

Australian Food and Petrol

Woolworths is Australia's largest supermarket chain, operating 961 supermarkets and 516 petrol sites across Australia. We rely on more than 115,000 hard working employees in stores and support offices to provide our customers with superior service, range, value and convenience.

PEOPLE

With almost 18 million customers visiting our supermarkets every week, we must meet the expectations of these customers and look after our employees.

All customers are driven by certain key factors when deciding what they are going to buy and who they will buy it from. Great value, good quality products, enjoyable shopping experience, convenience and choice will determine whether a customer shops with your business and considers returning.

Value

In the second half of the year, we invested \$200 million into lowering prices in our Australian Supermarkets.

During the year, we have seen a 2.8% deflation in prices. Compared to our main competitor, internal price comparisons of 17,000 products show price parity since June. Data from Nielsen Homescan research showed that we are cheaper across almost 9,000 key items in the last financial quarter of 2015 and materially cheaper on 10,000 items online.

Choice

Supermarkets represent the core of our business and we are focused on delivering a full range of products, providing choice and convenience for our customers. Our commitment to improving labelling and increase transparency is designed to give our customers the right information so they can choose food that is healthier, and is ethically and sustainably sourced from farms with high animal welfare standards.

Health and nutrition

We are the largest retailer of fresh food in Australia and one of the largest in New Zealand.

We acknowledge that we sell a full range of groceries, including items considered treats which should be eaten in moderation.

For our Own Brand products we have undertaken a range of initiatives to improve their nutritional value, while also making sure that the labelling is clear for our customers to make informed decisions about the products they purchase.

Health Star Rating

In June 2014, Woolworths was the first Australian retailer to adopt the Australian Federal Government's voluntary Health Star Rating System, as part of our commitment to helping customers make healthier choices.

The system allows customers to make quick and easy comparisons between packaged foods within a category, based on their nutritional profile. The more stars, the healthier the choice.

Customers will now find star ratings appearing on a range of products on our shelves including all of our Own Brands: Homebrand, Select, Macro, Free From, Gold, Created with Jamie, and our newest addition, Cooking with Kylie Kwong.

Since the scheme was rolled out, approximately 19% of our Own Brand portfolio has now applied the star rating. As a result, we are on track to have the Health Star Rating system across all of our products within four years – significantly ahead of the Government's five year timeframe.

In July 2015, the Federal Government announced that more than 1,000 products on the shelves of Australian supermarkets were using the Health Star Rating. At that time, approximately 400 of Woolworths Own Brand products included a Health Star Rating, meaning we are a significant contributor to the progress of this program.

Woolworths employees were educated on how to use and understand the Health Star Rating system through training conducted via our Nutrition Academy and internal communication channels. Our website provides educative material for our customers.

Food and Health Dialogue

Woolworths has been working towards the Australian Government's Food and Health Dialogue targets to reduce sodium and saturated fat in nominated food categories since it was established in 2009.

To date, we have met our commitments in over 90% of the nine categories included in the reformulation program. For instance, 100% of our Own Brand breads and breakfast cereals, and the majority of our soups, simmer sauces, savoury pies and processed meats have reached the target set. We are also well underway with sodium reduction in savoury crackers, potato/corn and extruded snacks and cheese, and on track to meet the respective deadlines for these categories in December 2015 and March 2017.

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No Artificial Flavours, No Artificial Colours

Where possible we are continuing our work to eliminate artificial colours, flavours, preservatives (including sodium benzoate) and MSG from our Own Brand food products. To date, we have reformulated nearly 500 of our Own Brand products in accordance with our brand guidelines.

Our reformulation work continues, alongside our commitment to use natural ingredients where possible.

Macro reformulation

Since the start of the year, our product reformulations of the Macro range have removed a total of 5.5 tonnes of salt and 20.5 tonnes of saturated fats from the range. Key steps to achieving this included:

- Switching to organic sunflower oil for the Macro Chip range, reducing the fat content by 20%
- Reducing the saturated fat content in the Macro Apricot and Herb Chicken by 31%
- Our Macro Beef Chipolatas now contain 47% less sodium and the Mini Macro Beef Meatballs have 61% less sodium
- New Macro dips have removed 28 kilograms of salt and 23.5kg of saturated fat from the marketplace each week

Animal welfare

Animal welfare is an integral part of our responsible sourcing strategy. We know it is important to our business and our stakeholders. Our entire Own Brand range will be produced to high standards of animal welfare and we have made a number of specific animal commitments for pigs and poultry.

