty Limited by telephone on 1300 368 664, by facsimile on (02) 8235 8150 or online via the Shareholder Centre on Woolworths Limited website at [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au) or by visiting the Computershare website at [www.computershare.com.au](http://www.computershare.com.au).

### **Changed your address?**

If you change your address, please promptly notify our Share Registrar in writing. Please quote your Shareholder Reference Number and your old address as added security. Change of address advice forms can be downloaded via the Shareholder Centre on Woolworths Limited website at [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au).

### **Employee shareholder information**

For information on Woolworths Limited employee shareholdings please contact:

Woolworths Shareholder Relations

1 Woolworths Way

Bella Vista NSW 2153

Telephone: (02) 8885 1066 or (02) 8885 1068

Facsimile: (02) 8888 1066 or (02) 8888 1068

### **Final dividend**

The final dividend of 31 cents per share will be paid on 6 October 2006 to shareholders entitled to receive dividends and registered on 8 September 2006 (Record Date).

### **Direct payment to shareholders' accounts**

Dividends may be paid directly into bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend payment date and a dividend advice confirming deposit details can either be mailed to shareholders or is available online should holders elect.

# SHAREHOLDER INFORMATION

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## **Communications by email**

More and more of our shareholders are enjoying the benefits of receiving Woolworths' communications via email. This provides fast, effective access to information you would normally receive by mail, and it helps us to reduce costs to both the environment and the Company.

Visit the Woolworths Limited website at [www.woolworthslimited.com.au/shareholdercentre](http://www.woolworthslimited.com.au/shareholdercentre) and click on the link provided. Alternatively, visit the Computershare website at [www.computershare.com.au/au/sc](http://www.computershare.com.au/au/sc).

Be sure to have your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) handy. You can choose to receive the Annual Report, Notice of Meeting/Proxy Form and dividend advices by email.

## **Dividend Reinvestment Plan (DRP)**

Eligible shareholders may elect to participate in the DRP in respect to all or part of their shareholding, subject to any maximum and/or minimum number of shares to participate in the DRP that the Directors may specify. There is currently no minimum or maximum number of shares which a shareholder (other than a broker's clearing accounts, nominees and certain trustees) may designate as participating in the DRP. Application forms are available from Woolworths Limited's Share Registrar, or can be downloaded from Woolworths Limited website.

## **Uncertificated share register**

The share register is wholly uncertificated. Shareholder statements are issued within five business days after the end of any month in which transactions are registered in respect of your shareholding.

## **Woolworths communications**

As well as this Annual Report, Woolworths communications for shareholders include:

- ~ The Half Year Results Summary, which is mailed with the Interim Dividend in April.
- ~ Our website, [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au), provides investors with information about Woolworths Limited, including copies of Annual Reports, Chairman's Address, Half Year Results Summary and Releases to the ASX by the Company.

## **Removal from the Annual Report mailing list**

Shareholders who do not want to receive the Annual Report should advise Woolworths Limited's Share Registrar in writing. These shareholders will continue to receive all other shareholder information, including Notices of all Annual General Meetings.

## **Stock exchange listings**

Woolworths Limited ordinary shares are listed on the Australian Stock Exchange.

## **American depository receipts**

Woolworths Limited shares may be traded in sponsored American depository receipts form in the United States.

| <i>Date of dividend</i>          | <i>Type</i> | <i>Cents per share</i> | <i>Franking Rate</i> | <i>DRP Price</i> |
|----------------------------------|-------------|------------------------|----------------------|------------------|
| <b>History of dividends paid</b> |             |                        |                      |                  |
| 30/11/1993                       | Final       | 6 cents                | 39%                  | \$2.95           |
| 29/04/1994                       | Interim     | 6 cents                | 39%                  | \$2.89           |
| 30/11/1994                       | Final       | 6 cents                | 39%+33%              | \$2.60           |
| 28/04/1995                       | Interim     | 6 cents                | 33%                  | \$2.72           |
| 17/11/1995                       | Final       | 8 cents                | 39%+33%              | \$2.90           |
| 26/04/1996                       | Interim     | 7 cents                | 33%                  | \$2.87           |
| 12/11/1996                       | Final       | 8 cents                | 36%                  | \$2.58           |
| 24/04/1997                       | Interim     | 7 cents                | 36%                  | \$3.22           |
| 15/10/1997                       | Final       | 9 cents                | 36%                  | \$3.94           |
| 24/04/1998                       | Interim     | 8 cents                | 36%                  | \$5.35           |
| 9/10/1998                        | Final       | 9 cents                | 36%                  | \$5.18           |
| 30/04/1999                       | Interim     | 8 cents                | 36%                  | \$4.83           |
| 5/10/1999                        | Final       | 10 cents               | 36%                  | \$5.19           |
| 28/04/2000                       | Interim     | 10 cents               | 36%                  | \$4.92           |
| 5/10/2000                        | Final       | 13 cents               | 34%                  | \$6.61           |
| 27/04/2001                       | Interim     | 12 cents               | 34%                  | \$7.99           |
| 5/10/2001                        | Final       | 15 cents               | 30%                  | \$10.98          |
| 30/04/2002                       | Interim     | 15 cents               | 30%                  | \$12.23          |
| 8/10/2002                        | Final       | 18 cents               | 30%                  | \$11.78          |
| 30/04/2003                       | Interim     | 18 cents               | 30%                  | \$11.71          |
| 3/10/2003                        | Final       | 21 cents               | 30%                  | \$11.37          |
| 30/04/ 2004                      | Interim     | 21 cents               | 30%                  | \$11.49          |
| 8/10/2004                        | Final       | 24 cents               | 30%                  | \$13.16          |
| 29/04/2005                       | Interim     | 24 cents               | 30%                  | \$15.50          |
| 7/10/2005                        | Final       | 27 cents               | 30%                  | \$15.77          |
| 28/04/2006                       | Interim     | 28 cents               | 30%                  | \$18.26          |
| 06/10/2006                       | Final       | 31 cents               | 30%                  | \$19.73          |

# SHAREHOLDERS' CALENDAR

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2006

**October**

6 Payment date for Final Dividend

23 Announcement of first quarter sales results

**November**

24 Annual General Meeting

The Parkside Auditorium

Sydney Convention and Exhibition Centre

Darling Harbour

Sydney NSW

**December**

15 Interest Payment on Woolworths Income Notes

2007

**January/February**

Announcement of second quarter sales results

Half Year Results announcement

**March**

15 Interest Payment on Woolworths Income Notes

**April**

Record date for Interim Dividend

Payment of Interim Dividend

Mailing of Summary of Half Year Results

Announcement of third quarter sales results

**June**

15 Interest Payment on Woolworths Income Notes

**July**

Announcement of fourth quarter sales results

**August**

Preliminary Full Year Results and Final Dividend announcement

Please note: the timing of events may be subject to change.

