Registration Number
1915772

# Home Charm Group Trustees Limited

## Annual Report and Financial Statements

For the 52 weeks ended
27 February 2016

**Home Charm Group Trustees Limited**
**Annual Report and Financial Statements**
**27 February 2016**

## Contents

**Home Charm Group Trustees Limited**

**Directors' report for the 52 weeks ended 27 February 2016**

The directors present their report and the financial statements of the Company for the 52 weeks ended 27 February 2016 (the "year")

**Registered number**

The registered number of the Company is 1915772

**Principal activities and business review**

During the year, the Company did not trade and is not expected to trade for the foreseeable future

**Directors**

The directors who held office during the year were as follows

R J Boys (appointed 27 February 2016)
D F Davis (resigned 31 May 2016)
P J C Davis (appointed 27 February 2016)
D P Hamilton (resigned on 27 February 2016)
P H Shenton (resigned 31 December 2015)

**Company Secretary**

D P Hamilton (resigned on 27 February 2016)
A G Secretarial Limited (appointed 27 February 2016)

**Exemption from disclosing a strategic report**

The Company has taken the exemption, under Companies Act 2006, for companies applying the small companies' regime and not prepared a strategic report

**Liability insurance for directors**

During the year and up to the date of approval of the financial statements the Company maintained liability insurance for its directors

By order of the Board

R J Boys
Director
Date 18.11 16

**Home Charm Group Trustees Limited**
**Balance Sheet**
**As at 27 February 2016**

| | Notes | 2016 £ | 2015 £ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Debtors | 4 | 2 | 2 |
| **Total current assets** | | 2 | 2 |
| **Net assets** | | 2 | 2 |
| **Capital and reserves** | | | |
| Called up share capital | 5 | 2 | 2 |
| **Total shareholders' funds** | | 2 | 2 |

The notes on pages 4 to 6 form an integral part of the financial statements

For the year ending 27 February 2016 the Company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies

Directors' responsibilities

(i) The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476,

(ii) The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts

The financial statements on pages 2 to 6 were approved by the Board of Directors and were signed on their behalf by

R J Boys
Director
Date 18.11.16

**Home Charm Group Trustees Limited**

**Statement of changes in equity**
**For the 52 weeks ended 27 February 2016**

| | Attributable to the owners of the Company | | |
|---|---|---|---|
| | **Called up share capital** | **Profit and loss account** | **Total shareholders' funds** |
| | **£** | **£** | **£** |
| Balance at 1 March 2015 | 2 | - | 2 |
| Total comprehensive income | - | - | - |
| **Balance at 27 February 2016** | **2** | **-** | **2** |

| | Attributable to the owners of the Company | | |
|---|---|---|---|
| | Called up share capital | Profit and loss account | Total shareholders' funds |
| | £ | £ | £ |
| Balance at 2 March 2014 | 2 | - | 2 |
| Total comprehensive income | - | - | - |
| Balance at 28 February 2015 | 2 | - | 2 |

**Home Charm Group Trustees Limited**
**Notes to the financial statements**
**For the 52 weeks ended 27 February 2016**

## 1. General information

Home Charm Group Trustees Limited ("the Company") is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 The Company's registered address is Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW

The financial year represents the 52 weeks to 27 February 2016 (52 weeks to 28 February 2015)

## 2. Basis of preparation

The financial statements are presented in sterling They are prepared under the historic cost convention The principal accounting policies applied in the preparation of these financial statements are set out in note 3 Unless otherwise stated, these policies have been consistently applied to all the periods presented

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS

The Company is a qualifying entity for the purposes of FRS 101 Note 7 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with Australian GAAP as issued by the AASB and IFRS as issued by the IASB may be obtained

The Company did not trade during the year and accordingly no profit and loss account has been prepared

### Changes in accounting standards

There are no new standards, amendments to existing standards or interpretations which are effective for the first time during the year ended 27 February 2016 that have a material impact on the Company

## 3 Summary of principal accounting policies

### Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment A provision for impairment of debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of debtors The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade debtors recognised in the profit and loss account immediately

## 4. Debtors

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| **Amounts falling due within one year:** | | |
| Amount owed by group undertaking | 2 | 2 |

The amounts owed by group undertakings are unsecured, interest free and repayable on demand

## 5 Called up share capital

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| **Authorised:** | | |
| 100 ordinary shares (2015 100) at £1 each | 100 | 100 |
| **Allotted, called-up and fully paid:** | | |
| 2 ordinary shares (2015 2) at £1 each | 2 | 2 |

## 6. Employee costs and employee numbers

The Company had no employees in either year other than the Company directors No director received emoluments in respect of their services to the Company during the year (2015 nil)

## 7. Ultimate parent undertakings

The Company's immediate parent undertaking is Home Charm Group Limited, by virtue of its 100% shareholding in the Company

The Company's ultimate parent and controlling party is Wesfarmers Limited, a company registered in Australia Wesfarmers Limited is the largest group of undertakings for which group financial statements were prepared, the most recent statements have been drawn up to 30 June 2016 BUKI (Australia) Pty Limited is the smallest group of undertakings for which group financial statements were prepared, the most recent statements have been drawn up to 27 February 2016 Copies of these financial statements are available from its registered office at Level 1, Wesfarmers House, 40 The Esplanade, Perth, Western Australia 6000

# 2016 ANNUAL REPORT

**DELIVERING VALUE TODAY AND TOMORROW**



Wesfarmers

# 2016 ANNUAL REPORT

*About Wesfarmers*

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies.

With headquarters in Western Australia its diverse business operations cover supermarkets, liquor hotels and convenience stores home improvement; department stores office supplies and an Industrials division with businesses in chemicals, energy and fertilisers, industrial and safety products and coal Wesfarmers is Australia's largest private sector employer with around 220 000 employees and has a shareholder base of approximately 530 000

About this report

This annual report is a summary of Wesfarmers and its subsidiary companies' operations, activities and financial position as at 30 June 2016 In this report references to Wesfarmers the company' the Group we' us' and our' refer to Wesfarmers Limited (ABN 28 008 984 049) unless otherwise stated.

References in this report to a year' are to the financial year ended 30 June 2016 unless otherwise stated All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

All references to Indigenous people are intended to include Aboriginal and/or Torres Strait Islander people.

Wesfarmers is committed to reducing the environmental footprint associated with the production of the annual report and printed copies are only posted to shareholders who have elected to receive a printed copy This report is printed on environmentally responsible paper manufactured under ISO 14001 environmental standards.

**The primary objective of Wesfarmers is to provide a satisfactory return to its shareholders.**

Wesfarmers

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# CHAIRMAN'S MESSAGE

It is with great pleasure that I introduce Wesfarmers' annual report for 2016 It was a real privilege for me to have been invited last year to return as Chairman of the company from which I retired as Chief Executive Officer 10 years earlier

I take this opportunity to pay particular tribute to Bob Every AO, who retired as Chairman during the year Bob served the company with distinction focused at all times on protecting shareholder interests, ensuring ethical behaviour and guarding the Wesfarmers culture. We thank him for his significant contribution

The 2016 year was one of mixed results for the company with very strong performances from the larger businesses offset to some extent by difficult trading conditions in some others. Underlying profit after tax fell 3 6 per cent to $2,353 million After accounting for the impairments of Curragh and the Target retail business, as well as restructuring costs in Target statutory net profit was $407 million compared with $2 440 million in 2015

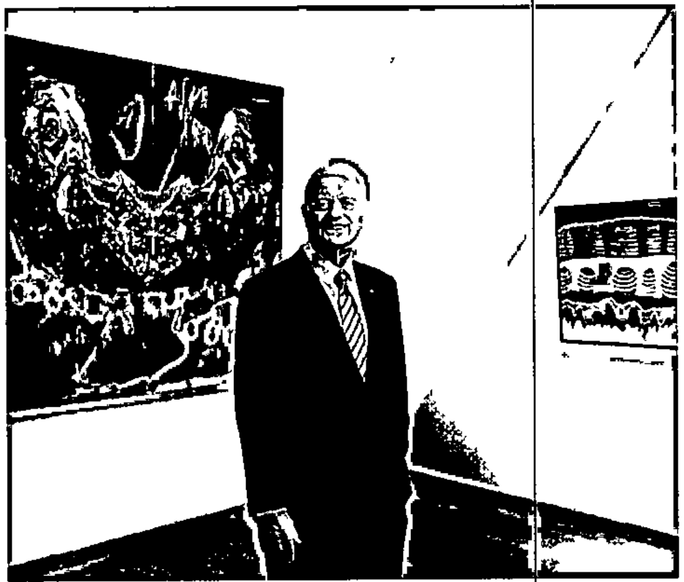
The Board declared a final dividend of 95 cents per share (2015 111 cents) bringing the full year payment to $1 86 per share a reduction of 7 0 per cent on the previous year broadly in line with free cash flow for the year excluding the acquisition of Homebase.