Animal products sales trends

	% increase of volumes in 2014	% increase of volume in 2015	% of total category volumes in 2015
Macro free range chicken	28.54	-2.64	12.09
Free range eggs	9.84	8.52	39.97
Barn laid eggs	0.41	8.15	10.68
Organic eggs	0.90	6.92	2.72

Eggs

Woolworths has committed to phasing out cage produced eggs and to stop using them as an ingredient in our Own Brand products where egg is a defined ingredient.

Since we announced this intention, we have phased out all Own Brand caged eggs from our stores and have actively promoted cage-free egg alternatives through our pricing, improved shelf space and highlighting cage-free alternatives to customers in our publications, e.g. Woolworths Fresh magazine.

Less than 47% of all eggs sold in our Australian Supermarkets were produced in caged farm operations. This means that more than half of the eggs we sell are bought by customers who prefer cage-free production.

Chicken meat

By December 2014, Woolworths fulfilled its commitment to source all Own Brand fresh chicken from farms that are Royal Society for the Prevention of Cruelty to Animals (RSPCA) Approved (or equivalent). Meat chickens raised on RSPCA Approved farms have more space than conventional chickens to move around, have a longer dark period so they can rest properly, and are provided with environmental enrichment such as straw to peck at and perches to sit on.

Under the scheme, maintaining good quality litter bedding material (provided to the birds for comfort) through control of temperature, humidity and ventilation is essential.

In 2015, 12.1% of Woolworths Own Brand chicken sales were Macro free range (approved by Free Range Egg and Poultry Australia, FREPA).

Our welfare commitment for chicken extends to the chicken used as a defined visible ingredient (e.g. chicken pieces) in our Own Brand food products. We have committed to only using RSPCA Approved (or equivalent) chicken in our Own Brand products - where chicken is a defined ingredient.

Pork

Throughout 2015, we have been working in collaboration with our fresh pork suppliers to develop our future Pig Welfare Blueprint. The Blueprint development included an end-to-end review of animal husbandry and welfare in the different pork production systems. The overall aim is to give clear future direction to our suppliers on our sustainable welfare requirements. The Pork Welfare Blueprint will be launched before the end of 2015.

All our Own Brand fresh pork is sourced from farms that only use gestation stalls for less than 10% of the sow's gestation period. Our commitment to offering a range of higher welfare pork in all states has been achieved. We also have our own range of Macro free range pork¹⁷ in most states, and we are working closely with a supplier in WA to complete our national coverage. This will be available before the end of 2015.

Genetically modified (GM) food

Woolworths Own Brand products do not use genetically modified (GM) ingredients.

Our requirements on GM ingredients are communicated to our Own Brand suppliers in our Brand Guidelines and Woolworths Quality Assurance (WQA) standard.

Farmers and workers in developing countries

Agricultural commodities such as tea, coffee and cocoa have been known to have practices of child labour and forced labour deep within the supply chain beyond our direct suppliers. In these instances we look for independently certified products such as Fairtrade™, Rainforest Alliance and UTZ certified.

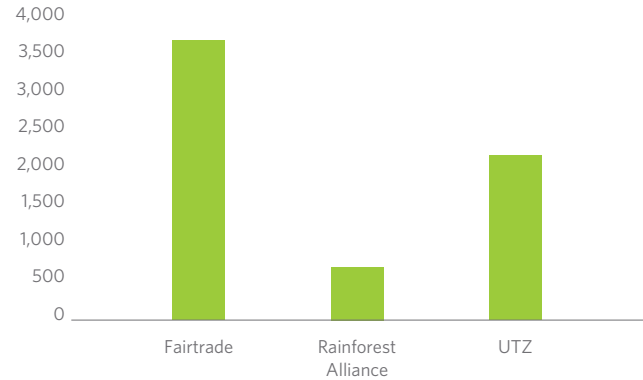
These certification schemes aim for better prices and acceptable working conditions for farmers and workers in the developing world. We offer our customers a wide range of certified products in our Own Brand, as well as other popular brands in the tea, coffee and chocolate categories. We are continually looking to move our Own Brand products to these independently certified sources.

¹⁷ Australian Pork Industry Quality (APIQ) Assurance Scheme

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Demand for certified products continues to increase and we're selling various certified tea, coffee and chocolate categories in our Own Brand, and in many popular consumer brands.