## **WOOLWORTHS LIMITED**

### **Principal registered office in Australia**

1 Woolworths Way  
Bella Vista NSW 2153  
Tel: (02) 8885 0000  
Web: [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au)

### **BIG W**

Web: [www.bigw.com.au](http://www.bigw.com.au)

### **National Supermarkets**

Web: [www.woolworths.com.au](http://www.woolworths.com.au)

### **Woolworths Petrol**

Tel: 1300 655 055

### **BWS**

Web: [www.beerwinespirits.com.au](http://www.beerwinespirits.com.au)

### **Woolworths Ezy Banking**

Web: [www.ezybanking.com.au](http://www.ezybanking.com.au)

### **Dan Murphy's**

789 Heidelberg Road  
Alphington VIC 3078  
Tel: (03) 9497 3388  
Fax: (03) 9497 2782  
Web: [www.danmurphys.com.au](http://www.danmurphys.com.au)

### **Dick Smith Electronics/Tandy**

2 Davidson Street  
Chullora NSW 2190  
Tel: (02) 9642 9100  
Fax: (02) 9642 9111  
Web: [www.dse.com.au](http://www.dse.com.au)

### **Progressive Enterprises Limited**

80 Favona Road  
Mangere  
Auckland  
New Zealand  
Tel: +64 (9) 275 2788  
Fax: +64 (9) 275 3074  
Web: [www.progressive.co.nz](http://www.progressive.co.nz)

## **ALH Group Pty Ltd**

### **— Registered Office**

1 Woolworths Way  
Bella Vista NSW 2153  
Tel: (02) 8885 0000

### **— Victorian Office**

Ground Floor  
16-20 Claremont Street  
South Yarra VIC 3141  
Tel: (03) 9829 1000

### **— Queensland Office**

Level 1  
152 Oxford Street  
Bulimba QLD 4171

### **Company Secretary**

Peter Horton

### **Share Registrar**

Computershare Investor Services Pty Limited  
Level 3  
60 Carrington Street  
Sydney NSW 2000  
Tel: 1300 368 664  
Fax: (02) 8234 5050  
Web: [www.computershare.com.au](http://www.computershare.com.au)

### **Auditor**

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Web: [www.deloitte.com.au](http://www.deloitte.com.au)



# WOOLWORTHS LIMITED A.B.N. 88 000 014 675

## NOTICE OF ANNUAL GENERAL MEETING 2006

Notice is hereby given that the eighty-first Annual General Meeting of Members of Woolworths Limited will be held on Friday, 24 November 2006 at the Parkside Auditorium, Sydney Convention and Exhibition Centre, Darling Harbour, Sydney, NSW, commencing at 11.00am.

### AGENDA

#### **Ordinary Business**

##### **1. Financial Statements and Reports**

To receive and consider the Financial Report of the Company and the Reports of the Directors and Auditor for the financial period ended 25 June 2006.

##### **2. Remuneration Report**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the Remuneration Report (which forms part of the Directors' Report) for the financial year ended 25 June 2006 be adopted".

*Note: the vote on this resolution is advisory only and does not bind the Directors or the Company.*

##### **3. Election of Directors**

- (a) To elect as a Director Mr Thomas William Pockett, such appointment to take effect at the conclusion of the Annual General Meeting.
- (b) To re-elect as a Director Mr John Frederick Astbury who retires by rotation in accordance with Article 10.3 of the Company's Constitution and being eligible offers himself for re-election.
- (c) To elect as a Director Mr Stephen Mayne, such appointment to take effect at the conclusion of the Annual General Meeting.
- (d) To elect as a Director Mr Michael Gerard Luscombe who retires in accordance with Article 10.10 of the Company's Constitution and being eligible offers himself for election.
- (e) To re-elect as a Director Mr James Alexander Strong who retires by rotation in accordance with Article 10.3 of the Company's Constitution and being eligible offers himself for re-election.

*Note: There are five candidates standing for four available Board positions. Shareholders may vote in favour of up to four candidates. Votes in favour of five candidates will be **invalid**. Shareholders may vote against as many candidates as they wish. Refer to page [7] of the Explanatory Notes for information regarding how voting on Resolutions 3(a) to (e) will be determined.*

## **Special Business**

### **4. Executive Directors' Options**

#### **(a) Group Managing Director's Options**

To consider and, if thought fit, to pass the following as an ordinary resolution:

"That the grant to the Group Managing Director and Chief Executive Officer of the Company, Mr Michael Luscombe, of up to a maximum of 1,500,000 options to subscribe for ordinary shares in the Company, such options to be granted pursuant to the Woolworths Long Term Incentive Plan ("Plan") in accordance with the terms of the Plan and as described in the Notes accompanying the Notice of Annual General Meeting convening this meeting, be approved for all purposes including for the purpose of ASX Listing Rule 10.14".

#### **(b) Director of Finance's Options**

To consider and if thought fit, to pass the following as an ordinary resolution.

"That the grant to the Director of Finance, Mr Thomas William Pockett of up to a maximum of 750,000 options to subscribe for ordinary shares in the Company, such options to be granted pursuant to the Plan in accordance with the terms of the Plan and as described in the Notes accompanying the Notice of Annual General Meeting convening this meeting, be approved for all purposes including for the purpose of ASX Listing Rule 10.14".

*Note: If shareholders approve Resolutions 4(a) and (b), a maximum of 1,500,000 Options will be issued to Mr Luscombe and a maximum of 750,000 Options will be issued to Mr Pockett by no later than three years after the passing of this resolution. It is anticipated that the first grant of Options to Mr Luscombe and Mr Pockett under the Plan will be made in 2006 (the "2006 Grant"). The maximum number of Options that will be granted to Mr Luscombe and Mr Pockett under the 2006 Grant will be determined by the Directors, but will not exceed 500,000 in the case of Mr Luscombe, and 250,000 in the case of Mr Pockett. Refer to page [15] of the Explanatory Notes for more information regarding the proposed 2006 Grant.*

### **5. Adoption of New Constitution**

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That the Constitution of the Company is repealed and the Constitution in the form tabled at the meeting and initialled by the Chairman for the purposes of identification, is adopted as the Constitution of the Company, with effect from the close of this meeting."

## **Voting Exclusion Statement**

The Company will disregard any votes cast on Resolutions 4 (a) or (b) by any of the Directors (except a Director who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associate of a Director. However, the Company need not disregard a vote if:

- (a) it is cast by a Director or an associate of a Director as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by a Director who is chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated: xxx 2006

By order of the Board

**P J Horton**

Company Secretary

## Eligibility to Vote

Regulation 7.11.37 of the *Corporations Regulations 2001* permits the Company to specify a time, not more than 48 hours before the meeting, at which a 'snapshot' of shareholders will be taken for the purposes of determining shareholder entitlements to vote at the meeting.

The Company's Directors have determined that all shares of the Company that are quoted on ASX at 7.00pm (Sydney time) on Wednesday 22 November 2006 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the shares at that time.

This means that any person registered as the holder of an ordinary share in the capital of the Company at 7.00pm (Sydney time) on Wednesday 22 November 2006, is entitled to attend and vote at the Annual General Meeting in respect of that share.

## Proxies

A Member entitled to attend and vote is entitled to appoint not more than two proxies.

A proxy need not be a Member of the Company. A Member who is entitled to cast two or more votes may appoint two persons and may specify the proportion or number of votes which each proxy is appointed to exercise.

