

12 August 2014

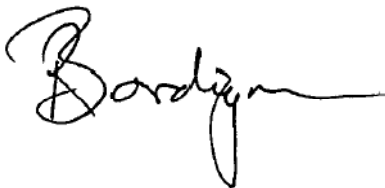
The Manager Companies
Australian Securities Exchange Limited
Company Announcements Office
Level 4 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

RE: Woolworths Limited – Update on Home Improvement

Attached is an update to the market on the Home Improvement business of Woolworths Limited.

**For and on behalf of
WOOLWORTHS LIMITED**



ROD BORDIGNON
Group General Counsel (Acting) and Company Secretary

WOOLWORTHS LIMITED

12 August 2014

Update - Home Improvement

Woolworths Limited (Woolworths) today provided an update to the market on its Home Improvement business.

Key points

- Update on financial results with losses in FY14 exceeding FY13, and expectation the business will not break even in 2016
- We remain confident Home Improvement will become a material profit contributor for Woolworths and the rationale for entering this market remains compelling
- Solid start with 49 Masters stores opened, strong and growing national brand awareness and Home Improvement sales of more than \$1.5 billion in FY14
- Lowe's has reaffirmed their commitment to the Joint Venture through amending the terms of their put option
- Outline of plans to take the business from a promising start-up to a scalable, profitable business

Overview

Today Woolworths advises that it will not meet its guidance that Home Improvement losses for financial year 2014 would not exceed financial year 2013, and expects break even for the Home Improvement business will not be achieved during 2016.

We are disappointed we will not reach this guidance. However, we were right to set challenging targets for the business and will continue to set stringent internal hurdles for the Home Improvement business.

We remain confident that the Home Improvement business will be a material profit contributor for Woolworths and will deliver an acceptable return on investment.

Woolworths CEO, Grant O'Brien said: "Our Home Improvement business has made a good start. We have established a solid foundation and remain confident that it will become a material profit contributor for the Group. We have a strong track record in developing new growth businesses, for example our successful Liquor business.

"The rationale for entering this market remains strong. It is a \$45 billion market, with 5% annual growth and one significant retailer with approximately 17% market share. It is a fragmented market that is in the process of consolidation as demonstrated by the 42% Masters sales growth in financial year 2014.

"We also continue to have a supportive Joint Venture partner in Lowe's who has reaffirmed their ongoing commitment to the Joint Venture through amending the terms of their put option.

"Our Home Improvement business is entering its next phase of growth, from start-up to a scalable, profitable business. We recruited Matt Tyson, an outstanding home improvement retailer, for his direct experience in building young big box format businesses to maturity to lead this next phase.

“Following Matt’s appointment, we asked him to look objectively at the market, and how we build on our current foundations to take advantage of the opportunities available. We will continue to refine the model as we grow this business to profitability,” Mr O’Brien said.

Managing Director, Home Improvement, Matt Tyson, said: “The business has made a strong start in a short period of time. With 49 Masters stores and a growing Home Timber and Hardware store network, Home Improvement generated more than \$1.5 billion in sales in financial year 2014.

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

Performance

Results for financial year 2014 are as follows:

(\$ million)	FY13 (53 weeks)	FY14 (52 weeks)	Change	Change Normalised ¹
Sales - Masters	529	752	42.2%	
Sales - Home Timber and Hardware	710	775	9.2%	
Sales - Total	1,239	1,527	23.2%	25.7%
EBIT - Masters	(156.6)	(176.0)	12.4%	
EBIT - Home Timber and Hardware	17.7	7.0	(60.5)%	
EBIT - Total	(138.9)	(169.0)	21.7%	24.1%

Masters sales were \$752 million, an increase of 42.2% on the previous year. Sales were lower than expected and were impacted by a highly competitive market and the Federal Budget’s impact on consumer confidence. Losses before interest and tax were higher than anticipated.

Masters remains in its development phase, with stores having traded, on average, for 17 months at the end of financial year 2014. The current store network includes a number of stores in regional and future growth areas which will take longer to mature.