The impairments of Target and Curragh resulted predominantly from poor trading results and a reduced outlook in the former case and a significant fall in current and projected coal prices in the latter The accounting impairments, of course had no cash flow effect and the Group continued to generate very substantial free cash flow Our balance sheet is conservatively geared and with a strong credit rating, we are well placed to take advantage of investment opportunities as they arise.

Wesfarmers continues to maintain the particular strengths for which it has become well known namely a clear focus on shareholder wealth creation rather than on empire building; strict disciplines around the achievement of return on invested capital and investment analysis the development of high performing people rigid adherence to high standards of behaviour and a determination to make meaningful contributions to the communities in which we operate

As always, there are many challenges. Every business faces competition from existing players and new entrants from new technologies and new regulations but in my experience it has never been any different. The pace of change has stepped up but we have all been saying that for three or four decades.

The key to long term corporate success is evolution – looking for new ways to do business, for new businesses and new geographies to operate in. One of my own exhortations has always been If it ain't broke, get ready to change it



**Michael Chaney AO**
Chairman

Wesfarmers is a great example of this in practice. In the mid 1980s there was constant worry about how we could cope with increasing competition in the fertiliser business, which contributed around 80 per cent of the Groups profit Today that business remains strong but has itself evolved also to be a substantial industrial chemicals supplier Fertilisers now contributes around the same dollars of profit as it did then but that represents only a very small proportion of Group earnings Continuous diversification and adaptation has enabled Wesfarmers to remain relevant and to provide superior shareholder returns over the long term

During the last year the company made its first significant move offshore with the purchase of the Homebase hardware business in the United Kingdom and Ireland Entering any new country is always challenging – and there are many examples of Australian companies which have tried and failed – but this investment was only made after a very extensive analysis of the business the market and the prospects Bunnings looks forward to applying the skills it has acquired in understanding customer needs supply chain management and merchandising, and the size of the Homebase investment while not small is very manageable given the Group's balance sheet This I believe is a very good example of the growth philosophy of logical incrementalism' which has proven successful for the company over the years and while the success of such a venture is never guaranteed the Bunnings team will give it their best shot

Closer to home one of the big challenges facing all companies is the modest rate of growth of the domestic economy and the difficulty of achieving meaningful economic reform at the federal level of government As the recent election result demonstrated populism triumphs all too often over rational policy development While the level of Commonwealth Government debt in Australia is quite low in comparison to that in many other developed countries this situation can change rapidly in times of economic downturn – as we saw in Ireland and Spain in 2007 to 2010 – a debt blowout giving rise to drastic fiscal remedies and high unemployment Australia has now enjoyed an unprecedented 25 years without a recession and given the past and forecast deficits at a Commonwealth level the Government's armoury to counter any economic downturn is limited It is essential that the task of fiscal repair is tackled with urgency

A second factor counting against corporate prosperity is the increasing volume of regulation in Australia – regulation which unnecessarily delays investment and renders business operations less effective. During the year the Federal Government announced plans to enact changes to Section 46 of the Competition and Consumer Act which would introduce a so-called effects test' These proposed changes may make it potentially illegal for a business with substantial market power to act competitively and in a way that benefits consumers, if it has the effect of reducing competition due to the exit of inefficient or inferior competitors. In our view such a provision would discourage competition to the detriment of consumers, would increase uncertainty and create a field day for lawyers. We have expressed our disappointment to the Government that despite extensive opposition from the business community the Productivity Commission the Federal Opposition and previous reviews of competition policy the Government is now taking steps to introduce the proposal It is another regrettable instance of regulation threatening the competitiveness of Australia and Australian companies.

There is, we believe, too little appreciation of the contribution companies make to Australia's prosperity as evidenced by the readiness with which arguments against company tax cuts during the recent election campaign were accepted by some That 80 per cent of working Australians are employed by companies represents just one benefit. In Wesfarmers case we pay our 220 000 employees over $8 billion our suppliers more than $45 billion our landlords $3 billion, our shareholders more than $2 billion and the Government over $1 billion in taxes. The health of the Australian economy is inextricably linked to the health of Australian companies.

## Sustainability

Long term value creation is only possible if we play a positive role in the communities we serve This year we continued to focus on keeping our people safe and reduced our total recordable injury frequency rate by 15 2 per cent As Australia's largest private sector employer we believe we are able to provide Indigenous people with greater opportunities to participate in sustainable employment and have increased the number of Indigenous employees to more than 3,300 Wesfarmers is committed to minimising our own environmental footprint and to delivering solutions which help our customers and the community do the same. We reduced our greenhouse gas emissions by more than two per cent in the last year and have decreased the emissions intensity of our business by more than 30 per cent since 2012.

## Outlook

Your Board considers the outlook for the company to be strong. Notwithstanding the challenges described above and economic concerns around the globe the Wesfarmers businesses generate strong cash flows which in combination with a strong balance sheet and financial discipline should enable us to cope with competition and take advantage of growth opportunities. We look forward to continuing the company's record of providing satisfactory shareholder returns.

In closing, I pay tribute to our management and Board The management team led so ably by Richard Goyder comprises individuals with great energy and enthusiasm for the job and a determination to achieve superior returns. The Board has in my view an excellent balance of experience and the skills required for strong governance On their behalf I convey my thanks to the management team and to all of our 220 000 employees for their efforts for the company

# MANAGING DIRECTOR'S REPORT

Wesfarmers is a strong company We are strong because we have a portfolio of businesses which are cash generating over time, because we have strong governance, excellent employees, and have a culture which is shareholder focused while working to create value for all our stakeholders.

Wesfarmers' financial discipline and values is why our balance sheet is strong and over time we have fulfilled our objective of providing satisfactory returns to shareholders. Indeed $1 000 invested in Wesfarmers since listing in 1984 is worth more than $300 000 today[1]

Our financial results in the 2016 year reflect the diversification of our portfolio and some of the challenges of operating these businesses in the world today We made non cash impairments to Target and our Curragh coal mining operation (totalling $2 116 million) reflecting the operating performance and environment of those businesses. These impairments, along with restructuring charges in Target, meant our underlying profit was 3 6 per cent lower than last year That is why your dividend reduced this year – it does however reflect a very high (89 per cent) payout ratio, and we understand how important the dividend is to you Importantly we have increased the value of Wesfarmers with Coles, Bunnings Kmart Officeworks and our Chemicals Energy and Fertilisers businesses all increasing in value over time.

Our retail businesses Coles, Bunnings Kmart and Officeworks are strong and performed well in the 2016 financial year We continue to invest in these businesses through better products and services for our customers continually developing our people and building new stores and refurbishing existing stores as well as our digital platforms. We run our businesses for the long term – our focus is on building sustainable wealth for all stakeholders.

Target is operating in a challenging environment and is implementing strategies which we think will give it a bright future. We are disappointed that we have not made more rapid progress in turning around this business. Now with Guy Russo having responsibility for both of our department store businesses we are working hard to get Target back into good shape.

In the Industrials division the performance at Wesfarmers Chemicals, Energy & Fertilisers was very strong. Our plants performed well and we were able to take advantage of good investments and strategies in each business to generate growth

Our Industrial and Safety business is in a tough environment as our major customers look to reduce costs. We have done some significant restructuring to ensure that we have a business model suited to this environment.

It has been a difficult year for our Resources business. We are focused on reducing costs and managing for cash flow while coal prices remain low We are convinced that there is value in the industrials division and its businesses and will operate them in a way in which we think we can derive the best value over time for our shareholders.