If you wish to appoint a proxy, you can use the Proxy Form accompanying this Notice.

You can also submit your proxy appointment online by visiting the webpage: [www.computershare.com/au/proxy/wow](http://www.computershare.com/au/proxy/wow). To use this online facility, you will need your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode, as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website. A proxy cannot be appointed electronically by a person appointed by a shareholder under a Power of Attorney or similar authority.

The online proxy facility may not be suitable for some members who wish to split their votes on an item of business or appoint two proxies with different voting directions. Please read the instructions for the online proxy facility carefully before you lodge your proxy using this facility.

On a show of hands, every person present and qualified to vote shall have one vote. If you have appointed a proxy and the proxy appointed is also a Member, or a proxy for another Member, any direction to the proxy on how to vote may not be effective on a show of hands. Your directions will be effective if a poll is held.

To be effective, your online proxy appointment must be lodged through the above webpage by no later than **48 hours prior to the Meeting**.

To be effective, your Proxy Form and the Power of Attorney or other authority (if any) under which it is signed or a copy of the Power of Attorney or other authority, certified as a true copy by Statutory Declaration, must be received no later than **48 hours prior to the Meeting** by Woolworths' Share Registrar, Computershare Investor Services Pty Limited, (using the reply paid envelope enclosed) or by facsimile to (03) 9473 2118 or at the Registered Office of Woolworths Limited, 1 Woolworths Way, Bella Vista NSW 2153.

## Explanatory Notes

### 1. Financial statements and reports

As required by section 317 of the *Corporations Act 2001* (Cth), the Financial Report, Directors' Report and Auditor's Report of the Company and the consolidated entity for the most recent financial year will be laid before the meeting. Shareholders will be provided with the opportunity to ask questions about the reports.

There is no requirement for a formal resolution on this item. Accordingly, there will be no formal resolution put to the meeting.

### 2. Remuneration Report

The Company's Remuneration Report for the period ended 25 June 2006 is set out on pages [xx] to [xx] of the 2006 Annual Report and is also available on Woolworths' website at [www.woolworths.com.au](http://www.woolworths.com.au).

The Remuneration Report includes an explanation of the Company's remuneration policy and the remuneration arrangements in place for Directors and certain senior executives whose remuneration arrangements are required by law to be disclosed.

The Remuneration Report also details the decision by the Directors to cease the ongoing accrual of benefits under Retirement Deeds, which were approved by shareholders in November 1998 and entitled each non-executive Director (appointed prior to January 2004) to receive an allowance on retirement as a Director after a minimum period of service. Accruals ceased on 1 August 2006, and the benefits accrued to that date will be indexed by reference to the 90 Day Australian Bank Bill Swap Reference Rate and may be rolled into a defined benefit superannuation fund.

At Woolworths, all of our employees play an important role in delivering the Company's financial performance and our remuneration policies have been developed to provide market competitive remuneration in order to sustain Woolworths'

competitive advantage and protect the interests of shareholders.

Woolworths has an achievement and performance oriented culture which our remuneration policies serve to drive and support. In recognising the importance of our people to our success, in excess of 46,000 current Woolworths employees participate in various equity-based schemes, sharing in the Company's success and aligning their interests with that of other shareholders. Remuneration policy is aligned with both our financial and strategic business objectives and recognises that people are a major contributor to sustained improvements in performance.

Woolworths' remuneration policy for all executives ensures:

- remuneration is market competitive and designed to attract, motivate and retain key executives;
- demanding performance measures are applied to both short and long-term "at risk" remuneration;
- short-term performance is linked to both financial and non-financial performance measures; and
- long-term performance is measured through shareholder value creation.

In summary, the Remuneration Report:

- explains the Board's policy for determining the nature and amount of remuneration of Directors and senior managers of the Company;
- explains the relationship between the Board's remuneration policy and the Company's performance;
- details and explains any performance conditions applicable to the remuneration of Directors and senior managers of the Company; and
- sets out remuneration details for each Director and the five specified senior executives of the Company (including the value of any options granted to those persons).

As required by the *Corporations Act 2001* (Cth), a non-binding resolution to adopt the Remuneration Report is to be put to shareholders at the meeting. The vote on this resolution is advisory only and does not bind the Directors or the Company.

*The Directors recommend that shareholders vote in favour of the resolution to adopt the Remuneration Report.*

### 3. Retirement and election of Directors

In accordance with Article 10.3 of the Company's Constitution, which provides for the retirement by rotation at each annual general meeting of one-third of the Directors and in accordance with Australian Stock Exchange Limited Listing Rule 14.4, which prohibits Directors from holding office (without

re-election) past the third annual general meeting following the Director's appointment or three years, whichever is longer, Mr James Strong and Mr John Astbury are to retire at the Annual General Meeting on 24 November 2006 ("Annual General Meeting").

In accordance with Article 10.5 of the Company's Constitution, both Mr Strong and Mr Astbury are eligible for re-election and have submitted themselves for re-election at the Annual General Meeting.

In accordance with Article 10.9, of the Company's Constitution, Mr Michael Luscombe has been appointed as a Director, as an addition to the existing Directors.

In accordance with Article 10.10 of the Company's Constitution, Mr Luscombe is eligible for election and has submitted himself for election at the Annual General Meeting.

Mr Pockett is not currently a Director but being eligible for election, and having been nominated by the Board, has submitted himself for election at the Annual General Meeting. If elected, his appointment will take effect at the conclusion of the Annual General Meeting.

In addition to the candidates set out above, an external candidate, Mr Stephen Mayne, seeks election to the Board. Mr Mayne is not currently a Director but being eligible for election, has submitted himself for election at the Annual General Meeting. If elected, his appointment will take effect at the conclusion of the Annual General Meeting.

The Board's policy on Board composition is to ensure that the Board comprises an appropriate mix of skills so as to provide the necessary breadth and depth of knowledge and experience which is required to meet the Company's responsibilities and objectives.

There are five candidates standing for four available Board positions. Accordingly, if more than four candidates receive more votes "for" than "against", only the four candidates who receive the greatest number of votes "for" will be elected to the Board.

The manner in which candidates are listed in this notice and on the proxy form has been determined by the auditor conducting a ballot. This item of business will be determined by a poll.

The following voting system will be adopted in relation to Resolutions 3(a) to (e):

- Shareholders may vote in favour of up to four candidates. If a Shareholder votes in favour of all five candidates then all their votes will be **invalid**.
- Shareholders may vote against as many candidates as they wish.
- To be elected, a candidate must receive more votes in favour of their election than against.

- If more than four candidates receive an excess of votes in favour over votes against, the four candidates with the most votes in favour will be elected (votes against the candidates will be disregarded for this part of the count).

Mr James Strong, Chairman, and the other Directors, intend to vote open proxies given to them “against” the election of Mr Mayne and “for” the election of Messrs Strong, Astbury, Luscombe and Pockett.