Home Timber and Hardware EBIT was impacted by higher costs following financial year 2013 property disposals and a highly competitive market. We have a new management team and a clear plan for development of the Home Timber and Hardware business.

Refocused store roll out plan

To develop our footprint as rapidly as possible, we took opportunities to open new stores as they arose, moving at pace in Victoria and Queensland where planning approvals were achieved quickly. This has resulted in uneven national store coverage and a less efficient supply chain at this stage of development.

¹ For comparability, full year growth has been adjusted to remove the approximate impact of the 53rd week in FY13

Going forward, we will focus on key metropolitan areas and selectively fill the gaps in our store network. In the coming months we will open two Adelaide stores, an area where we currently do not have any presence. We are also focused on bringing more stores to metropolitan areas in New South Wales and Queensland.

As a result of this refocused approach, we expect to open fewer new stores over the next two years and will not deliver the previously communicated target of 90 stores by the end of financial year 2016.

We plan to open around 10-15 Masters stores per year for the next few years to add to our existing base of 49 stores.

We will continue to selectively grow the Home Timber and Hardware store network. This includes our recent agreement to acquire Hudson Building Supplies. The acquisition will include 15 sites (10 in New South Wales and five in Queensland).

Enhanced ranges and format refinement

While Masters has strong national brand awareness, we are working on increasing customer traffic and conversion rates.

To address this, we are changing specific areas of our in-store offer to take better account of the opportunities that will increase the revenue of each store.

We will give more space to categories that drive customer visits, such as Hardware, and aim to further differentiate ourselves in project categories like Kitchens and Bathrooms where performance to date is ahead of expectations.

Naturally, these changes will take some time to roll out fully into all of our existing stores and as a result, we do not expect to see the full benefit in the short term.

Change to the terms of Lowe's put option

We also continue to have a supportive Joint Venture partner in Lowe's. Their ongoing commitment to this business has recently been further demonstrated through a modification to the terms of their put option.

The opening date for the put option exercise period is deferred indefinitely. From October 2015, Lowe's can issue a notice setting an exercise date for the option triggering a 13 month notice period after which the option can be exercised.

Conclusion

We remain confident about the Home Improvement business and that it will be a material profit contributor to the Group and will deliver an acceptable return on investment.

This was never a short-term business plan and we will take the steps necessary to ensure we create a compelling customer offer and sustainable, profitable business.

As Masters transitions into a new phase of growth, we will update the market on our progress at Full Year and Half Year Results.