We will always seek to maintain a strong balance sheet. This enables us to take advantage of opportunities to grow the company as they arise, and protects us from volatility in markets as they inevitably occur

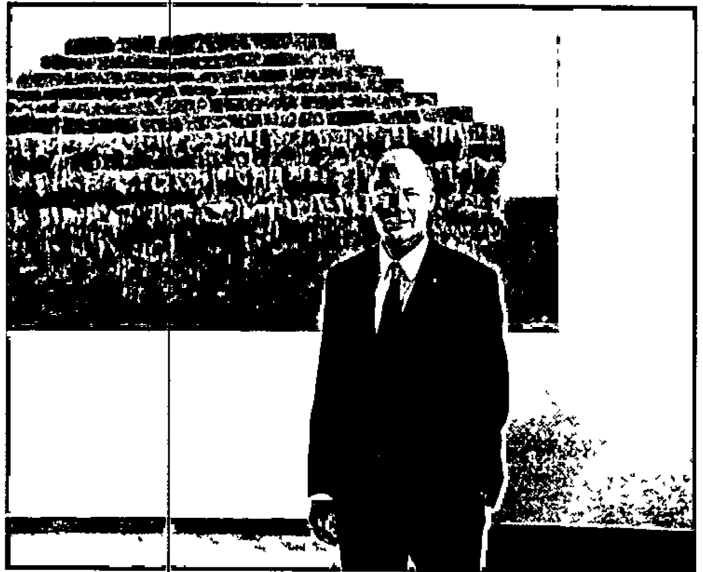
This year, we publish our nineteenth sustainability report. We seek to operate your company in a sustainable and ethical way and as shareholders, you can be proud of what we do. Events at Target earlier this year where rebates were brought forward did not meet our standards and there were consequences as a result.

Wesfarmers makes a very significant contribution to the Australian and New Zealand economies.

In the 2016 financial year Wesfarmers generated $66 billion in revenue, which we distributed to our various stakeholders. We are among Australia's top 10 taxpayers (and have adopted the voluntary Tax Transparency Code) and importantly we are the largest private sector employer in Australia. Last year we paid more than $8 billion in wages and salaries and paid our suppliers more than $45 billion.

Our businesses make additional community contributions (last year totalling more than $110 million) and of course when we find opportunities we invest for growth In the 2016 financial year we invested $665 million expanding the Group with the acquisition of Homebase our first offshore retail acquisition. We believe this is a great opportunity to deliver long term earnings growth for the Group and value for our shareholders. In addition we invested $1 9 billion in our existing businesses which generated more economic activity in the communities where that investment was made.

It is so important for the wellbeing of the economies we operate in that businesses are successful. The private sector is the engine room of an economy and



Richard Goyder AO
Managing Director

having an environment which encourages businesses to take appropriate risks invest deploy more working capital and employ more people is critical Business success will determine whether economies grow

My colleagues and our 530 000 shareholders have a role to play in imploring our elected representatives to make the right decisions which together with business investment will sustain a positive economic environment. Just as we make mistakes, so will governments. We should be judged on how we address these and the biggest mistake would be for government to run up unsustainable debt and spending commitments which we cannot afford

Wesfarmers is blessed to be based in Australia and operate in economies with strong fundamentals and good prospects. We will work hard to grow our businesses and meet our objective of providing shareholders with a satisfactory return

## People

Stewart Butel retired after 16 years in our Resources business, the last 10 years as Managing Director of the Resources division Stewart has done an outstanding job and we wish him well I would also like to thank Tom O Leary who has left the Group for another great opportunity Tom made an enormous contribution during his 16 years at Wesfarmers in senior roles. I also extend my thanks to Stuart Machin who resigned in March 2016.

Ben Lawrence the Groups Chief Human Resources Officer recently announced his intention to retire mid next year and I thank him for his contribution and support in that role over the past nine years. I am delighted Jenny Bryant will succeed Ben as Chief Human Resources Officer effective 1 October 2016 to ensure a smooth transition Jenny joined the Group in 2011 as Human Resources Director at Coles, where she has made an outstanding contribution and I welcome her to the Wesfarmers Executive Leadership Team

The management team enjoys a very positive working relationship with the Wesfarmers Board We thank Bob Every for his leadership and welcome Michael Chaney back to the Group as Chairman

Finally thank you to everyone in the Wesfarmers team for your contribution over the past 12 months. I appreciate the sacrifices you all make to ensure the Wesfarmers Group is stronger now than we have ever been and will be stronger in the future.

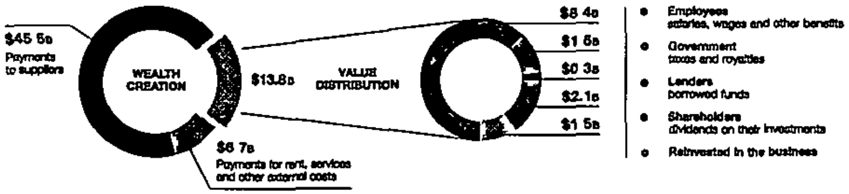
[1] Assumes capital adjusted price, 100 per cent dividend reinvestment and full participation in capital management initiatives.

# PERFORMANCE OVERVIEW

## CREATING WEALTH AND ADDING VALUE

REVENUE

$66.0B




## GROUP PERFORMANCE

| KEY FINANCIAL DATA | | 2016 | 2015 |
|---|---|---|---|
| Revenue from ordinary activities | $m | 65,981 | 62 447 |
| Earnings before interest, tax, depreciation and amortisation | $m | 2,642 | 4 978 |
| Earnings before interest, tax, depreciation and amortisation (excluding significant items)[1] | $m | 4,903 | 4 978 |
| Depreciation and amortisation | $m | 1,296 | 1 219 |
| Earnings before interest and tax | $m | 1,346 | 3 759 |
| Earnings before interest and tax (excluding significant items)[1] | $m | 3,607 | 3 759 |
| Finance costs and income tax expense | $m | 939 | 1 319 |
| Net profit after tax | $m | 407 | 2 440 |
| Net profit after tax (excluding significant items)[1] | $m | 2,353 | 2 440 |
| Operating cash flows | $m | 3,365 | 3 791 |
| Net capital expenditure on property, plant and equipment, and intangibles | $m | 1,336 | 1 552 |
| Free cash flows | $m | 1,233 | 1 893 |
| Equity dividends paid | $m | 2,270 | 2 697 |
| Total assets | $m | 40,783 | 40 402 |
| Net debt | $m | 7,103 | 6 209 |
| Shareholders equity | $m | 22,949 | 24 781 |

| KEY SHARE DATA | | | |
|---|---|---|---|
| Basic earnings per share | cents | 38 2 | 216 1 |
| Basic earnings per share (excluding significant items)[1] | cents | 209 6 | 216 1 |
| Operating cash flow per share | cents | 299 2 | 335 1 |
| Free cash flow per share | cents | 109.6 | 167 3 |
| Dividends per share (declared) | cents | 186.0 | 200 0 |

| KEY RATIOS | | | |
|---|---|---|---|
| Return on average shareholders equity (R12) (excluding significant items)[1] | % | 9 6 | 9 8 |
| Fixed charges cover (R12)[2] | times | 2.7 | 3 0 |
| Interest cover (R12) (cash basis)[2] | times | 16.8 | 20 5 |
| Gearing (net debt to equity) | % | 30.9 | 25 1 |

[1] 2016 excludes the following pre-tax (post-tax) amounts: $1,266 million ($1,249 million) non-cash impairment of Target; $850 million ($595 million) non-cash impairment of Curragh; and $145 million ($102 million) of restructuring costs and provisions to reset Target.

[2] 2016 excludes pre-tax non-cash impairments of $2,116 million relating to Target ($1,266 million) and Curragh ($850 million).