Details of the candidates are set out below:

**Thomas William Pockett**  
**Director of Finance**

Mr Pockett was educated in Sydney receiving a Bachelor of Commerce degree from the University of New South Wales. He is a member of the Group of 100 and was the National President from August 2000 to January 2003. He is an Australian Chartered Accountant (ACA) and was a member of the Financial Reporting Council from March 2003 to March 2006.

He joined Woolworths Limited as Chief Financial Officer in August 2002. He previously held the position of Deputy Chief Financial Officer at the Commonwealth Bank of Australia. Prior to his role with the CBA he was with Lend Lease Corporation. Whilst at Lend Lease he held several senior finance roles in different companies across the Lend Lease Group including Property and Financial Services with his last position before moving being General Manager Finance for Lend Lease Corporation.

Prior to Lend Lease he was with Chartered Accounting firm Deloitte.

**John Frederick Astbury FAICD**  
**Chairman Audit Committee and Member, Corporate Governance Committee**

Mr Astbury is also a Director of AMP Limited since September 2004 and of IAG Limited since April 2001. He was previously Finance Director of Lend Lease Corporation Limited and a Chief General Manager, National Australia Bank Limited. He had a long career in banking and financial services in both the UK and Australia.

Mr Astbury was appointed a Director of Woolworths Limited in January 2004. Age 62.

**Stephen D Mayne**

The following statement is based on information provided by Mr Mayne with his nomination.

Stephen Mayne is a Walkley Award-winning business journalist and a retail corporate governance campaigner. He founded the independent website [www.crikey.com.au](http://www.crikey.com.au), and is a co-founder of People Power, a new political party which campaigns for greater accountability in public life. He has stated

that he is standing on a platform that Woolworths divests its gambling interests, notably approximately 6,000 poker machines operated by its 75% -owned subsidiary ALH Group Pty Ltd (and ALH's wholly-owned subsidiaries), in the interests of greater corporate social responsibility. It is Mr Mayne's belief that a company such as Woolworths should not be Australia's largest operator of poker machine venues due to what Mr Mayne considers to be the social damage they cause.

Mr Mayne received a Bachelor of Commerce degree from the University of Melbourne. Age 37.

**Michael Gerard Luscombe**  
**Chief Executive Officer and Managing Director**

Mr Luscombe is a graduate of Monash University and Monash Mt Eliza Business School. In 1992, as a graduate of the Victorian Community Leadership Programme, he was made a Williamson Fellow.

Mr Luscombe is a long-term employee of Woolworths. His career extends over twenty-eight years starting as a Management Trainee in Woolworths Victoria.

He was appointed Chief Executive Officer and Managing Director on 1 October, succeeding Mr Roger Corbett. Mr Luscombe was appointed Chief Operating Officer in June 2006, having been Director of Supermarkets since September 2004. Prior to that Mr Luscombe held positions as Chief General Manager Supermarkets, Buying and Marketing, General Manager Supply Chain, General Manager Buying Long Life Products for Supermarkets, Safeway Merchandising and Marketing Manager, Senior Category Manager, Safeway Retail Operations Manager, Area Manager, Training and Development Manager, and Store Manager.

Mr Luscombe was appointed a Director of Woolworths Limited in June 2006. Age 53.

**James Alexander Strong**  
**Chairman, Member Corporate Governance Committee, Audit Committee and Personnel Policy Committee**

Mr Strong is currently Chairman of Insurance Australia Group Limited (IAG), Rip Curl Group Pty Ltd and the Australia Council for the Arts. He is also a Director of Qantas Airways Limited. Mr Strong is also a member of the boards of various sporting organisations.

He was the Chief Executive and Managing Director of Qantas Airways Limited until March 2001, and previously the Chief Executive of Australian Airlines Limited, Managing Partner and National Chairman of Corrs Chambers Westgarth Solicitors and Group Chief Executive of DB Group Limited (New Zealand).

He was appointed a Director of Woolworths Limited in March 2000 and Chairman in April, 2001. Age 62.

*The Directors, having conducted an assessment of the performance of each of Mr Strong and Mr Astbury, believe that it is in the interests of shareholders that each candidate be re-elected as a member of the Board, and recommends (with Mr Strong and Mr Astbury abstaining from voting in respect of his own appointment) that you vote in favour of each corresponding resolution.*

*The Directors recommend that Mr Luscombe and Mr Pockett be elected as members of the Board, and recommend (with Mr Luscombe abstaining from voting in respect of his own appointment) that you vote in favour of the corresponding resolutions.*

*Having regard to the scale and complexity of the Company's business, each Director believes that Mr Mayne does not have the experience and skill required of a Director of Woolworths Limited. Therefore, each Director believes that it is not in the best interests of shareholders that Mr Mayne be elected, and recommends that shareholders vote against the corresponding resolution.*

*The following table summarises the Director's recommendations in relation to voting on the election of candidates to the Board, as detailed above:*

| Candidate               | Candidates whom the Directors recommend you vote FOR | Candidates whom the Directors recommend you vote AGAINST |
|-------------------------|--|--|
| Thomas William Pockett  | •  |  |
| John Frederick Astbury  | •  |  |
| Stephen D Mayne         |  | •  |
| Michael Gerard Luscombe | •  |  |
| James Alexander Strong  | •  |  |

#### 4. Executive Directors' Options

The purpose of Resolutions 4(a) and (b) is to approve the grant of up to 1,500,000 options ("Options") to the Company's Group Managing Director and Chief Executive Officer ("CEO"), Mr Luscombe and the grant of up to 750,000 options to the Company's Director of Finance, Mr Pockett, under the Woolworths Long Term Incentive Plan ("Plan"). Resolution 4(b) is being put to shareholders in anticipation of Mr Pockett being elected to the Board (refer to Explanatory Notes relating to Resolution 3), and being a Director at the grant date of the Options.

The Plan was approved by shareholders in November 2004 and includes four separate sub-plans. The sub-plans relate to Options, Performance Rights, Performance Shares and Awards respectively.

Subject to approval by members, the Board proposes that Options will be issued to Mr Luscombe and Mr Pockett under the Plan and on the terms summarised below. In the Board's view, the hurdles which must be satisfied before the Options are exercisable link the ultimate value of the Options to the continued growth in the Company's earnings and further improvements in total shareholder returns. They will also provide a major incentive for both Mr Luscombe and Mr Pockett to ensure that the Company will continue its superior performance.

It should be noted that the issue of options to senior executives is a well established and standard component of the Company's remuneration structures. The Directors, other than Mr Luscombe in view of his personal interest in the resolutions, believe it is appropriate to grant Mr Luscombe and Mr Pockett the Options under the Plan.

#### Summary of the Option Sub-plan

A summary of the key features of the long-term incentive arrangements for the grants of Options to eligible Employees (including Executive Directors) under the Plan is set out below. A grant of Options to a particular Employee is subject to the Plan Rules and the terms of the specific grant.

**Invitation to Participate** – selected Employees will be invited to apply for up to a specified number of Options.

**Options are Non-transferable** – an Option granted to an Employee is not transferable, except with express approval or by force of law on death or legal incapacity.

**Exercise Price** – the exercise price will be the amount determined by the calculation of the volume weighted average price of the Company's Shares traded on the five trading days prior to the effective grant date ("Effective Date") of the Options.