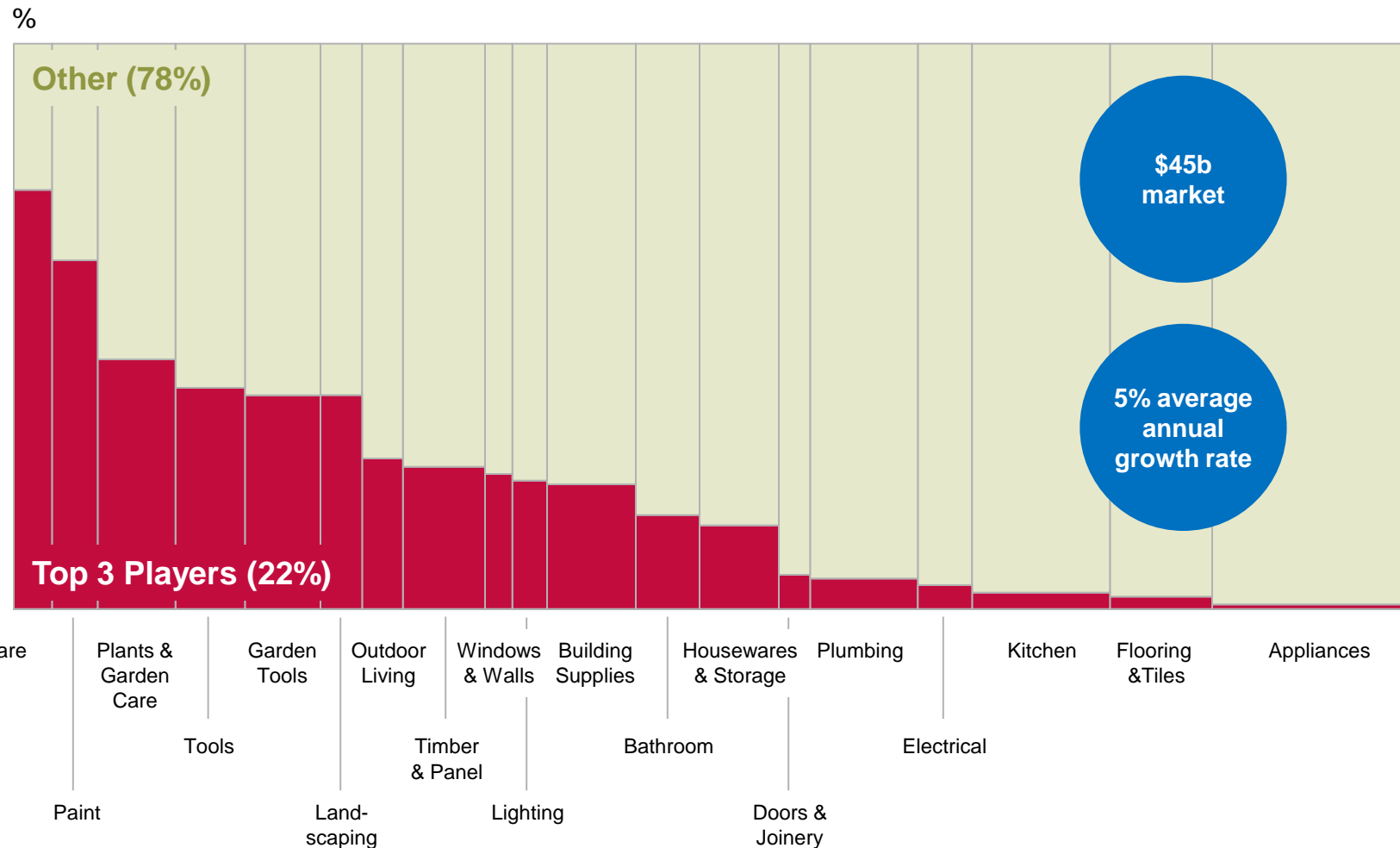
Update – Home Improvement

WOOLWORTHS LIMITED

August 2014

Rationale for entering the Australian home improvement market remains as strong as ever

