WOOLWORTHS GROUP

ASX Announcement

25 July 2016

Update on Operating Model Review

Please see attached release.

For and on behalf of
WOOLWORTHS LIMITED

RICHARD DAMMERY
Chief Legal Officer and Company Secretary

25 July 2016

Update On Operating Model Review

- **Clear signs of progress in Australian Supermarkets**
  - Record Voice of the Customer scores
  - Team engagement scores improving
  - Continued transaction growth, with item growth now positive
- **Group review leads to restructuring costs of $959 million ($571 million non-cash) or $766 million after tax to be recognised in our financial year 2016 results:**
  - **New operating model implemented to drive improved accountability and performance**
    - 1,000 team members moved from group office into businesses
    - A further 500 roles to be permanently removed from support office and supply chain
    - Sales per square metre and Return On Funds Employed introduced as key long-term performance indicators
  - **Decisive action taken on General Merchandise with restructuring costs of $460 million, including a $309 million impairment of EziBuy**
    - BIG W and EziBuy separation completed
    - Exploring options for possible sale of EziBuy
  - **New Australian Supermarkets rollout slowed significantly and provision taken to close underperforming or unprofitable stores**
- **FY'16 EBIT from Continuing Operations before Significant Items of $2,550 - $2,570 million**

Woolworths Limited Chief Executive Officer, Brad Banducci, today said the operating model review and turnaround measures implemented since he was appointed to head the Woolworths Group in February this year were showing real momentum.

"Five months ago I said we would work hard to get customers to put us 1st, to improve our culture and rebuild momentum.

"Today's announcement demonstrates both the progress we are making and our absolute commitment to act quickly to rebuild the business by doing the right thing by our customers, shareholders, team and suppliers.

"While we have a long way to go, in Supermarkets our strategy to get customers to put us 1st through our investment in price, quality, service and customer experience is translating into improving Voice of the Customer Scores (75 at end of June), transaction and item growth, and strong early results from our trial store renewal program. Most importantly, our latest Supermarkets team engagement scores show the culture is changing, with Team engagement up 3 points at the end of June.

"We have changed our Group operating model and moved more than 1,000 team members directly into our businesses to improve accountability and help us better support our store teams and customers. We are also streamlining our shared services and as a result approximately 500 roles will be permanently removed from our support office and supply chain. We will continue to review non-customer facing roles throughout the business.

"We have taken decisive action in General Merchandise to position the business for success. The synergies expected at the time Woolworths bought EziBuy were not realised and the performance of that business has been below our expectations. As a result, we have separated BIG W and EziBuy and will look at options to sell EziBuy. We will recognise impairments of $309 million in EziBuy.

"The transformation of BIG W is progressing well under Sally Macdonald's leadership and the impairments and other restructuring costs of $151 million announced today help us set this business up for improved performance.

"We have significantly slowed our new Supermarket rollout program to focus on renewing our existing stores. We will close some underperforming and non-strategic stores and cancel or defer pipeline stores to allocate more capital to renewing our existing store network.

"The actions announced today result in Woolworths recognising a significant item of $959 million or $766 million after tax in our financial year 2016 results. $571 million of the pre-tax number will be non-cash.

"While we have had to make some tough decisions and this has ramifications for many of our team, we are confident we are putting in place solid foundations for the future and early results give us confidence we are on the right track. This will be a three to five year journey and we are determined to drive sustainable improvements in sales per square metre and Return on Funds Employed to deliver value for shareholders," Mr Banducci said.

Significant Items

A breakdown of the significant items is set out below reflecting the specific areas of focus during the review:

- Costs associated with the implementation of the new operating model and other strategic changes of $155 million ($110 million after tax)
- Costs associated with the review of General Merchandise including strategy changes, store footprint, asset impairment and the write-down of EziBuy goodwill and other intangible assets of $460 million ($407 million after tax)
- Costs associated with the closure of loss-making or underperforming stores or the cancellation or deferment of pipeline stores of $344 million ($248 million after tax)

Operating model and strategic changes ($155 million)

The implementation of our new operating model has resulted in a charge primarily related to restructuring initiatives across Group support functions and supply chain. The major categories comprise redundancy costs, impairment of IT and related assets, impairment of supply chain assets and related projects, and consultancy and other third party costs.

Redundancy costs of $35 million primarily reflect a reduction in approximately 500 roles across our support office and supply chain network. We are closing our Hume Distribution Centre in Victoria in FY'19 and in addition to redundancies included above, have impaired its assets and provided for an onerous lease charge for the lease period beyond the planned closure of the site. This decision together with the write-off of costs capitalised as part of Mercury2 initiatives no longer being pursued will result in costs of approximately $40 million.