**Performance Hurdles** – the Board has determined that the vesting or exercise of Options is to be conditional on the achievement of performance hurdles set out in the terms of the specific grant.

#### Proposed Grant of Options to Mr Luscombe and Mr Pockett

##### Initial grant

It is anticipated that the first grant of Options to Mr Luscombe and Mr Pockett under the Plan will be made in 2006 (the "2006 Grant"). The maximum number of Options that will be granted to Mr Luscombe and Mr Pockett under the 2006 Grant will be determined by the Directors, but will not exceed 500,000 in the case of Mr Luscombe, and 250,000 in the case of Mr Pockett.

Maximum number of Options issued under the Plan. The maximum number of Options that may be acquired by all participants under the Plan for whom shareholder approval is required is 2,250,000.

**Price**

The Options will be issued at no cost to Mr Luscombe and Mr Pockett. The Options will be exercisable, subject to the vesting and exercise conditions described below being met, at a price per Option of:

- in relation to Options in the 2006 Grant, \$19.47, being the volume weighted average price of the Company's shares traded on the ASX on the five trading days prior to 1 July 2006; and
- in relation to Options granted after the 2006 Grant, an amount that is the volume weighted average price of the Company's shares traded on the ASX on the five trading days prior to the Effective Date of those Options.

**Performance Hurdles for the 2006 Grant**

Performance Hurdles applicable to both Mr Pockett and Mr Luscombe. Details of the current performance hurdles that will apply to all of the Options granted to Mr Pockett and to at least 50% of the Options granted to Mr Luscombe in the 2006 Grant, are set out below. It is anticipated that the performance hurdles for Options granted to Mr Pockett in 2007 and 2008, and at least 50% of the Options granted to Mr Luscombe in those years, will be made on similar terms (although this has not been finally determined).

The performance hurdles that will apply to the remainder of the Options granted to Mr Luscombe in the 2006 Grant are detailed on page [15].

For the avoidance of doubt, references in this section to the "total grant" or "total number of Options" should be read in the case of Mr Luscombe as references to the 50% or more of his Options that will be subject to these hurdles.

Options granted to Eligible Executives will be issued on the basis of Earnings Per Share ("EPS") performance hurdle vesting conditions for 50% of the total number of Options granted and a Total Shareholder Return ("TSR") performance hurdle vesting condition for the remaining 50% of the Options granted.

Options will vest in five tranches, each of which has different performance hurdles. Options in Tranches 1 and 2 vest four years after the Effective Date provided the performance hurdles are met. Options in Tranches 3 to 5 vest five years after the Effective Date, provided the performance hurdles are met.

Vested Options may only be exercised after the fifth anniversary of the Effective Date unless the early exercise provisions of the Rules apply (see below). All unexercised Options lapse on the expiry date (which is five years and six months after the Effective Date). These exercise conditions and the performance hurdles for vesting are summarised in the following table.

| Tranche   | Percentage of Options in total grant that vest | Performance hurdle to be achieved                  | Exercise period   |
|-----------|--|--|---|
| Tranche 1 | 12.5%  | Average annual EPS growth of 10% p.a. over 4 years | From the fifth anniversary of the Effective Date to the expiry date |
| Tranche 2 | 12.5%  | Average annual EPS growth of 11% p.a. over 4 years | From the fifth anniversary of the Effective Date to the expiry date |
| Tranche 3 | 12.5%  | Average annual EPS growth of 10% p.a. over 5 years | From the fifth anniversary of the Effective Date to the expiry date |
| Tranche 4 | 12.5%  | Average annual EPS growth of 11% p.a. over 5 years | From the fifth anniversary of the Effective Date to the expiry date |
| Tranche 5 | 12.5% – 50%                                    | TSR hurdle   | From the fifth anniversary of the Effective Date to the expiry date |

### Earnings Per Share Performance Hurdle for Vesting

The performance hurdles for the Options comprised in Tranches 1 to 4 (representing 50% of the total grant) are based on the growth of Woolworths' Earnings Per Share from one financial year to the next.

Of the Options comprised in Tranches 1 and 2, the number of Options that will vest at the end of four years from the Effective Date will be as follows:

- (Tranche 1): if the average annual EPS growth over the period from the Effective Date to the fourth anniversary of the Effective Date is at least 10% per annum compounded, 12.5% of the total grant of Options vest; and
- (Tranche 2): if the average annual EPS growth over the period from the Effective Date to the fourth anniversary of the Effective Date is at least 11% per annum compounded, an additional 12.5% of the total grant of Options vest.

Of the Options comprised in Tranches 3 and 4, the number of Options that will vest at the end of five years from the Effective Date will be as follows:

- (Tranche 3): if the average annual EPS growth over the period from the Effective Date to the fifth anniversary of the Effective Date is at least 10% per annum compounded, 12.5% of the total grant of Options vest; and
- (Tranche 4): if the average annual EPS growth over the period from the Effective Date to the fifth anniversary of the Effective Date is at least 11% per annum compounded, an additional 12.5% of the total grant of Options vest.

Earnings Per Share is the non-dilutive EPS which will be measured as the net profit after outside equity interests divided by the weighted average number of Shares on issue (where the closing balance of Shares on issue includes ordinary Share issues and dividend reinvestment plan issues) over the relevant period.

### Total Shareholder Return Performance Hurdle for Vesting

The performance hurdle relating to Tranche 5 (representing the remaining 50% of the grant) is based on the relative growth in the Woolworths' Accumulative Index (which is a measurement of Woolworths' TSR), over the period of five years from the Effective Date, compared with the TSR growth of a peer group of comparable companies. If growth in the Woolworths' Accumulative Index equals or exceeds the nominated percentile ranking of TSR growth of the peer group of companies, Options will vest in accordance with the table below.

For the purposes of this calculation, the peer group

will be the constituent companies (from time to time) of the Accumulation Index which is prepared by reference to the S&P/ASX 100 Industrial Index (excluding companies in the ASX Banks and Finance Accumulation Index, ASX Resources and ASX Trusts and any companies that have merged, had a share reconstruction or been delisted as at the measurement date), collectively referred to as the "Comparator Companies".

Broadly, TSR measures growth in a company's share price plus dividends notionally reinvested in the company's shares.

For the purpose of measuring TSR performance, a three-month smoothing period will be used to eliminate market volatility. Using the Accumulation Index, the Comparator Companies will be ranked with the company with the highest TSR figure having the highest ranking and the other companies ranked below it according to their respective TSR figures, in descending order.

The number of Options in Tranche 5 which vest depends upon Woolworths' TSR figure relative to the percentile performance of the Comparator Companies, as follows:

| Woolworths TSR equals or exceeds the following percentile of the Comparator Companies | Percentage of Options in total grant that vest |
|---|--|
| 60th percentile   | 12.5%  |
| 65th percentile   | 25.0%  |
| 70th percentile   | 37.5%  |
| 75th percentile   | 50.0%  |

Where Woolworths' TSR falls between two of the stated percentiles, the percentage of Options that become vested will be pro rata on the basis of the Woolworths' TSR performance.