Estimated Size Of Market Share of Players By Category: FY13

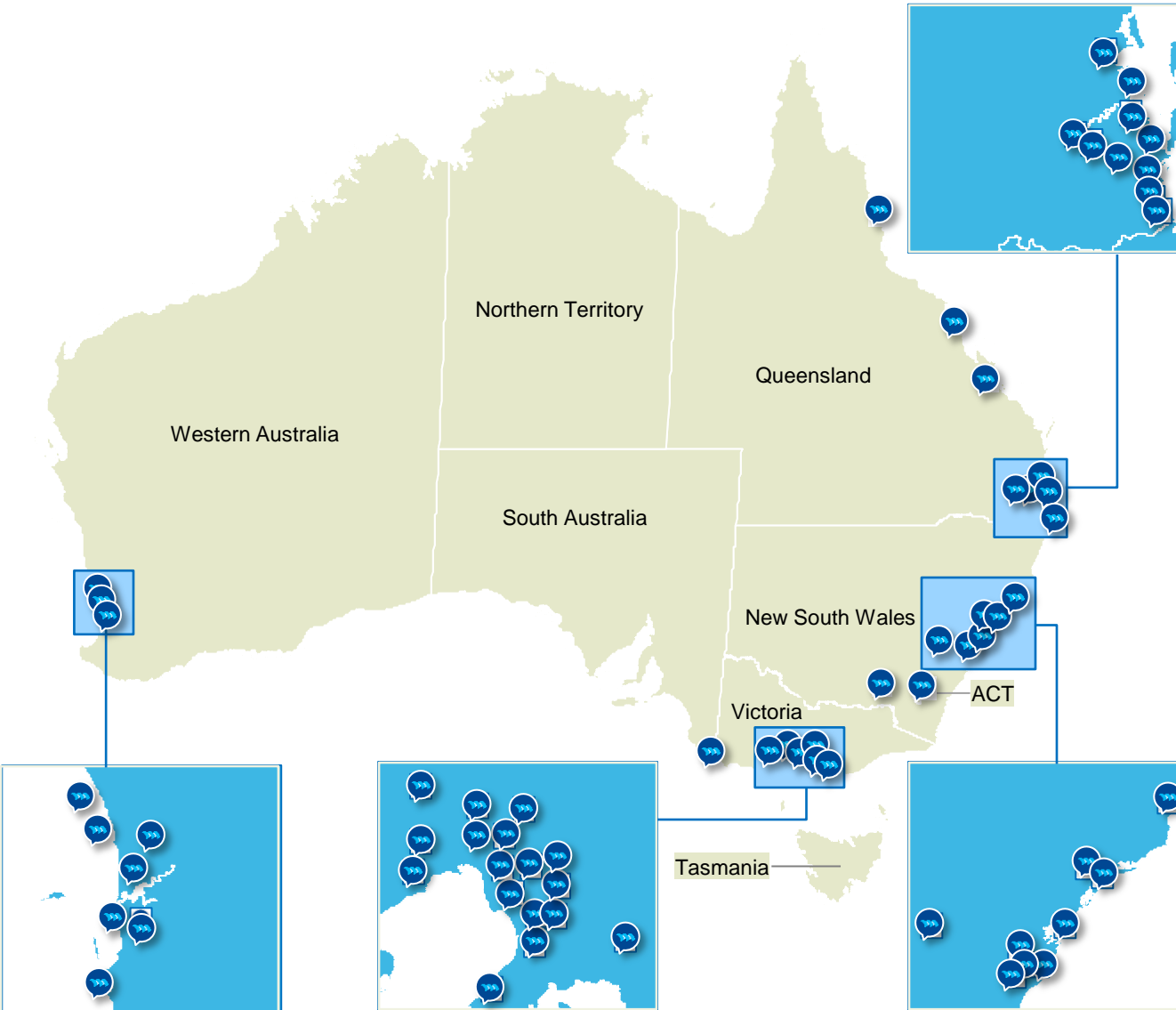


Significant market opportunity

Attractive, growing segment

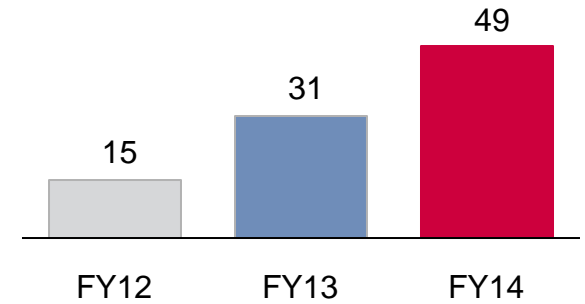
Top 3 players still have a low share in many categories

Masters has built a national footprint of 49 stores in just over three years



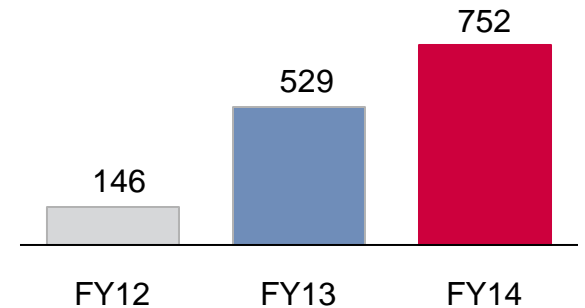
Masters quickly built a significant national presence...