Tonnes of certified tea, coffee and chocolate in 2015



PLANET

Responsible sourcing

Sustainable seafood and fish

In March 2011, Woolworths announced its long-term goal of only sourcing sustainable seafood. This means sourcing wild caught seafood from stocks that are in abundance using methods that don't damage ocean habitats or catch large volumes of non-target species or 'bycatch'. Furthermore, it means sourcing farmed seafood from aquaculture systems that don't destroy coastal habitats or depend on overfished wild caught fisheries as feed.

In 2015, an estimated 8,340 tonnes of seafood sold at seafood counters in our Australian Supermarkets was certified sustainable by credible third parties, including 2,390 tonnes certified by the Marine Stewardship Council (MSC) and the remainder through one of the aquaculture certification programs.

All of our Own Brand canned tuna is either 'pole and line' caught or caught without the use of fish aggregating devices (FADs). A fish aggregating device is a man-made object used by fisherman to attract fish. This approach can also attract other endangered animals, such as turtles and dolphins, increasing the chance of 'bycatch'. Removing the FADs can significantly reduce the bycatch of turtles, sharks, dolphins and juvenile tuna.

We sold 237 tonnes of MSC certified canned tuna and salmon through our Australian stores in 2015.

Food waste

Woolworths set an ambitious target to remove food waste from its waste stream by 2015, and a significant amount of progress has been made thus far.

Since making this commitment in 2007, we have continued to divert food waste to other beneficial means of reuse. Most of our solutions to reduce food waste are supported by successful partnerships with external parties.

Our food relief partners include Foodbank Australia, OzHarvest, Fareshare, SecondBite and many local groups who work hard to collect food and turn it into meals for those in need. By working alongside these charitable organisations, Woolworths can continue to support local communities by helping feed people who often go without.

We have also recently launched a new food rescue partnership with OzHarvest, which will allow for further diversion of food to those in need.

In 2015, we provided 2,127 tonnes of food (equivalent of 2.8 million meals) to Foodbank Australia, 235 tonnes (470,000 meals) to FareShare and 594 tonnes (1.2 million meals) to SecondBite.

AVOIDANCE

Stock management processes and the diligence of our staff limit the over-ordering of stock, and discounting of products as they approach their use by date.

FOOD RESCUE

We partner with local food relief charities to take food that cannot be sold, but is safe to eat, to produce meals for those in need.

FARMERS PROGRAM

We have successful partnerships, with local farmers who collect food waste for stock feed or on-farm composting.

COMMERCIAL COMPOSTING

We have food waste diversion programs with a number of commercial composting and worm farm operations across Australia.

WASTE TO ENERGY

EarthPower is a facility we have been working with since 2006, which takes food waste and converts it into fertiliser and green energy.

LANDFILL

When all other alternatives have been exhausted, our last resort is to send food waste to landfill.



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PROSPERITY

Suppliers

The success of our business depends on the success of our suppliers and the long-term sustainability of their businesses. To serve our customers well, we know we need to work with our suppliers closely and collaborate more effectively.

Woolworths was the first national retailer to commit to the new Grocery Code of Conduct, so we have commenced the process of complying with the Code and improving overall relationships with suppliers.

Processes and documentation have been updated, with all terms of trade now compliant with the code, and a restructured online Vendor Guide including a number of Code undertakings, such as:

- Publishing future category review dates
- Shelf layout principles
- Processes for reviewing ranges
- Our Own Brand policies

More than 800 buying and product development staff have been trained on the Code and have been issued with appropriate guidelines.

Woolworths will continue to work on its strengths in the supply chain and with category/business development. Our Mercury2 project involves improving the speed and flow of products from supplier to customer, which improves availability and quality, and reduces costs and time.

One project reduced the lead time for case-ready meat in far North Queensland by four days, and by one day for South Australia and the Northern Territory. This increases the freshness and shelf life of the product for customers and reduces loss. Other projects improved the shelf life of poultry by up to three days and that of berries by up to two days.