Performance Hurdles applicable to

Mr Luscombe only

Up to 50% of the Options granted to Mr Luscombe under the 2006 Grant will be subject to different performance hurdles to those specified above. While the performance hurdles for each Tranche will be of a similar nature, they will need to be achieved over a **three-year period** (rather than the four-year period that applies to Tranches 1 and 2 above, and the five-year period that applies to Tranches 3 to 5 above). In addition, any Options which vest in Mr Luscombe under these varied hurdles will be exercisable from the **third** anniversary of the Effective Date (rather than from the fifth anniversary of the Effective Date, which applies to the other Options).

The performance hurdles that will apply to up to 50% of Mr Luscombe's Options in grants made during 2007 and 2008 have not yet been determined.

### **Other terms of the Options**

**Exercise of Options** – the Board will prescribe a date or dates on which Options become exercisable. On or after the prescribed date, and provided any other vesting or exercise conditions prescribed by the Board have been achieved, the Employee may acquire that number of the Shares by exercising the same number of Options. An Option will expire if it is not exercised within the life of the Option.

**Early Exercise** – early exercise of the Options may be permitted at the discretion of the Board, or its delegate, if the Employee ceases employment with any participating Woolworths Group company (“Participating Company”) in circumstances such as death, retirement, ceasing employment because of illness, incapacity, redundancy or where otherwise permitted by the Board or its delegate. Early exercise of Options may also be permitted on a takeover, scheme of arrangement, or winding up of Woolworths, subject to Board or its delegate’s approval.

Unexercised Options of Employees whose employment is terminated for cause may only be exercised if permitted at the discretion of the Board or its delegate.

**Entitlement on Exercise** – on exercise of Options, Woolworths will issue the Shares resulting from the exercise of Options to the person exercising the Options.

**Reconstruction and Bonus Issues** – an Employee’s entitlement to Shares under an Option will be adjusted to take account of capital reconstructions and bonus issues as if the Option had been exercised before the determination of entitlements in respect of those issues.

**Restriction on Disposal of Shares** – the Board may impose a restriction on disposal of Shares issued on exercise of an Option.

### **Other information relating to the proposed grant of Options**

ASX Listing Rule 10.14 provides that a listed company must not permit a Director to acquire Shares or rights to Shares under an employee incentive scheme without the approval of shareholders by ordinary resolution.

In accordance with Listing Rules 10.14 and 10.15, the following additional information is provided for shareholders:

- No Director other than Mr Luscombe and Mr Pockett is eligible to participate in the issue of Options under the Woolworths Long Term Incentive Plan the subject of resolutions 4(a) and (b). No Director has received any grants of Options

under the Plan since the Plan was approved by shareholders.

- Upon satisfaction of the relevant vesting conditions as referred to above, each of Mr Luscombe and Mr Pockett will be entitled to exercise each Option and be issued with one fully paid ordinary share in the Company (subject to the terms of the issue of the Options relating to capital reconstructions of the Company and other matters required by the Listing Rules).
- No loan will be provided by the Company in relation to the grant or exercise of the Options.
- If shareholders approve resolution 4(a) and (b) a maximum of 1,500,000 Options will be issued to Mr Luscombe and a maximum of 750,000 Options will be issued to Mr Pockett by no later than three years after the passing of this resolution.
- Any new member of the Board will not be issued Options under the Plan until further shareholder approval is obtained under the relevant ASX Listing Rules.
- Details of Options or Shares issued under the Plan in any financial year will be published in the Company’s Annual Report along with confirmation that the issue was approved by shareholders in accordance with ASX Listing Rule 10.14.

### **The Acceleration of Vesting**

Under section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a board or managerial office in the company or a related body corporate if it is approved by shareholders or an exemption applies. Accordingly, approval is also sought for any benefit which Mr Luscombe and Mr Pockett may receive under the Plan on termination of their employment (for example, if they are totally and permanently disabled).

*The Directors other than Mr Luscombe recommend that shareholders vote in favour of Resolutions 4(a) and (b). Mr Luscombe does not give a recommendation in view of his personal interest in the resolutions.*

### **5. Adoption of new Constitution**

Since adoption, the Company’s Constitution has been amended from time to time. While there have been some amendments to address specific changes in the law, it has not been updated in a substantial fashion.

Having regard to the time which has elapsed since the Constitution was adopted, and the specific nature of the subsequent changes, the Directors considered that it was in the interests of good governance to undertake a comprehensive review of the Constitution. As a result of that review, it is proposed

to update the Constitution in a cohesive fashion, having regard to current law and practice, and recent amendments to the *Corporations Act 2001* ("Act") and the ASX Listing Rules.

As some of those changes to the Constitution (such as changes in terminology) would affect a substantial number of Articles, it is proposed to adopt a new Constitution, rather than amend the existing document.

The majority of the changes introduced under the new Constitution are administrative in nature, and on this basis, the Company does not believe they will have a significant impact on shareholders. To assist shareholders, a summary of the more significant changes are set out below. (Unless indicated to the contrary, references to Articles below are references to Articles in the proposed replacement Constitution.)

#### **Share qualification of Directors (Article 10.15)**

Under Article 10.8 of the current Constitution, each Director at the time of his or her appointment and while holding office as a Director, must be the registered holder or beneficial owner (whether alone or jointly with another person) of at least 5,000 fully paid ordinary shares in the Company.

Having regard to the current remuneration policy for Directors and the significant increase in the value of the Company's shares in recent years, it is proposed to amend the constitutional requirement that all Directors hold at least 5,000 shares. Instead a new Article 10.15 will enable the Board to determine policies on share ownership for non-executive Directors from time to time. The Directors consider that the increased flexibility of this provision will allow the Directors to better reflect the interests of the Company, by ensuring that non-executive Directors have an equity interest in the Company which is appropriate for the Company and the circumstances of the Directors from time to time. It is proposed that initially, the Board will adopt a policy that requires non-executive Directors to satisfy a share qualification of 5,000 shares in the Company, which may be held either personally, or through a personal superannuation fund.

#### **Remuneration of Directors (Article 10.8)**

In addition to the existing powers relating to Director remuneration, the new Constitution will:

- make it explicit that remuneration is provided wholly in cash unless the board, with agreement of the Director concerned, determine that part is to be satisfied in the form of non-cash benefits, including the purchase of shares or the grant of options to subscribe for shares. The sum determined by the Company in general meeting does not include

remuneration (whether in the form of share, option or other equity plans) which has been separately approved by the Company in general meeting, or which is not required to be approved by the Company in general meeting under the Listing Rules;

- provide that in making the determination above, the Directors may fix the value of any non-cash benefit; and
- make it explicit that the Director's remuneration accrues from day to day, except for any non-cash benefit which is taken to accrue at the time the benefit is provided, subject to the terms on which the benefit is provided.

These changes are consistent with the more flexible share qualification provision referred to above.

In relation to superannuation contributions, it is intended to include a new Article 10.9 which provides that, if required by law, the Company may make contributions to a fund for the purpose of making provision for or obtaining superannuation benefits for a Director. A contribution made by the Company under this article will not be remuneration to which any limit on total remuneration under Article 10.8 applies, provided the contribution is excluded from the amount approved by shareholders under the Listing Rules.