## DIVISIONAL PERFORMANCE

| COLES | | 2016 | 2015 |
|---|---|---|---|
| Revenue | $m | 39 242 | 38 201 |
| Earnings before interest and tax | $m | 1 860 | 1 783 |
| Segment assets | $m | 22 122 | 21 533 |
| Segment liabilities | $m | 4,273 | 3 913 |
| Capital employed (R12) | $m | 16 541 | 16 276 |
| Return on capital employed (R12) | % | 11 2 | 11 0 |

| HOME IMPROVEMENT | | 2016 | 2015 |
|---|---|---|---|
| Revenue | $m | 11 571 | 9 534 |
| Earnings before interest and tax | $m | 1 214 | 1 088 |
| Segment assets | $m | 6,620 | 4 610 |
| Segment liabilities | $m | 2 166 | 1 115 |
| Capital employed (R12) | $m | 3,599 | 3 244 |
| Return on capital employed (R12) | % | 33 7 | 33 5 |

| DEPARTMENT STORES | | 2016 | 2015 |
|---|---|---|---|
| Revenue | $m | 8,646 | 7 991 |
| Earnings before interest and tax | $m | 275 | 522 |
| Segment assets | $m | 3,970 | 5 203 |
| Segment liabilities | $m | 1,336 | 1 364 |
| Capital employed (R12) | $m | 3 629 | 3 778 |
| Return on capital employed (R12) | % | 7 6 | 13 8 |

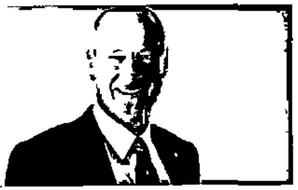
| OFFICEWORKS | | 2016 | 2015 |
|---|---|---|---|
| Revenue | $m | 1 851 | 1 714 |
| Earnings before interest and tax | $m | 134 | 118 |
| Segment assets | $m | 1,379 | 1 349 |
| Segment liabilities | $m | 416 | 361 |
| Capital employed (R12) | $m | 994 | 1 034 |
| Return on capital employed (R12) | % | 13 5 | 11 4 |

| INDUSTRIALS | | 2016 | 2015 |
|---|---|---|---|
| Revenue | $m | 4,672 | 4 985 |
| Earnings before interest and tax | $m | 47 | 353 |
| Segment assets | $m | 4,220 | 5 250 |
| Segment liabilities | $m | 1,221 | 1 094 |
| Capital employed (R12) | $m | 4 244 | 4 245 |
| Return on capital employed (R12) | % | 1 1 | 8 3 |

[1] The 2016 earnings before interest and tax for Department Stores includes $145 million of restructuring and provision costs to reset the Target business but excludes the non-cash impairment of $1,266 million

[2] The 2016 earnings before interest and tax for Industrials excludes the $850 million non-cash impairment of Curragh

# EXECUTIVE LEADERSHIP TEAM



### Richard Goyder AO
*Managing Director Wesfarmers Limited*

Richard was appointed Chief Executive Officer and Managing Director of Wesfarmers in 2005. He has held a number of executive positions in Wesfarmers, including Managing Director of Wesfarmers Landmark and Finance Director of Wesfarmers. Before joining Wesfarmers in 1993 Richard held a number of senior positions with Tubemakers of Australia.

### Terry Bowen
*Finance Director Wesfarmers Limited*

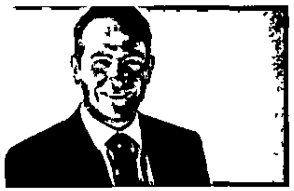
Terry joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark, including Chief Financial Officer from 2001 In 2003 he was appointed as Jetstar Airways inaugural Chief Financial Officer before rejoining Wesfarmers in 2005 as Managing Director Wesfarmers Industrial and Safety Terry became Finance Director Coles in 2007 before being appointed Finance Director Wesfarmers in 2009

### Maya vanden Driesen
*Group General Counsel, Wesfarmers Limited*

Maya was appointed Group General Counsel of Wesfarmers in January 2015. Prior to this, Maya held a number of senior roles in the company including Legal Counsel – Litigation Senior Legal Counsel and General Manager Legal – Litigation. Maya holds Bachelor of Jurisprudence and Bachelor of Laws degrees from The University of Western Australia and was admitted to practise as a barrister and solicitor in 1990 Prior to joining Wesfarmers, Maya practised law at Parker & Parker and Downings Legal.

### John Durkan
*Managing Director Coles*

John was appointed Managing Director of Coles in July 2014 John joined Coles in July 2008 as Merchandise Director and was subsequently appointed Chief Operating Officer in June 2013 He brings a wealth of customer product and buying knowledge having worked for 17 years with Safeway Stores PLC and as the Chief Operating Officer for Carphone Warehouse in the UK.



### John Gillam
*Chief Executive Officer Bunnings Group*

John has been leading the Bunnings business in Australia and New Zealand since 2004 and following the acquisition of Homebase in the UK and Ireland in February 2016, he became Chief Executive Officer of the expanded Bunnings Group. John started at Wesfarmers in 1997 was appointed Chief Financial Officer of Bunnings in 1999 Wesfarmers Company Secretary in 2001 and Managing Director of CSBP in 2002.

### Guy Russo
*Chief Executive Officer Department Stores*

Guy joined Wesfarmers in 2008 as Managing Director of Kmart, and was appointed Chief Executive Officer of the Department Stores division in February 2016 Prior to this, Guy worked for McDonald's, beginning his career in 1974 He was appointed Managing Director and Chief Executive Officer at McDonald's Australia from 1999 before becoming President, McDonald's Greater China from 2005 to 2007 He is currently on the Board of Guzman y Gomez and is President of Half the Sky Foundation.

### Rob Scott
*Managing Director Wesfarmers Industrials*

Rob was appointed Managing Director of the Wesfarmers Industrials division in August 2015. Rob started with Wesfarmers in 1993 before moving into investment banking, where he had various roles in corporate finance and mergers and acquisitions in Australia and Asia. He rejoined Wesfarmers in business development in 2004 before being appointed Managing Director of Wesfarmers Insurance in 2007 and then Finance Director of Coles in February 2013 He was appointed to the role of Managing Director Financial Services in October 2014

### Linda Kenyon
*Company Secretary Wesfarmers Limited*

In 2002 Linda was appointed Company Secretary of Wesfarmers and is also company secretary of a number of Wesfarmers Group subsidiaries. Linda joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of the responsible entity for the listed BWP Trust (formerly Bunnings Warehouse Property Trust)

### Ben Lawrence
*Chief Human Resources Officer Wesfarmers Limited**

Ben joined Wesfarmers in 2008. Prior to joining Wesfarmers, Ben was the Chief Human Resources Officer for Foster's Group Limited. He has held a variety of senior roles in the United States, including Chief Human Resources Officer, Beringer Wine Estates; Vice President International Human Resources, the Clorox Company and Director Human Resources, FMC Gold Company. Ben is a non executive director of Red Dust and the Wunan Foundation

*Ben will transition to the role of Senior Advisor in October 2016.

### Alan Carpenter
*Executive General Manager Corporate Affairs, Wesfarmers Limited*

Alan joined Wesfarmers as Executive General Manager Corporate Affairs in December 2009 Prior to that he was Premier of Western Australia from January 2006 to September 2008 and served 13 years in the Western Australian Parliament. Alan has also worked as a journalist with the Seven Network and the ABC and lectured in Australian politics at the University of Notre Dame, Fremantle.

### Jenny Bryant
*Chief Human Resources Officer Wesfarmers Limited**

Jenny joined Coles as Human Resources Director in 2011 and became Business Development Director in 2015. Her previous work experience encompasses Mars, Vodafone and EMI Music in a number of global roles where she worked in various areas including manufacturing, sales and marketing and human resources.

