WOOLWORTHS LIMITED

18 January 2016

Home Improvement Joint Venture Update

Woolworths Limited (Woolworths) today announced that it intends to exercise its call option over the 33.3% interest in Hydrox Holdings Pty Ltd (Hydrox) held by WDR Delaware Corporation, a subsidiary of Lowe's Companies, Inc., (Lowe's) following Lowe's notice to exercise its put option under the joint venture agreement.

Hydrox operates Masters Home Improvement (Masters) and Home Timber & Hardware (HTH) (together, 'Home Improvement').

Woolworths Chairman, Gordon Cairns, said; "Upon being appointed as Chairman, one of our top priorities was to determine the future of the Home Improvement joint venture. In keeping with the spirit of the joint venture we have actively been engaging with our partner, Lowe's, on this issue.

"Our recent review of operating performance indicates it will take many years for Masters to become profitable. We have determined we cannot continue to sustain ongoing losses from this business.

"As a result of our engagement with Lowe's, it has advised us that it intends to exercise the put option which is available to it under the joint venture agreement. The agreement requires this to happen before Woolworths may exercise its call option. Following the exercise of our call option, we intend to pursue an orderly prospective sale or wind-up of the business. This enables full ownership of the business by Woolworths in a shorter timeframe and gives us access to the widest range of exit options.

"This important decision allows Woolworths to focus its energy and resources on strengthening and executing its plans in our other businesses.

"Whilst we will move as quickly as possible, the put and call options process will take at least two months to complete and following this a potential sale process or other exit process will take additional time. The business will continue to trade through this period. Our top priority is to do the right thing by all stakeholders," Mr Cairns concluded.

Woolworths has made provision in its FY15 accounts relating to the put option derived from the carrying value of the business at the end of FY15.

The process set out in the joint venture agreement for determining the actual option consideration is summarised in the annexure to this announcement, and will involve a negotiation with Lowe's and an independent expert valuation process which will apply the following:

- valuing the shares in an arm's length sale between a willing vendor and a willing purchaser on a discounted cash flow basis and a merger market basis;
- if Hydrox is carrying on business as a going concern, on the assumption that it is to continue to do so;
- taking into account any information as the independent expert reasonably thinks fit; and
- taking into account the stamp duty (if any) payable with respect to the transfer of the shares.

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Announcement

As part of the preparation of its half yearly accounts, Woolworths is also currently undertaking a review of the carrying value of its 66.7% interest in Hydrox which will be determined in accordance with applicable accounting standards.

Woolworths will continue to update the market as appropriate.

- ENDS -

Woolworths will conduct an analyst call this morning at 10.30am via webcast available at www.woolworthslimited.com.au

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ANNEXURE – PUT OPTION AND CALL OPTION PROCESS

As previously disclosed to the market, Woolworths Limited (**Woolworths**), WDR Delaware Corporation (**WDR**), Lowe's Companies, Inc. (**Lowe's**) and Hydrox Holdings Pty Ltd (**Hydrox**) are parties to a Joint Venture Agreement (**JVA**) under which:

- Woolworths has granted WDR an option (**Put Option**); and
- WDR has granted Woolworths an option (**Call Option**).

Set out below is a summary of the key terms relevant to the Put Option and the Call Option now that the Put Option election notice referred to in the announcement has been given.

Put Option	
Nature of option	Option to require Woolworths to purchase, or procure the purchase of, all of the ordinary shares in the capital of Hydrox held by Lowe's and its wholly-owned subsidiaries ("**Lowe's Securities**").
Exercise period	Saturday, 11 February 2017 to Monday, 13 March 2017.
Call Option	
Nature of option	Option to acquire, or procure the acquisition of, all of the Lowe's Securities.
Exercise period	From the Put Option Notice Date (being 16 January 2016; deemed to be given today) to the earlier of: • the day that completion of the sale of the Lowe's Securities takes place under the Put Option; and • the last day of the exercise period for the Put Option, provided WDR has not exercised the Put Option.
General	
Option Consideration[1]	An amount equal to the aggregate of: • the Valuation Price (discussed below) of the Lowe's Securities, determined as at the Put Option Notice Date; and • simple interest on the Valuation Price referred to in the above bullet point, calculated daily at the relevant Interest Rate[2] for each consecutive 30 day period (or part thereof) during the period from (but excluding) the day that is 50 business days after the Put Option Notice Date up to (and including) the day that completion of the sale of the Lowe's Securities takes place.
Valuation Price	The Valuation Price for the Lowe's Securities is the amount determined in accordance with the process set out below, which must be implemented immediately (now that the notice referred to in the announcement has been given.) 1 Woolworths and WDR must negotiate in good faith as soon as practicable to determine the Valuation Price.

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	2	If Woolworths and WDR fail to agree the Valuation Price within 5 business days, each of Woolworths and WDR will: (a) obtain an Independent Expert Valuation[3] of the Lowe's Securities ("**Interim Valuation**"); and (b) provide a copy of that Interim Valuation to the other, within a further 15 business days.
	3	After each of Woolworths and WDR has provided the other with a copy of its Interim Valuation, they will discuss both Interim Valuations in good faith with a view to reaching agreement on the Valuation Price within a further 5 business days.
	4	If the Valuation Price is not agreed, Woolworths and WDR will, within 5 business days, jointly appoint a third independent expert to determine the Valuation Price within the range of the Interim Valuations. That independent expert will be required to deliver its determination within 10 business days of its appointment.
Completion	Completion of the sale of the Lowe's Securities under the Put Option and the Call Option must take place 10 business days after the later of: • the exercise of the Put Option or Call Option (as applicable); and • the Valuation Price of the Lowe's Securities being determined, or an earlier date as is agreed to by Woolworths and WDR.	

[1] To the extent that WDR or any of its related bodies corporate have provided any advances to Hydrox, or any other amounts are owing to WDR or any of its related bodies corporate in connection with those advances, as at 18 January 2016 (together the **Shareholder Debt**), the aggregate outstanding principal amount of, and accrued interest on, all that Shareholder Debt would also form part of the option consideration. As at 18 January 2016, Woolworths is not aware of any Shareholder Debt owing to WDR or any of its related bodies corporate.

[2] The JVA defines the "Interest Rate" to be, in relation to a period, the aggregate of:

- the rate (expressed as a percent per annum) determined by Woolworths to be the rate incurred in respect of the most recent drawdown of funds by a member of the Woolworths Group, before the commencement of that period, under the Woolworths Group's bank debt facilities, extrapolated or interpolated (as applicable) for a 30 day interest period; plus
- 1.0 percent.

[3] The JVA sets out the assumptions and bases on which any Independent Expert Valuation must be determined by the relevant independent expert, which include the following:

- valuing the shares in an arm's length sale between a willing vendor and a willing purchaser on a discounted cash flow basis and a merger market basis;
- if Hydrox is carrying on business as a going concern, on the assumption that it is to continue to do so;
- taking into account any information as the independent expert reasonably thinks fit; and
- taking into account the stamp duty (if any) payable with respect to the transfer of the shares.

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