Number of Stores



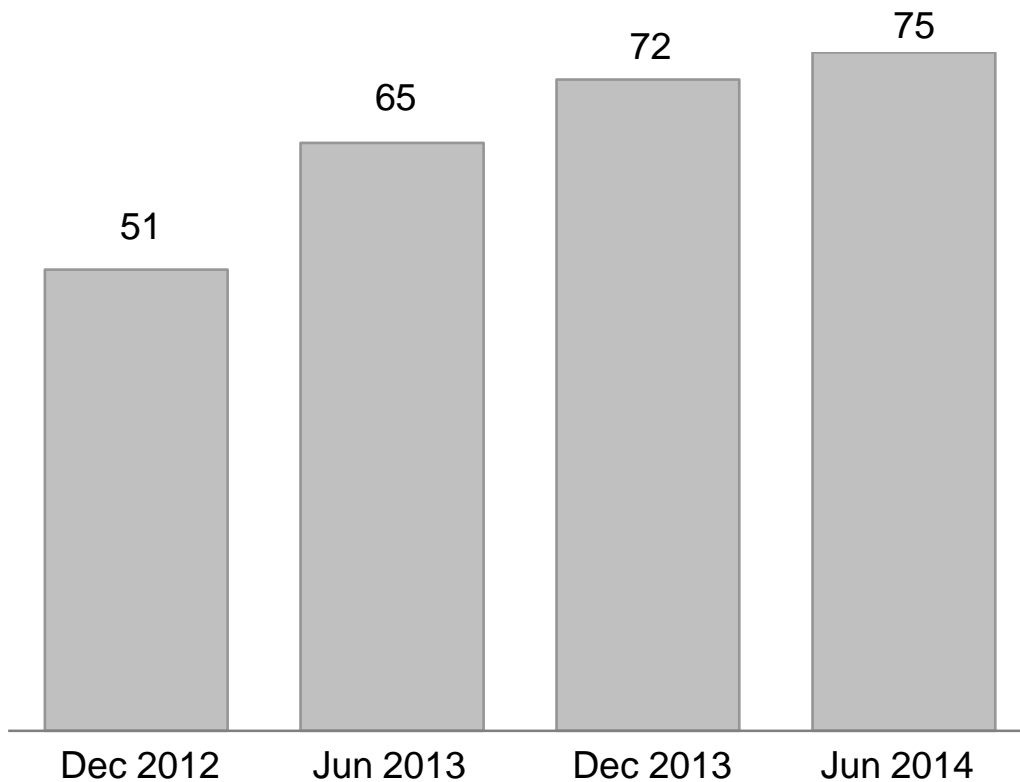
...and increased its revenue base over 5 times

Annual Sales Revenue; \$m



This roll out helped Masters quickly build a strong and positive brand awareness

Unprompted Brand Awareness¹; Percent



The people
were very
friendly
and helpful

Great service!
Staff knew exactly
what I wanted and
where to go
to get it

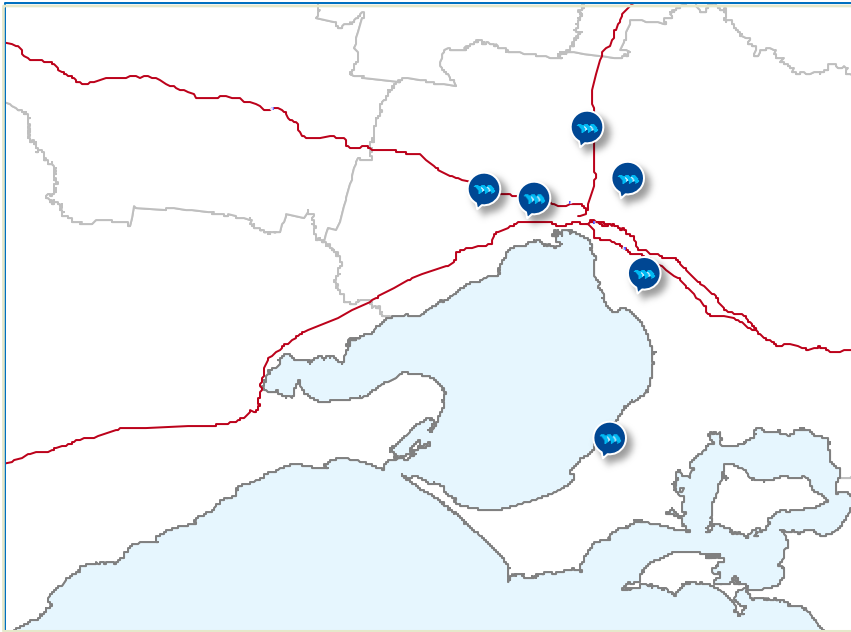
We love
going there
and the
staff are
helpful