*Jenny will transition to the role of Chief Human Resources Officer in October 2016

# OPERATING AND FINANCIAL REVIEW

## THE WESFARMERS WAY

Our objective is to provide a satisfactory return to shareholders

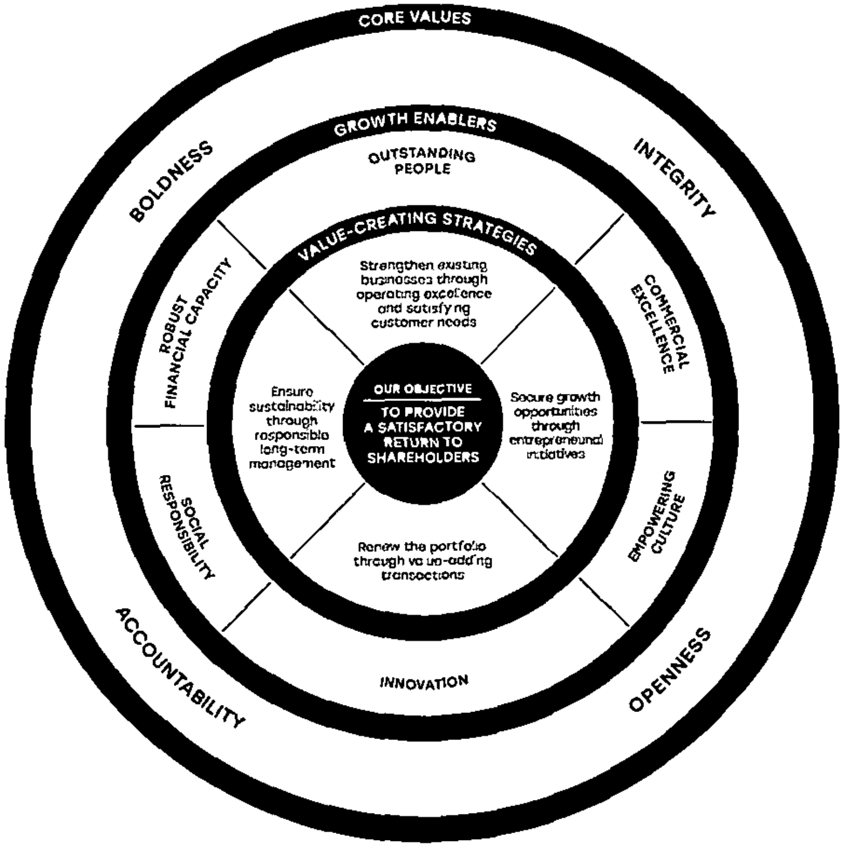



*Photo from left: Maya vanden Driesen, Group General Counsel, Terry Bowen, Finance Director, Linda Kenyon, Company Secretary and Olivier Chretien, Managing Director Business Development and Corporate Planning.*

### On behalf of the Board, I'm very pleased to present the operating and financial review of Wesfarmers for shareholders

Wesfarmers primary objective is to deliver satisfactory returns to shareholders through financial discipline and exceptional management of a diversified portfolio of businesses. A key focus of the Group is ensuring that each of its divisions has a strong management capability that is accountable for strategy development and execution as well as day to day operational performance. Each division is overseen by a divisional board of directors or a steering committee that includes the Wesfarmers Managing Director and Finance Director and is guided by a Group-wide operating cycle and governance framework.

This operating and financial review sets out the Group's objective, values growth enablers and strategies It also outlines a review of operational performance for the 2016 financial year as well as summarising its risks and prospects The 2016 financial performance is also outlined for each division together with its competitive environment strategies risks and prospects

The review should be read in conjunction with the financial statements, which are presented on pages 85 to 131 of this annual report.

### The Wesfarmers Way

From our origins in 1914 as a Western Australian farmers cooperative Wesfarmers has grown into one of Australia's largest listed companies and private sector employers with more than 220 000 employees and 530 000 shareholders.

Wesfarmers diverse business operations in this year's review cover supermarkets home improvement department stores office supplies chemicals energy and fertilisers industrial and safety products and coal Wesfarmers businesses operate in Australia New Zealand the United Kingdom and Ireland with the portfolio including some of these countries' leading brands.

The Wesfarmers Way is the framework for the company's business model and comprises core values growth enablers and value creating strategies directed at achieving the Group's primary objective of providing a satisfactory return to shareholders.

**Terry Bowen**
Finance Director

## OUR OBJECTIVE

The primary objective of Wesfarmers is to provide a satisfactory return to shareholders. The measure used by the Group to assess satisfactory returns is total shareholder return (TSR) over time. We measure our performance by comparing Wesfarmers' TSR against that achieved by the *S&P/ASX 50 Index*.

**Performance measures**

Growth in TSR relies on improving returns from invested capital relative to the cost of that capital and growing the capital base at a satisfactory rate of return on capital (ROC)[1]

Given a key factor in determining TSR performance is movement in Wesfarmers' share price, which can be affected by factors outside the control of the company (including market sentiment, business cycles, interest rates and exchange rates), the Group focuses on return on equity (ROE) as a key internal performance indicator

While ROE is recognised as a fundamental measure of financial performance at a Group level, ROC has been adopted as the principal measure of business unit performance. ROC focuses divisional businesses on increasing earnings and/or increasing capital productivity by managing factors within their control, as well as making an adequate return on any new capital deployed.

Minimum ROC targets for each division are set based on their pre-tax cost of capital, while satisfactory ROC targets are established based on the Group's ROE targets, which are reviewed annually *with reference to the performance of the broader market.*

[1] ROC = EBIT/(working capital, fixed assets and investments less provisions and other liabilities)

## APPROACH TO DELIVERING SATISFACTORY RETURNS TO SHAREHOLDERS

The Group seeks to

- continue to invest in Group businesses where *capital investments exceed return requirements*,
- acquire or divest businesses where doing so is estimated to increase long term shareholder wealth, and
- manage the Group's balance sheet to achieve an appropriate risk profile and an optimised cost of capital.

**CASH FLOW GENERATION**

- Drive long-term earnings growth
- Manage working capital effectively
- Strong capital expenditure processes
- Invest above the cost of capital
- Financial discipline

**Cash flow generation**

In generating cash flow and earnings, the Group seeks to employ excellent management teams who are empowered to drive long term earnings growth.

This is achieved through deploying best practice principles in operational execution and maintaining a long term focus in regards to strategy and results.

The Group continuously looks to improve the working capital efficiency of all of its businesses. In addition, the Group ensures strong discipline in relation to capital expenditure or any other investment decisions that are made.

**BALANCE SHEET STRENGTH**

- Diversity of funding sources
- Optimise funding costs
- Maintain strong credit metrics
- Risk management of maturities

**Balance sheet strength**

The Group endeavours to achieve a cost of capital advantage while maintaining balance sheet strength and flexibility in order to be able to act when opportunities arise.

This includes maintaining access to diverse sources of funding, including bank facilities and global bond markets, and optimising funding costs.

The Group maintains strong credit metrics, in line with a strong investment grade credit rating, supported by good cash flow generation and disciplined capital management.

Risk is managed by smoothing debt maturities over time, limiting the total repayments in any given year.

**DELIVERY OF LONG-TERM SHAREHOLDER RETURNS**

- Improve returns on invested capital
- Grow dividends over time
- Effective capital management

**Long-term shareholder returns**

With a focus on generating strong cash flows and maintaining balance sheet strength, the Group aims to deliver satisfactory returns to shareholders through improving returns on capital invested in the Group. As well as share price appreciation, Wesfarmers seeks, where possible, to grow dividends over time. Dependent upon circumstances, capital management decisions may also be taken from time to time where this activity is in shareholders' interests.





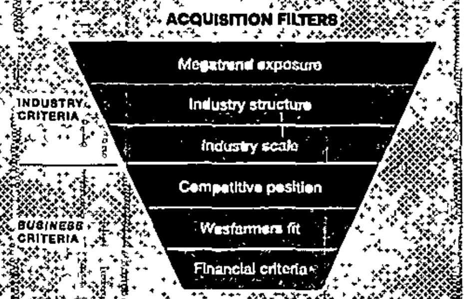
## ACQUISITION APPROACH

When reviewing the acquisition of businesses the Group applies various filters, as illustrated in the following diagram.

Importantly, in applying these filters the Group applies a long term horizon to investment decisions and remains very disciplined in its approach to evaluation, with the most important *filter being whether the investment is* going to create value for shareholders over time.

**Investment approach**

- Capacity to act through a strong balance sheet and focus on cash flow
- Flexibility through different ownership models (e.g. minority interest, full control, partnerships)
- Remain opportunistic to sector, structure and geography
- Financially disciplined including investment comparison to capital management alternatives




## CORE VALUES

*Integrity*

- Acting ethically in all dealings

*Openness*

- Openness and honesty in reporting, feedback and ideas
- Accepting that people make mistakes and seeking to learn from them

*Accountability*

- Significant delegation of authority and decision making to divisions
- Accountability for performance
- Protecting and enhancing our reputation

*Boldness*

- Strong and ready to make bold decisions and challenge the status quo in pursuit of growth and sustainability
- Supporting and encouraging an environment free of fear and blame

## GROWTH ENABLERS

A core attribute of the Wesfarmers operating model is that each of our businesses operates with a high degree of autonomy. Rather than mandating detailed strategies or implementation plans, the Group focuses on ensuring that the following six key enablers are in place in our businesses, with a goal of driving operating performance to best practice.