Other costs of approximately $80 million include impairment of assets related to strategic initiatives that we are no longer pursuing, impairment of IT platform assets and consultancy and other third party costs associated with the operating model review.

General Merchandise impairment

Sally Macdonald commenced as CEO of BIG W in January and has now completed a review of the General Merchandise business.

EziBuy ($309 million)

The EziBuy business has been fully separated from the BIG W business following recognition that the expected synergies between these two businesses have not being realised and, in many cases, have resulted in dis-synergies for both businesses.

Given our decision to separate EziBuy from BIG W and the significant deterioration in the trading performance of the business, we have impaired the goodwill and other intangible assets of EziBuy by $309 million. We are currently exploring options for the sale of the business.

BIG W ($151 million)

Restructuring costs of $43 million have been incurred in BIG W as we realign previously group led functions across sourcing, online, quality, procurement, logistics and other functions, and integrate these into BIG W. The restructuring costs mostly comprise an inventory impairment of $31 million for product lines that we intend to exit under our new BIG W ranging strategy, as well as some redundancy and IT costs of $12 million.

BIG W has 186 stores across Australia today. Of this, we have identified five BIG W stores that are likely to close in the next three years based on current trading performance at or before their lease expiry. There are 18 additional stores where we are recognising an impairment of store assets and onerous lease obligations where necessary given a reassessment of the likely trading performance of the stores. This brings the total store impairment and related charges to $108 million for the 23 stores.

Store network optimisation and property rationalisation excluding BIG W ($344 million)

We have carried out a comprehensive store network and property portfolio review across the Group resulting in impairments and other charges of $344 million. These costs primarily relate to the planned store closures of underperforming and non-strategic stores as well as the deferral and exit of non-core property development assets in line with the revised property network plan.

We have more than 960 Supermarkets serving over 18 million customers per week. We have decided to slow net new Supermarket openings from approximately 90 planned over the next three years to approximately 45. Stores to be closed are primarily either loss-making or in the bottom quartile of the portfolio measured on sales per square metre.

Capital investment will be reallocated to store renewals with 82 renewals planned for FY'17. While early, the trading performance in our six trial renewal stores to date is very encouraging.

Stores to be closed before the end of the lease term

We exited 3 stores in Q4'16 and intend to exit another 30 stores across the Group (excluding BIG W) prior to the end of the lease-term which will result in costs of approximately $196 million in FY'16. The charge includes impairment of store assets (primarily fixtures and fittings), onerous lease obligations and other store exit costs.

	Number of stores to close	Stores closed in FY'16	Average remaining lease term (years)
Australian Supermarkets	17	1	6
New Zealand Supermarkets	6	1	9
Australian Metro stores	4	-	11
Hotels	3	1	11
Total	**30**	**3**	

Other underperforming stores

We have recognised further costs of $71 million in FY'16 due to 34 underperforming stores where there is currently significant uncertainty around whether we would renew the lease at the end of the lease term. The costs include the impairment of store assets following a reassessment of the likely trading performance of the stores, onerous lease obligations and provisions for other store exit costs.

	Number of stores
Australian Supermarkets	15
New Zealand Supermarkets	3
Australian Metro stores	5
Fuel	10
Hotels	1
Total	**34**

Property related impairment and provisions

We have identified 20 sites where development will be deferred or we will no longer proceed with developing the site. This will result in an impairment and costs of $77 million primarily reflecting the write-off of capitalised costs on the sites to date and compensation to third parties.

Trading update and changes to disclosure in FY'16 results

We are in process of finalising our FY'16 results to be reported on 25 August 2016 and expect EBIT from Continuing Operations before Significant Items of $2,550 - 2,570 million. BIG W is expected to report a loss of $12 – 17 million and EziBuy is expected to report a loss of $13 – 18 million before Significant Items.

The operating performance of Endeavour Drinks Group will be disclosed separately in our FY'16 result. ROFE for Endeavour Drinks Group will be reported separately from H1'17.

Conference Call/ Webcast

A conference call is scheduled for 10.00am Eastern Standard Time and will be webcast live at www.woolworthslimited.com.au

For further information contact:

Media

Woolworths Limited Press Office

+61 2 8885 1033

Investors and Analysts

David Marr, Chief Financial Officer

+61 2 8885 4711