WOOLWORTHS GROUP

20 April 2018

Ms Jessica Strout
Principal Research Officer
Senate Economic References Committee
Department of the Senate
Parliament of Australia
CANBERRA ACT

Ref: Inquiry into the Commitment to the Senate issued by the Business Council of Australia: Woolworths Group Ltd

Dear Ms Strout

Thank you for your email of 12 April 2018 containing questions on notice from the Senate Economics References Committee regarding the above inquiry.

Question One requests historical Australian corporate tax paid by Woolworths Group Ltd ("Woolworths"). Please find this information at Attachment A.

Questions Two and Three request a range of forecasts through financial year 2021, including future capital management strategies. The References Committee will appreciate that, as an ASX-listed entity, Woolworths does not provide market guidance. It complies fully with its continuous disclosure obligations. The information you have sought extends beyond any information we have provided to the market, and we regret we are unable to provide it to the Committee.

Woolworths can, however, elaborate on the basis of its support for the proposed reduction in the corporate tax rate for companies with revenue greater than $50 million. Woolworths Group is a company that seeks to:

- deliver a world-class retail experience for each of its 25 million+ weekly customer visits;
- provide a rewarding professional environment for its 189,000+ team members in Australia;
- deliver a satisfactory and sustainable financial return for its millions of direct and indirect Australian shareholders;
- enter into mutually beneficial arrangements with its thousands of suppliers (2,300+ of which have an annual revenue of less than $1m with Woolworths); and
- be a valued member of the communities of which it is a part, including helping to drive healthier and more environmentally sustainable outcomes.

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In aspiring to achieve the above, and doing so within an intensely competitive retail market including strong domestic and foreign participants, Woolworths invests heavily across its business. This includes investment in our traditional core activity such as distribution infrastructure and store network. In FY2017, this included 91 store renewals and new stores in our Australian Food business and 31 net new stores across our Endeavour Drinks business. It also includes investments in our WooliesX business unit to meet rapidly changing customer preferences. In FY17 alone, these investments exceeded $1.8 billion. They helped to underpin significant new job creation across the Woolworths Group.

As indicated in Woolworths' 2017 Annual Report, our medium (net) target is to open 10-20 new full range Woolworths supermarkets per annum in Australia, and 12 to 20 new Dan Murphy's or BWS stores per annum. This is in addition to our ongoing store renewal program. It is these investments - improving our customer experience, strengthening our team, deepening our supplier arrangements and supporting the communities of which we are a part - that we believe will underpin and drive our future competitiveness.

The ability to retain more of our earnings by virtue of a more competitive corporate tax rate will enable us to invest at a rate faster than otherwise would be the case. In so doing, accelerating those customer outcomes, creating the ability to employ more team members than otherwise would have been the case and providing us with a greater financial capacity to invest in innovative technologies and other solutions – whether that be sustainability measures across our supply chain or in the on-line domain – that are critical to our future success. That enhanced capability would also extend to the wider commercial ecosystem of which we are a part, including measures designed to support small to medium-sized suppliers.

It is, therefore, to us self-evident that the proposal for a corporate tax cut, taking full effect in 2026/27, will accelerate and increase Woolworths' ability to invest in the measures that allow it to enter its second century of operations well-placed to deliver on the objectives articulated above.

Yours sincerely,

[redacted]

Christian D. Bennett
Head of Government Relations and Industry Affairs
Woolworths Group Ltd

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Attachment A

Woolworths Group Ltd And Australian Controlled Entities
Effective Tax Rate FY13 to FY17

	FY13	FY14	FY15	FY16	FY17	Average (excluding FY16)
Accounting Profit / (Loss) Before Tax ($m)	3,331.1	3,516.9	2,862.6	(1,374.3)	2,740.7	
Tax Expense ($m)	933.3	1,023.9	909.7	353.3	812.5	919.8
Effective Tax Rate (as a % of accounting profit before tax)	28.02%	29.11%	31.78%	n.m.	29.64%	29.55%
Cash tax paid ($m)	922.3	1,088.7	973.5	774.0	588.1	893.1
Cash tax rate (as a % of accounting profit before tax)	27.69%	30.96%	34.01%	n.m.	21.46%	28.69%

Notes

1. The accounting profit numbers are the amounts that were included in the lodged income tax returns for Woolworths Group Ltd ("Woolworths") and its Australian controlled entities. It includes the results of both continuing and discontinued operations. As requested by the Committee, it does not include any results attributable to the overseas subsidiaries of Woolworths Group Ltd.

2. The FY16 accounting profit number in the above table has been adjusted to exclude the impairment expenses booked in the accounts of Woolworths Group Ltd that were also booked in the accounts of the home improvement group for the same year. If this was not done the accounting loss shown for FY16 would be significantly overstated.

3. Woolworths always has differences between its tax expense and its tax payments for each financial year. These differences are attributable to:

a) Lags between when instalments are payable and when the relevant tax expense is booked. For instance, the tax expense included in the accounts records the tax expense attributable to the entire financial year whereas the cash tax paid may not occur until a later financial year, eg. the June instalment is always paid in the following financial year;

b) There are always timing differences that are included in the tax return in a different financial year to when they are included in the accounts. For the Woolworths Group Ltd tax consolidated group ("the Woolworths group") the main timing differences are employee provisions which are deductible when paid not when expensed;.

c) There was a notable difference in FY16 between the tax expense and tax paid which was attributable to significant items that were expensed in FY16 but which had to be added back for tax purposes. These significant items related to various provisions such as redundancies and onerous lease provisions that were only deductible when paid. These tax deductions started to occur in FY17 as seen from the cash payments being lower than the tax expense.

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