*Outstanding people*

Wesfarmers seeks to be an employer of choice. Attracting outstanding people and utilising their individual talents is the most critical element in striving for sustainable success. Wesfarmers recognises that while great assets and strategies are critical, it is people who ultimately drive outcomes.

*Commercial excellence*

Wesfarmers seeks to ensure that it employs strong financial discipline in all of its decisions across the Group. Wesfarmers has a clear bias towards promoting strong commercial capability across its leadership base.

*Empowering culture*

Wesfarmers recognises that an empowering culture is critical to engendering accountability for delivering the results agreed upon through the Group's corporate planning framework. Wesfarmers uses stretch targets in objective setting and encourages team members to be proactive in driving the creation of value in their businesses.

*Innovation*

Wesfarmers seeks to develop a culture that encourages innovation, and rewards boldness and creativity.

*Social responsibility*

Respect for employees, customers and suppliers and a relentless focus on providing safe workplaces are fundamental to the way that Wesfarmers operates. Wesfarmers' social responsibility extends to maintaining high standards of ethical conduct, environmental responsibility and community contribution.

*Robust financial capacity*

By maintaining a strong balance sheet, the Group aims to provide a competitive cost and access to capital in order to allow the Group to act when value-creating opportunities present themselves.

# OUR VALUE-CREATING STRATEGIES

Consistent with the Wesfarmers Way, the Group's primary objective to provide a satisfactory return to shareholders is driven by four overarching strategies. These are:

- strengthening existing businesses through operating excellence and satisfying customer needs;
- securing growth opportunities through entrepreneurial initiative;
- renewing the portfolio through value-adding transactions, and
- ensuring sustainability through responsible long-term management.

As shown in the following table, each strategy is underpinned by the Group's well established strategic planning framework. A key attribute of this approach is the maintenance of a long term focus and acting sustainably in the creation of value and the building of businesses.

At a divisional level, detailed strategies are developed specific to the opportunities to improve each of our individual businesses. Divisional strategies are discussed within their respective summaries, starting on page 20

## OPERATING EXCELLENCE

| OUR STRATEGIES | OUR ACHIEVEMENTS | OUR FOCUS FOR THE COMING YEARS |
| --- | --- | --- |
| **Strengthen existing businesses through operating excellence and satisfying customer needs** | - Continued to make improvements in our customer offers, including reinvesting in value to drive business growth and improving merchandise ranges.<br>- Further optimised and invested in our retail store networks and digital channels.<br>- Focused on production plant efficiency and maintaining customer relationships in our industrial businesses.<br>- Made further operational productivity improvements and reduced costs across our businesses. | - **Coles** remains committed to implementing customer-led strategies and delivering trusted value, quality and service. Continued investment in value will be supported by simplifying the business end-to-end The division has plans to drive further improvement in fresh category sales. Coles will also maintain a disciplined and returns-focused approach to network expansion and capital investment, develop new channels and services, and progress its Liquor transformation.<br>- **Bunnings** will maintain its focus on driving long-term value creation through strengthening its core business, including creating better experiences for customers, investing in new and existing stores, and delivering greater digital reach. Bunnings United Kingdom and Ireland will focus on building strong business foundations and establishing pilot Bunnings Warehouse stores.<br>- **Target** will continue to embed its revised strategy focusing on completing the conversion to everyday low prices, prioritising volume lines, further reducing inventory levels and improving the quality of ranges. These initiatives will be supported by higher levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification.<br>- **Kmart** aims to grow through continued price leadership better ranges, store network growth and a high performance culture. The business will continue to focus on delivering increased operational efficiency across the business.<br>- **Officeworks** will continue to deliver a unique 'one-stop shop' via its every channel' strategy while extending reach across all channels through new categories and services, and drive further productivity improvements.<br>- **Chemicals, Energy and Fertilisers (WesCEF)** will continue to focus on maintaining strong operational performance The business is well positioned to take advantage of value-generating opportunities as they arise.<br>- **Industrial and Safety** will invest in sales and service, merchandising, digital and supply chain, supported by the simplification of its business model. Workwear Group will shift focus from integration to turnaround and Coregas will further develop new channels to market.<br>- **Resources** will maintain focus on cost control, productivity improvement and capital discipline. Low-cost plant expansions and counter-cyclical investments will be implemented where satisfactory returns can be achieved. |



## ENTREPRENEURIAL INITIATIVE

| OUR STRATEGIES | OUR ACHIEVEMENTS | OUR FOCUS FOR THE COMING YEARS |
| --- | --- | --- |
| **Secure growth opportunities through entrepreneurial initiative** | - Provided even greater value for customers through price reinvestment of innovation-led productivity gains.<br>- Continued to innovate our product ranges and categories across all businesses, providing value and quality to customers.<br>- Further improved and extended channel and brand reach in the retail portfolio, focusing on store format innovation and the expansion of online offers.<br>- Expanded customer programs, particularly the flybuys loyalty program and the PowerPass offer at Bunnings.<br>- Continued to better leverage data, particularly in the retail businesses. | - Continue to reinforce innovation and drive boldness as growth enablers.<br>- Continue to rigorously apply financial disciplines and financial evaluation methodologies.<br>- Increase and encourage collaboration across divisions, where appropriate. |

## RENEWING THE PORTFOLIO

| OUR STRATEGIES | OUR ACHIEVEMENTS | OUR FOCUS FOR THE COMING YEARS |
| --- | --- | --- |
| **Renew the portfolio through value-adding transactions** | - Acquired Homebase, the second largest home improvement and garden retailer in the United Kingdom and Ireland, from Home Retail Group. | - Maintain a strong focus and capability to evaluate growth opportunities where long-term shareholder value can be created.<br>- Consider innovative investment approaches to complement traditional growth models and provide future optionality.<br>- Ensure a patient, disciplined and broad scanning approach to investment opportunities is maintained.<br>- Apply rigorous due diligence and post-acquisition integration processes.<br>- Maintain a strong balance sheet to enable the Group to act opportunistically.<br>- Consider opportunities to divest assets either in full or in part, where long-term shareholder value can be created. |

## OPERATING SUSTAINABLY

| OUR STRATEGIES | OUR ACHIEVEMENTS | OUR FOCUS FOR THE COMING YEARS |
| --- | --- | --- |
| **Ensure sustainability through responsible long-term management** | - Maintained a strong balance sheet.<br>- Achieved good improvements in our safety performance.<br>- Maintained a very strong focus on the development and management of our teams.<br>- Continued to promote diversity in our workplaces, with 20.5 per cent more self-identified Indigenous employees this year including more than 500 new Indigenous employees at Coles.<br>- Advanced our executive development, retention and succession programs.<br>- Continued to actively contribute to the communities in which we operate. In the 2016 financial year we made community contributions, both direct and indirect, of more than $110 million. | - Continue to foster a more inclusive work environment, with particular focus on diversity (gender age and ethnicity).<br>- Increase the number of women in leadership positions across the Group.<br>- Continue to look after the health, safety and development of our people.<br>- Minimise our environmental footprint.<br>- Contribute positively to the communities in which we operate.<br>- Provide appropriate governance structures to safeguard future value creation. |

# YEAR IN REVIEW

NET PROFIT AFTER TAX

**$2,353M**

(excluding significant items)

| | |
|---|---|
| 2016 | 2,353 |
| 2015 | 2 440 |
| 2014 | 2,689 |
| 2013 | 2 261 |
| 2012 | 2 126 |

EARNINGS PER SHARE

**209.5cents**

(excluding significant items)

| | |
|---|---|
| 2016 | 209 5 |
| 2015 | 218 1 |
| 2014 | 234 6 |
| 2013 | 185 9 |
| 2012 | 184 2 |

RETURN ON EQUITY

**9.6%**

(excluding significant items)

| | |
|---|---|
| 2016 | 9 6 |
| 2015 | 9 8 |
| 2014 | 10 5 |
| 2013 | 8 9 |
| 2012 | 8 4 |

- Excluding the following post-tax significant items: $1,249 million non-cash impairment of Target; $596 million non-cash impairment of Curragh; and $102 million of restructuring costs and provisions to reset Target.
- Including the following post-tax significant items: $145 million insurance division contribution to earnings; $939 million gain on disposal of the insurance division; $95 million gain on disposal of WesCEF's interest in Air Liquide WA (ALWA)' $677 million impairment of Target's goodwill; and $68 million Coles Liquor restructuring provision.