Local Sourcing

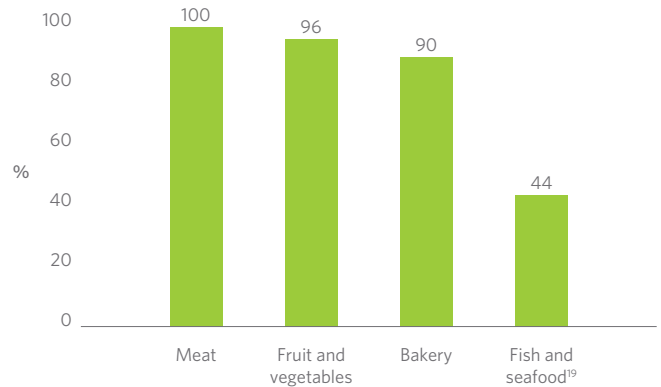
Our customers are always looking for good quality products at the best possible price, and they also want to support local suppliers. Research has shown that 86% of customers¹⁸ believe that locally produced foods should be more readily available in their supermarkets.

What is local? Often the type of product being bought dictates our expectation of what is a local product. Bakery products and eggs are expected to come from the local town or region that the shopper is from, whilst dairy products, meat and fresh fruit and vegetables are expected to come from within the state. National sourcing of products such as wine, beer, spreads or confectionary items is considered local by our customers.

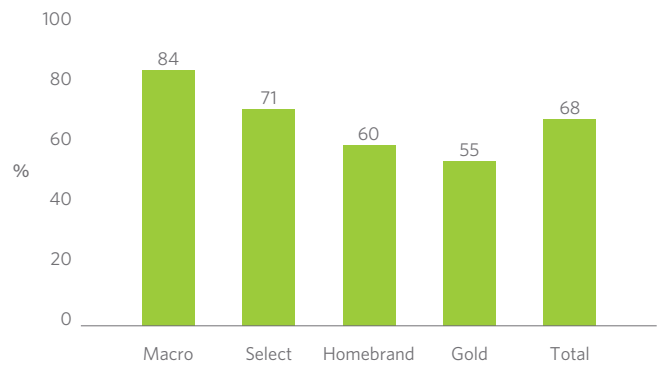
The majority of our Own Brand products, under our well known brands of Homebrand, Select, Macro and Gold, are locally produced.

Our efforts to deliver locally sourced products are not limited to a national focus. We have a team dedicated to increasing choice for our customers by sourcing products from local suppliers in each state and showcasing them in our stores. Jonny's Popcorn Delights is one such success story.

Australian sourced – fresh (in Australian Supermarkets)



Own Brand grocery – Australian sourced (in Australian Supermarkets)



Jonny's Popcorn Delights

Local Adelaide business, Jonny's Popcorn Delights, has grown from the stalls of Rundle Street Market to the shelves of Woolworths stores throughout South Australia and the Northern Territory.

Jonny's Popcorn Delights is owned and run by South Australian couple Jonny Forster and Ian Wright, both professional ballroom dancers who first discovered kettle-cooked popcorn in 2008 whilst competing in the United States. They fell in love with the variety of flavours they discovered and the traditional method of making popcorn that is rarely seen in Australia.

Seventy Woolworths stores in South Australia and 10 stores in the Northern Territory now carry two flavours, Caramel Popcorn and Sweet and Salty, as part of Woolworths' Local Sourcing program. In half a year we have sold almost 85,000 packs to a growing number of fans of the product.

¹⁸ Survey of 1,065 Woolworths Everyday Rewards cardholders

¹⁹ Includes seafood sourced from Australian waters but processed overseas

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Farmers' Own milk

Farmers' Own milk is a range of full cream and low fat homogenised milk, and full cream unhomogenised milk that Woolworths buys direct from local farmers rather than through a processor.

After its initial trial in late 2013 with farmers in the Manning Valley (NSW), we now have Farmer's Own milk offers from farmers in the Margaret River region (WA), the Otways region (Vic) and the Sunshine Coast hinterland (Qld), bringing millions of litres of milk from 16 local farmers to hundreds of stores in their states.

Under this brand, we have sold \$16 million of milk from the 10 million litres that was bought directly from farmers.

Thanks to this commitment, some of these farmers have been able to invest in improving their farms, installing state-of-the-art robotic milkers and upgrading calf rearing facilities.

We will be launching this brand into South Australia and Tasmania during the year, growing our partnerships by up to 25 farmers.

'The Odd Bunch'

An estimated 25% of edible fresh fruit and vegetables are thrown away, due to visual imperfection or cosmetic damage, every year in Australia.

Supermarkets set high quality standards for produce as we know that is what our customers prefer, but our national roll-out of 'The Odd Bunch' program challenges that trend.