1: At end of quarter

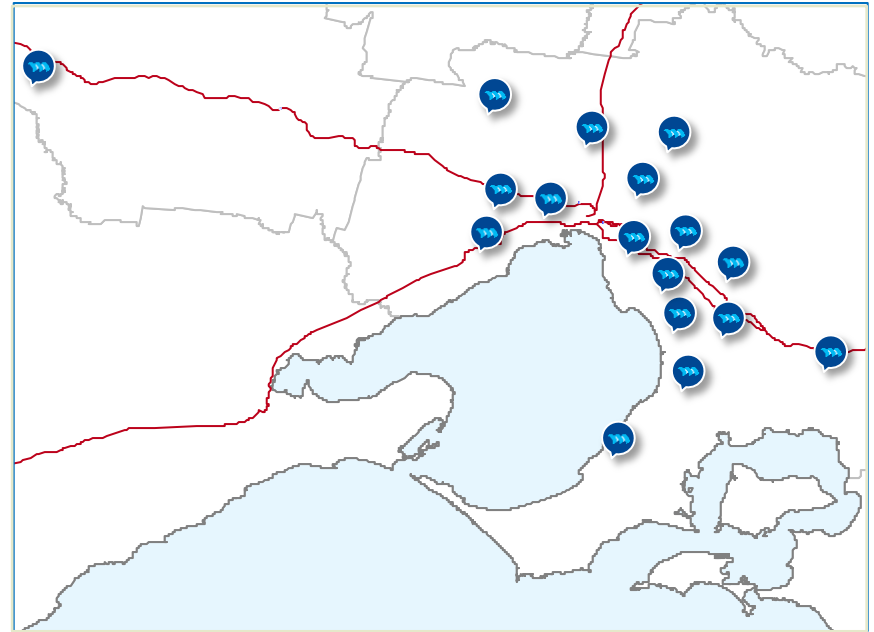
However, the pace of the roll out led to an uneven coverage of stores

Masters Stores In Melbourne

FY12



FY14



Initial network growth based on site availability and planning approval, with some sites in long-term growth markets

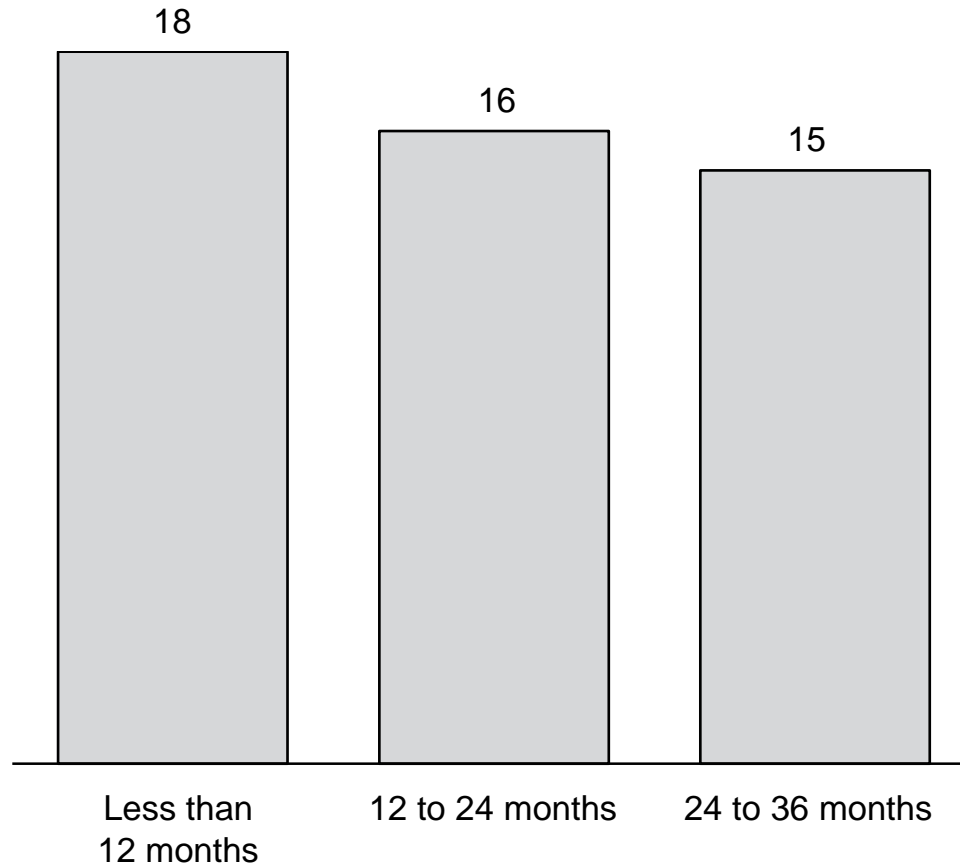
Fast expansion led to temporary cannibalisation as stores are still maturing