## Overview

The Group reported a net profit after tax (NPAT) of $407 million for the 2016 *financial year. This result included non* cash impairments of Target and Curragh totalling $2,116 million (pre-tax) as well as $145 million (pre-tax) of restructuring costs and provisions to reset Target. Excluding these significant items, NPAT for the full-year decreased 3.6 per cent to $2,353 million.

Strong performances across a majority of the Group's businesses were offset by challenging trading conditions and restructuring activities in Target, and the effects of low commodity prices and hedge losses in the Resources business.

In a competitive environment, the Group's retail businesses continued to invest in customer value, service, stores and online, as well as improved merchandise ranges to deliver long-term growth and improved returns. Excluding Target, the retail portfolio delivered growth in earnings before interest and tax (earnings or EBIT) of 7.5 per cent.

A highlight for the year was the Group's acquisition of Homebase, the second largest home improvement and garden retailer in the United Kingdom and Ireland, which provides a platform for long-term value creation.

The performance of the Industrials division during the year was significantly affected by depressed conditions across the resources sector. Underlying earnings for the division declined significantly primarily driven by an operating loss from the Resources business. The WesCEF business had a strong year, with earnings growth achieved across all three business units, while Industrial and Safety made good progress to simplify its operations and reduce costs.

Divisional financial performances are outlined in pages 20 to 49

### *Operating cash flow*

Operating cash flows of $3,365 million were $426 million or 11.2 per cent below last year. Lower operating cash flows mainly reflected higher working capital investments across the retail portfolio, including initiatives to improve stock availability in Homebase and investments made to support sales growth across the retail businesses, as well as the effect of a lower Australian dollar. These effects were partially offset by working capital improvements across the Industrials businesses.

Cash realisation (excluding non-trading items (NTIs)) for the year was 94.9 per cent. Excluding inventory investments made in Homebase, cash realisation was 99 7 per cent for the year

## Capital expenditure

The Group retains very strong disciplines in respect to capital expenditure, with generally conservative business cases and appropriate hurdle rates commensurate with project risks. Gross capital expenditure of $1,899 million was $340 million or 15.2 per cent lower than last year mainly due to lower expenditure on new store openings in Bunnings and Coles. Growth and refurbishment of retail store networks which deliver strong incremental returns on capital was a key driver of capital expenditure. Coles and Bunnings combined accounted for 70.3 per cent of total expenditure, with these businesses delivering a return on capital, excluding goodwill, of 30 0 per cent and 48.6 per cent respectively for the year.

Net capital expenditure of $1,336 million was $216 million or 13.9 per cent lower than the prior year. Proceeds from disposals of $563 million were $124 million below last year, due to fewer retail property sales and the sale of Kleenheat's east coast LPG assets in the prior year.



## Free cash flow

Free cash flows of $1,233 million were $660 million or 34 9 per cent below last year, largely reflecting the $665 million acquisition of Homebase.

## Balance sheet

The Group maintained a strong balance sheet during the year Net financial debt, including interest rate swap assets and excluding financing of the Coles credit card book, was $5,727 million at 30 June 2016, $981 million above last year Debt increased due to the acquisition of Homebase and working capital investments.

Capital employed at year-end was $27,663 million. This was $1,370 million lower than last year mainly due to non-cash impairments in Target and Curragh, and higher provisions. A non-cash impairment of $1,266 million was recorded in the carrying value of Target, with $1,208 million of this recognised against Target's goodwill. This was partially offset by goodwill recognised on the acquisition of Homebase, contributing to a $236 million decline in intangible assets to $19 073 million. A non-cash impairment of $850 million was recognised against Curragh's assets. Provisions and other liabilities finished higher, reflecting the acquisition of Homebase, restructuring in Target and Industrial and Safety, and the effect of a lower discount rate.

Working capital increased, with higher inventories and receivables only partially offset by an increase in payables. The increase in working capital was largely driven by the acquisition of Homebase and business growth across the retail portfolio.

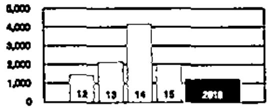
Net tax balances increased mainly due to deferred tax assets recognised in relation to the non-cash impairment of *Curragh's* assets and the acquisition of Homebase, as well as lower tax payable due to losses recorded in Target and Curragh.

CASH CAPITAL EXPENDITURE

| Year ended 30 June | 2016 $m | 2015 $m |
|---|---|---|
| Coles | 797 | 841 |
| Home Improvement | 536 | 711 |
| Kmart | 163 | 169 |
| Target | 120 | 127 |
| Officeworks | 40 | 39 |
| WesCEF | 60 | 56 |
| Industrial and Safety | 62 | 57 |
| Resources | 118 | 137 |
| Other | 4 | 2 |
| Total capital expenditure | 1,899 | 2,239 |
| Sale of property, plant and equipment | (563) | (687) |
| Net capital expenditure | 1,336 | 1,552 |

FREE CASH FLOW

**$1,233M**



| | |
|---|---|
| 2016 | 1,233 |
| 2015 | 1,893 |
| 2014 | 4 178 |
| 2013 | 2 171 |
| 2012 | 1,472 |

GROUP CAPITAL EMPLOYED

| Year ended 30 June[1] | 2016 $m | 2015 $m |
|---|---|---|
| Inventories | 6,360 | 5,497 |
| Receivables and prepayments | 1,850 | 1 658 |
| Trade and other payables | (6,492) | (5,764) |
| Other | 411 | 393 |
| Net working capital | 2,129 | 1 784 |
| Property plant and equipment | 9,612 | 10,205 |
| Intangibles | 19,073 | 19,309 |
| Other assets | 619 | 775 |
| Provisions and other liabilities | (3,770) | (3,040) |
| Total capital employed | 27,663 | 29,033 |
| Net financial debt excluding financial services debt[2] | (5,727) | (4,746) |
| Net tax balances | 1,013 | 494 |
| Total net assets | 22,949 | 24 781 |

[1] Balances reflect the management balance sheet, which is based on different classification and groupings than the balance sheet in the financial statements.

[2] Net financial debt excluding the financing of the Coles credit card book and net of cross currency interest rate swaps and interest rate swap contracts.

## 95 BASIS POINTS REDUCTION IN THE GROUP'S 'ALL-IN' EFFECTIVE BORROWING COST TO 4.5 PER CENT.

DEBT SOURCES[1]

- BANK BILATERALS 38%
- US BONDS 11%
- EURO BONDS 24%
- DOMESTIC BONDS 27%

[1] As at 30 June 2016.

DIVIDENDS PER SHARE

186 cents

- TOTAL ORDINARY DIVIDENDS
- SPECIAL DIVIDEND[1]


| | |
|---|---|
| 2016 | 186 |
| 2015 | 200 |
| 2014 | 200[1] |
| 2013 | 180 |
| 2012 | 165 |

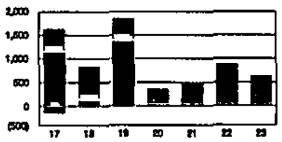
[1] 2014 includes a 10 cents per share special 'Centenary' dividend

FINANCE COSTS ($M) AND WEIGHTED AVERAGE COST OF DEBT (%)

- FINANCE COSTS (LHS)
- WEIGHTED AVERAGE COST OF DEBT (RHS)


DEBT MATURITY PROFILE[1] ($M)

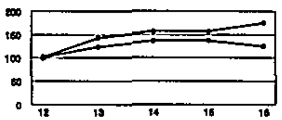
- BANK BILATERALS
- CAPITAL MARKETS
- CASH AT BANK AND ON DEPOSIT




[1] As at 30 June 2016.