Through the program, we offer produce that doesn't look perfect, but still tastes great, is nutritionally the same and comes at a discounted price. We moved quickly on this program, getting the offer into all stores, with 31 products in the range and specific labelling to engage our customers with the offer.

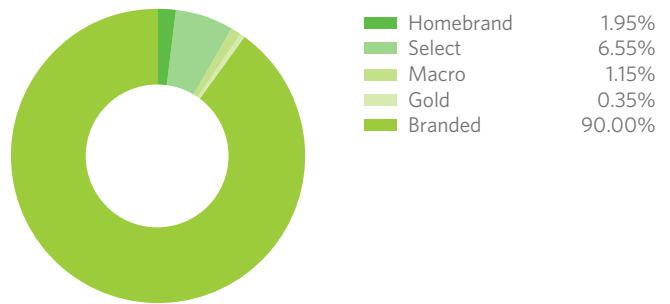
'The Odd Bunch' has been bought by 12% of our customers and 21% of them had not bought those products with us before. This has delivered 20,000 tonnes of produce sold which might have otherwise been wasted.

This initiative is a prime example of creating shared value where farmers benefit from more of their crop being sold, Woolworths benefits from sales and a more diverse offer, and customers benefit from a cheaper choice of healthy fresh produce.

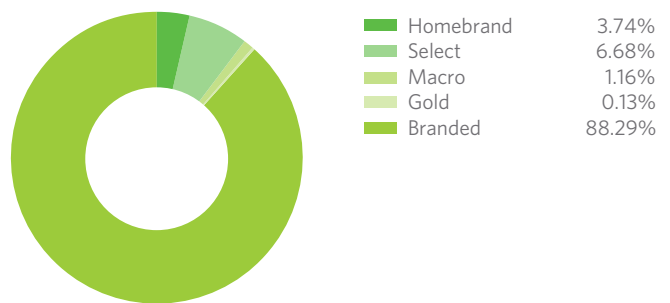
Range

On top of considerations of price and quality, many customers are brand loyal. Own Brands are a common offer for most retailers around the world, and Woolworths does offer a competing range of grocery products, but nationally recognised brands still comprise most of our range.

Grocery - branded and Own Brand shelf keeping units (SKUs)



Grocery - branded and Own Brand sales



Community investment

Total investment	\$25.8 million
Cash	\$8.4 million
Customer fundraising	\$11.2 million
Staff time	\$5.8 million

Woolworths Supermarkets continues to support a broad range of charity partners, from national campaigns to local community groups.

Agricultural shows

Nationwide, we support the state Agricultural Societies to deliver agricultural shows in cities and towns. These shows, apart from being a lot of fun, expose the public to the farmers who grow the food that our customers want.

More than \$2.7 million is invested in these shows.

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Taronga Zoo

We are nearing the end of our three year partnership with the Taronga Conservation Society. Our partnership with the popular Zoo includes sponsoring the Great Southern Ocean precinct and the sustainable seafood 'Fish for Good' program.

Due to their assistance in developing the fun facts and important information in our 'Super Animals' collectible program, we donated money for every album sold.

Total investment in the year added up to \$1.5 million, which helps the Zoo in its many conservation projects.

Families of our Armed Services

Woolworths partnered with Legacy, the Returned and Services League (RSL) and Camp Gallipoli to fundraise through stores and sponsor programs that support serving and ex-service Australian Defence Force personnel. During the year that the nation recognised the centenary of ANZAC tradition, we raised more than \$2.8 million.

Woolworths Agricultural Business Scholarships

Each year, the Woolworths Agricultural Business Scholarships provide a selection of young scholars with a rare insight into all aspects of the food chain, from producer to supermarket to the customer's plate.

The 12 day course offers participants the chance to gain a broad, practical and academic perspective on the business of agriculture from key industry leaders and senior Woolworths managers.

The course covers a broad range of topics including business strategy, supply chain management, and sustainability and environmental issues, and assists those who are studying or working in agriculture to accelerate their careers.

More than 200 individuals have graduated from the program over the past nine years, and another 25 participants joined us again in August 2015.

Our Supermarkets people nominated the charity they wanted to support in each state

State	Charity	Contribution
NSW/ACT	Variety, the children's charity	\$2,256,000
QLD	Children's Hospital Foundation	\$676,000
SA/NT	Royal Flying Doctor Service	\$257,000
VIC/TAS	Royal Children's Hospital Foundation	\$1,604,000
WA	Telethon	\$576,000