#### **Indemnity and Insurance provided to Directors and Officers (Article 20)**

The new Constitution will also have an updated provision relating to the insurance for, and indemnification of, Directors. In particular, it is proposed to extend the existing Article in the Constitution to permit indemnification and insurance to be provided to officers of the Company generally (whereas the existing Article is limited to current or former Directors or Secretaries of the Company).

The changes are also intended to ensure that the Article will be consistent with the proposed amendment to the Trade Practices Act (which have yet to be enacted at the date of this notice) and any other future Australian legislation which may restrict how the Company indemnifies its officers, by ensuring that the provisions are those which are permitted by Australian legislation in force from time to time.

#### **Electronic Notices of Meeting (Article 8.3)**

The new Constitution will expressly enable the Company to provide notices of general meetings to shareholders electronically, and reflects the current provisions of the Corporations Act. Where a shareholder elects to receive notices electronically, the Company proposes to send electronic notices of meeting to them.

### **Retirement and Election of Directors (Article 10.3)**

It is proposed to replace the existing clauses which provide for the rotation of one-third of Directors at each annual general meeting with an updated clause which more closely reflects the three-year rotation requirements set out in Listing Rules 14.4 and 14.5, and current corporate practice. The Listing Rules require Directors to retire at the third annual general meeting after their appointment or after three years, whichever is longer. It is proposed to remove the additional requirement in the current Constitution for a third of the Directors to retire each year. This is expected to have little practical impact.

### **Proportional Takeover Provisions in the Constitution (Articles 6.9 to 6.14)**

At the annual general meeting of the Company held on 21 November 2003, shareholders approved the proportional takeover approval provisions in Articles 5.12 to 5.19 of the Company's current Constitution which provide that a transfer of shares resulting from a proportional takeover bid made for shares in the Company cannot be registered unless the shareholders in general meeting approve the bid. This followed shareholder approval of the insertion in the Company's Constitution of the same provisions at the 1998 and 2000 annual general meetings.

Under the Act proportional takeover approval provisions must be renewed by shareholders every three years or otherwise they lapse and cease to apply. The proportional takeover approval provisions which are contained in Articles 5.12 to 5.19 of the Company's current Constitution were last approved by shareholders on 21 November 2003 and hence will cease to apply from 20 November 2006. The Directors consider that it is in the interests of the Company's shareholders to have proportional takeover provisions in the Constitution and shareholders are asked to affirm the continued operation of Articles 5.12 to 5.19 inclusive, in materially the same terms, as Articles 6.9 to 6.14 of the new Constitution. Articles 6.9 to 6.14 of the new Constitution will cease to apply after three years unless renewed by shareholders in general meeting.

#### **Effect of proposed provision:**

If Articles 6.9 to 6.14 are approved upon adoption of the new Constitution and a proportional takeover bid is made for a class of shares in the Company, the Directors will be required to either convene a general meeting of shareholders in that class to vote on a resolution to approve the proportional takeover bid or to conduct a postal ballot to approve the proportional takeover bid. The resolution must be voted on at least 14 days before the bid closes. The bidder and any associates will be excluded from voting.

If the resolution is rejected by shareholders, then the bid will be deemed to be withdrawn and registration of any shares resulting from the proportional bid will be prohibited. Acceptances will be returned and any contracts formed by acceptances will be rescinded.

If the resolution is approved, transfers of shares to the bidder will be registered provided they comply with other provisions of the Company's Constitution.

If no resolution is voted on at least 14 days before the close of the bid then a resolution to approve the bid will be deemed to have been passed in accordance with these provisions.

In accordance with section 648G of the Act, the provisions of the proposed Articles will expire three years from the date of the Annual General Meeting, unless previously renewed by shareholders by special resolution.

#### **Reasons for proposing resolution:**

Part 6.5 Division 5 of the Act permits a company to include proportional takeover approval provisions in its constitution. A proportional takeover bid is a bid to buy a specified portion of each shareholders shares.

The Directors consider that it is in the interests of the Company's shareholders to have a proportional takeover approval rule in its Constitution as it gives shareholders the opportunity to vote on a proposed proportional takeover bid. If the proposed proportional takeover bid were not subject to such a vote, control of the Company may be acquired by a party holding less than a majority stake without shareholders having the opportunity to dispose of all their shares. This leaves shareholders at risk of becoming part of a minority interest in the Company, which would result in them suffering a decrease in the value of their shareholding as the reduced opportunities to dispose of their remaining shares would lead to lower prices for the Company's shares.

The proposed provisions give shareholders the opportunity to decide whether a proportional takeover bid should proceed. If it does proceed, individual shareholders can make a separate decision as to whether they wish to accept the bid for the specified proportion of their shares.

#### **Present acquisition proposals:**

At the date of this Notice of Meeting, none of the Directors is aware of any proposal by a person to acquire, or to increase the extent of, a substantial interest in the Company.

#### **Potential advantages and disadvantages:**

The proposed provisions are considered advantageous as they will enable the Directors to ascertain the views of shareholders on any provisional takeover bid. Apart from this, there is no specific advantage or

disadvantage for Directors, as directors, on inserting the proportional takeover approval provisions.

The provisions could make it easier for Directors to discharge their fiduciary and statutory duties to the Company and shareholders in respect of a bid as it allows the Directors to formally ascertain the views of shareholders in respect of the bid.

The provisions will ensure that all shareholders will have the opportunity to consider a proportional takeover bid and vote on whether it should be permitted to proceed. This should ensure that the terms of any future proportional takeover bid are structured to be attractive to a majority of independent shareholders. Alternatively it may be argued that the takeover approval provisions make a proportional takeover more difficult to achieve and therefore proportional bids will be discouraged. This in turn may reduce opportunities which shareholders may have to sell some of their shares at an attractive price to persons securing control of the Company and may reduce an element of takeover speculation from the Company's share price.

#### **Administrative Changes**

There are other changes between the existing and replacement Constitutions which are more administrative in nature, or which have regard to legislative changes which have occurred in the period since the Constitution was last adopted. They include:

- updating procedures relating to redeemable preference shares;
- updating references to the ASX Market Rules, ACH Clearing Rules and ASTC Settlement Rules (this change is not material and simply reflects the fact that definitions relating to these Rules have been replaced);
- including an express power of delegation for Directors which is in substitution for, and to the exclusion of, the power conferred by s198D of the Corporations Act;
- clarifying that whilst acting as a Director, an alternate Director is not an agent of the appointer, and the alternate is responsible to the exclusion of the appointer for alternate's own acts and defaults;
- that the Company has a first and paramount lien on each share registered in the name of the member for all money payable to the Company by the member under any loans made under an employee incentive scheme;
- extending the Articles to give power to change the place of a general meeting (and not just the date and time);
- updating the provisions relating to general notification of changes to the general meeting. This extends the existing Article by including

various methods by which notification may be made;

- including a provision about evidence of service of notices, as well as updating the existing provisions relating to notices; and
- removing codification of the Corporations Act provisions regarding notices of meetings, proxies voting rights, and generally incorporating by reference the provisions as permitted by the Corporations Act.