We have rapidly grown from 1 to 17 stores in Victoria over 3 years. This market will now have time to settle

Our focus will be on key metropolitan sites – particularly NSW, QLD and SA

As a result, Masters is still maturing

**Number Of Stores
By Months Since Opening**



Our model is still immature; the average age of stores in our network is 17 months

As an immature business, we have significant scope to increase sales and traffic

Stores expected to take c.4 yrs to mature – longer when impacted by cannibalisation

The right team and a clear plan for Masters' future

Matt Tyson



- **Extensive Home Improvement background** in retail operations and format development, and has international experience across the United Kingdom, European and Asian markets

- Long career with UK Home Improvement retailer Kingfisher plc, Europe's largest Home Improvement retailer
- Matt served with Kingfisher for 28 years, and was Chief Executive Officer in Asia from 2008 to 2010. Most recently, he was Chief Executive Officer of Castorama in Russia from 2010 to 2011



We are continuing our network expansion, focusing on the most attractive sites in high priority areas



Priority expansion areas



We are committed to opening 10-15 stores a year

We are prioritising our roll out around most attractive sites in underpenetrated locations

We are improving our store design to make them even more appealing to our customers

- Continue to evolve our proposition, which is a natural process for a start up business
- Build range and choice in key categories, eg Hardware
- Expand our offer in our project categories, eg Kitchen & Bathrooms



We are extending our range where it matters most to our customers

Improving Our Range Offer

- We are in the process of refreshing all core areas of our range
- 1,500 SKUs already added to our Hardware range in test stores – early performance is positive



Expanding Our Brand Portfolio

- We are looking locally and globally to source best brands to give our consumers more choice than they have today
- We are in the final stages of negotiation with a number of leading global brands

Examples of current Masters big-box brands

SELLEYS

wattyl®

BOSCH

3M

Roca

HITACHI

weber

DEWALT

dyson

ROVER™

valspar

PHILIPS

We are also improving our supply chain to better fit the requirements of our expanding network

Optimise Our Network



- We have opened regional DCs in WA and QLD
- We will ramp up offshore consolidation to support regional DCs

Improve Efficiency



- We are improving efficiency of our distribution centres
- We are improving efficiency of freight by changing freight mode

We have covered all the areas needed to move from a start-up to a scalable, profitable business

Market Opportunity	✓	Rationale for entering the market remains as strong as ever with a large, growing and fragmented market
National Network Of Stores	✓	We have quickly built a foundation of 49 stores with a pipeline focused on key metro areas taking advantage of the growth of big box Home Improvement retailers
Brand Awareness	✓	In a short period of time we have established a positive and strong brand awareness
Time, Commitment And Right Team	✓	New businesses take time to build – we have the skills and commitment to make Home Improvement a successful business
We Are Learning And Adapting	✓	We are testing, learning and adjusting our plans to make our offer more appealing to our customers

For these reasons, we remain confident that Home Improvement will become a material profit contributor to Woolworths