In addition, a number of redundant Articles in the current Constitution have not been retained in the proposed replacement Constitution. These include Articles relating to:

- share/option certificates and CHES statements (existing Articles 2.11–2.15);
- proceedings for the recovery of a call (existing Article 4.11);
- duplicate provisions relating to joint holders (existing Article 6.7);
- the forfeiture and surrender of shares (existing Article 7.14 and 7.15);
- voting procedures applicable to different parcels of partly paid shares (existing Article 9.27);
- the fact that a share qualification does not apply to alternate directors (existing Article 12.8);
- the powers conferred on a Managing Director and Executive Director, and in particular, removing the provision which provides that any such powers may be concurrent with or to the exclusion of the powers of the Directors (existing Article 12.38); and
- the ranking of holders of restricted securities on a winding up (existing Article 20.3).

While the majority of the changes to the Constitution are administrative in nature, the proposed amendments are numerous. For this reason, the above summary is not an all-encompassing list but rather a summary of the key differences only. Copies of the proposed replacement Constitution and the existing Constitution, can be viewed on the Company's website at [www.woolworths.com.au](http://www.woolworths.com.au) or by contacting the Company's Share Registrar, Computershare Investor Services Pty Limited on telephone 1300 368 664 or facsimile number (03) 9473 2564. Shareholders may also view a copy of the Company's Constitution at the office of Computershare Investor Services Pty Limited at Level 12, 565 Bourke Street, Melbourne VIC 3000 or Level 3, 60 Carrington Street, Sydney NSW 2000.

*The Directors consider the adoption of the proposed new Constitution, including the proposed proportional takeover provisions, is in the best interests of shareholders and accordingly recommend that you vote in favour of the resolution.*

# WOOLWORTHS LIMITED

ABN 88 000 014 675

## Proxy Form

Mark this box with an 'X' if you have made any changes to your address details (see reverse)

☐

**All correspondence to:**  
Computershare Investor Services Pty Limited  
GPO Box 7045 Sydney  
New South Wales 2001 Australia  
Enquiries (within Australia) 1300 368 664  
(outside Australia) 61 3 9415 4055  
Facsimile 61 3 9473 2118  
www.computershare.com

### Appointment of Proxy

I/We being a member/s of Woolworths Limited and entitled to attend and vote hereby appoint

☐

the Chairman  
of the Meeting  
(mark with an 'X')

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Woolworths Limited to be held at Parkside Auditorium, Sydney Convention & Exhibition Centre, Darling Harbour, Sydney NSW on Friday 24 November 2006 at 11:00am and at any adjournment of that meeting.

☐

**IMPORTANT: FOR ITEM 4(a) & 4(b) BELOW** If the Chairman of the Meeting is your nominated proxy, or may be appointed by default, and you have not directed your proxy how to vote on item 4(a) & 4(b) below, please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of those items and that votes cast by him, other than as proxy holder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on item 4(a) & 4(b) and your votes will not be counted in computing the required majority if a poll is called on these items. The Chairman of the Meeting intends to vote undirected proxies in favour of item 4(a) & 4(b).

### Voting directions to your proxy - please mark ☒ to indicate your directions

#### Ordinary Business

##### 2. Remuneration Report

##### Election of Directors

3(a) To elect Mr Thomas William Pockett as a Director\*\*

3(b) To re-elect Mr John Frederick Astbury as a Director\*\*

3(c) To elect Mr Stephen D Mayne as a Director\*\*

3(d) To elect Mr Michael Gerard Luscombe as a Director\*\*

3(e) To re-elect Mr James Alexander Strong as a Director\*\*

For Against Abstain\*

|                          |                          |                          |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

#### Special Business:

##### Executive Directors' Options

4(a) Grant of Options to Group Managing Director

4(b) Grant of Options to Director of Finance

5. Adoption of New Constitution

For Against Abstain\*

|                          |                          |                          |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

In addition to the intention advised above, the Chairman of the Meeting intends to vote undirected proxies in favour of each of the other items of business except item 3(c). The Chairman of the meeting intends to vote undirected proxies against item 3(c).

\* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

\*\* IMPORTANT: You may only vote in favour of a maximum of 4 candidates. Votes in favour of 5 candidates will be invalid. Refer to the instructions overleaf for more information.

### Appointing a second Proxy

I/We wish to appoint a second proxy

☒

Mark with an 'X' if you wish to appoint a second proxy.

AND

%

OR

State the percentage of your voting rights or the number of securities for this Proxy Form.

### PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

Date

W O W

2 P X

014036\_B - V8



# How to complete the Proxy Form

## 1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

## 2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

## 3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid, unless the marks are a number or percentage of shares. If you attempt to vote in excess of your shareholding on the share register, whether by one proxy or two, your vote will be invalid.

Items 3(a) to 3(e) relate to the election of Directors. There are five candidates standing for four available Board positions. You may vote in favour of up to four candidates. Votes in favour of five candidates will be invalid. You may vote against as many candidates as you wish.

If the Chairman of the Meeting is your proxy and you do not direct your proxy how to vote on Item 4(a) & 4(b), you must mark the box next to the heading "IMPORTANT: FOR ITEM 4(a) & 4(b) BELOW" or the Chairman of the Meeting will not be able to vote your proxy on that item. The Chairman of the Meeting intends to vote undirected proxies in favour of Item 4(a) & 4(b) and each of the other items of business except Item 3(c). The Chairman of the Meeting intends to vote undirected proxies against Item 3(c).

## 4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- indicate that you wish to appoint a second proxy by marking the box.
- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form (together being no more than 100% of your total shareholding). If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together in the same envelope.

## 5 Signing Instructions

You must sign this form as follows in the spaces provided:

- Individual: where the holding is in one name, the holder must sign.
- Joint Holding: where the holding is in more than one name, all of the securityholders should sign.
- Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
- Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at [www.computershare.com](http://www.computershare.com).

## Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting as shown on the Notice of Meeting attached. Any Proxy Form received after that time will not be valid for the scheduled meeting.

### Documents may be lodged using the reply paid envelope or:

- IN PERSON Registered Office - 1 Woolworths Way, Bella Vista,  
NSW 2153 Australia  
Share Registry - Computershare Investor Services Pty Limited,  
Level 2, 60 Carrington Street, Sydney NSW 2000 Australia
- BY MAIL Registered Office - 1 Woolworths Way, Bella Vista,  
NSW 2153 Australia  
Share Registry - Computershare Investor Services Pty Limited,  
GPO Box 242, Melbourne VIC 8060 Australia
- BY FAX 61 3 9473 2118

ONLINE Proxies can also be lodged online via the following webpage:  
<<http://www.computershare.com/au/proxy/wow>>. To use this online facility you will need your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode, as shown on your proxy form. You will be taken to have signed your proxy if you lodge it in accordance with the instructions on the website. The online proxy facility may not be suitable for some securityholders who wish to split their votes on an item of business or appoint two proxies with different voting directions.