TSR: WESFARMERS AND ASX 50

- WESFARMERS LIMITED TSR INDEX[1]
- ASX 50 ACCUMULATION INDEX




[1] Assumes 100 per cent dividend reinvestment on the ex-dividend date, and full participation in capital management initiatives (e.g., rights issues and share buybacks). Source: Bloomberg.

### Debt management and financing

The Group's strategy is to diversify its funding sources, pre-fund upcoming maturities and maintain a presence in key markets.

In February 2016, the Group established £515 million of three-year bank facilities and £115 million of one-year bank facilities (totalling $1,135 million) to fund the Homebase acquisition and provide working capital to the business.

In July 2015, the Group repaid €500 million ($756 million) of Euro medium term notes, and in May 2016 repaid US 144A bonds totalling US$650 million ($604 million), utilising existing facilities and cash balances. These were partially replaced through the establishment of $500 million of new three-year bank facilities.

Finance costs decreased 2.2 per cent to $308 million, driven by a 95 basis points reduction in the Group's 'all in' effective borrowing cost to 4.5 per cent, as a result of active management of debt sources and the benefit of a lower bank bill swap rate.

The Group maintained strong credit ratings during the year. Moody's Investors Services' rating remained unchanged at A3 (stable). Standard and Poor's revised the Group's outlook from 'stable' to 'negative', while retaining the A- rating, due to the short-term impact of the Homebase acquisition on the Group's credit metrics.

### Dividends

A key component of total shareholder return is the dividends paid to shareholders.

Wesfarmers' dividend policy seeks to deliver growing dividends over time, subject to the Group's earnings, cash flows and available franking credits.

The Board declared a fully-franked final ordinary dividend of 95 cents per share, taking the full-year ordinary dividend to 186 cents per share. The final dividend will be paid on 5 October 2016 to shareholders on the company's register on 30 August 2016, the record date for the final dividend.

Given the preference of many shareholders to receive dividends in the form of equity, the directors have decided to continue the operation of the Dividend Investment Plan (the 'Plan'). The allocation price for shares issued under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 15 consecutive trading days from and including the third trading day after the record date, being 2 September 2016 to 22 September 2016.

The last date for receipt of applications to participate in, or to cease or vary participation in the Plan, was 31 August 2016. No discount will apply to the allocation price and the Plan will not be underwritten. Shares to be allocated under the Plan will be transferred to participants on 5 October 2016.





## OUR APPROACH TO SUSTAINABILITY

Wesfarmers will only be sustainable as a corporation if, in addition to its continued financial success, it adequately addresses a range of other issues which are significant in their own right and ultimately influence financial outcomes.

Wesfarmers operates its businesses in accordance with the Group's 10 community and environment principles, which relate to our people, sourcing networks, the communities in which we operate, and environmental and governance standards.

In implementing our overarching strategies, we maintain a long term focus and act sustainably in creating value across our business portfolio.

Within this framework, each business has identified the key issues most relevant to its operations within their summaries as detailed later in this operating and financial review. Further information on our sustainability performance can also be found on pages 51 to 59 of this annual report.

Our full 2016 Sustainability Report will be available in October on our website sustainability.wesfarmers.com.au

## RISKS

Wesfarmers recognises the importance of, and is committed to, the identification, monitoring and management of material risks associated with its activities across the Group.

The following information sets out the major Group-wide risks. These are not in any particular order and do not include generic risks such as changes to macroeconomic conditions affecting business and households in Australia, which would affect all companies with a large domestic presence and which could have a material affect on the future performance of the Group.

Further information on risk management, including policies, responsibility and certification, can be found on page 64 of this annual report and in the corporate governance section of the company's website at www.wesfarmers.com.au/cg

**Strategic**
- Increased competition
- Ineffective execution of strategy
- Loss of key management personnel
- Damage or dilution to Wesfarmers' brands
- Digital disruption to industry structures

**Operational**
- Loss of critical supply inputs or infrastructure, including IT systems
- Loss of data security and integrity
- Business interruption arising from industrial disputes, work stoppages and accidents
- Risks inherent in distribution and sale of products

**Regulatory**
- Non-compliance with applicable laws, regulations and standards
- Adverse regulatory or legislative change

**Financial**
- Currency volatility
- Adverse commodity price movements
- Reduced access to funding

## PROSPECTS

Competition in the retail sector is expected to remain robust, with value continuing to be important to customers. Within this environment, the Group's retail businesses are well-positioned to continue to deliver growth through strategies that are focused on achieving further improvements in value, service and range. These strategies will be supported by ongoing productivity savings and strong cost disciplines. Ongoing merchandise innovations, digital strategies and store network improvements and expansions are expected to contribute to growth. Bunnings will continue to progress the establishment of its United Kingdom and Ireland business, with a focus on driving a stronger operating performance in Homebase while establishing pilot Bunnings Warehouse stores and infrastructure in line with a low-cost and high capability operating model. The 2017 financial year will be a transitional year for Target, with the business focusing on embedding its revised strategy.

The outlook for the Group's Industrials division remains challenging in the short term. The Resources business will continue to focus on improving operational efficiency. While its earnings will be largely dependent on export coal prices and exchange rates, the business will report lower depreciation and lower hedge losses in the 2017 financial year. The Group continues to evaluate all strategic options for this business. The outlook for WesCEF is subject to international commodity pricing, exchange rates, competitive factors and seasonal conditions. Industrial and Safety will continue to invest in capability and performance improvements across the business, supported by transformation savings, to mitigate ongoing sales and margin pressures.

The Group will continue to prioritise cash flow generation, capital discipline and balance sheet strength, while managing its business portfolio with a long term view. Wesfarmers is strongly focused on delivering organic growth opportunities in each of its businesses, where satisfactory returns can be achieved, while being well positioned to take advantage of any other opportunities that deliver value to shareholders.

# COLES

Coles opened its first store in Collingwood, Melbourne in 1914 and has grown into an iconic Australian retailer. Today it operates Coles Supermarkets, Coles Express, Liquorland, Vintage Cellars, First Choice Liquor, Spirit Hotels, Coles Financial Services and Coles Online.


## YEAR IN REVIEW

### REVENUE

**$39,242M**

| | |
|---|---|
| 2016 | 39 242 |
| 2015 | 38 201 |
| 2014 | 37 391 |
| 2013 | 35 780 |
| 2012 | 34 117 |

### EBIT

**$1,860M**

| | |
|---|---|
| 2016 | 1,860 |
| 2015 | 1 783 |
| 2014 | 1 672 |
| 2013 | 1 533 |
| 2012 | 1 356 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014[1] | 2015 | 2016 |
|---|---|---|---|---|---|
| Revenue ($m) | 34 117 | 35 780 | 37 391 | 38 201 | 39,242 |
| Earnings before interest and tax ($m) | 1 356 | 1 533 | 1 672 | 1 783 | 1,860 |
| Capital employed (R12) ($m) | 15 572 | 16 114 | 16 272 | 16 276 | 16,541 |
| Return on capital employed (%) | 8 7 | 9 5 | 10 3 | 11 0 | 11.2 |
| Capital expenditure ($m) | 1 218 | 1 181 | 1 018 | 937 | 783 |

[1] 2014 excludes a $94 million provision relating to future Liquor restructuring activities (reported as a non-trading item).

## Performance drivers

Coles earnings increased 4.3 per cent to $1,860 million for the full year with revenue growth of 2.7 per cent.

Food and liquor recorded sales growth of 5.8 per cent increasing $1 780 million in a competitive market driven by improvements in value quality and service. The key metrics of transaction volumes basket size and sales density improved as a result of continued investment in the customer offer

Coles sales growth in food continues to be led by the fresh food categories. A focus on delivering outstanding quality with market leading service at great prices, continues to drive growth in weekly transactions.

A focus on trusted value continued through the year At 30 June there were more than 3 100 products on Every Day' prices, representing Coles' ongoing commitment to lowering the cost of the weekly shop. This marks the seventh consecutive year that Coles has lowered prices for customers, with cumulative deflation of 7.5 per cent recorded since the 2009 financial year

The Liquor transformation is progressing. Positive comparable sales growth was achieved for the 2016 financial year reflecting investments made in price, range and the store network. This marks an important milestone as Coles completes the second year of a five-year liquor transformation plan.

Coles Express recorded revenue (including fuel) of $6.7 billion for the year 10.0 per cent lower than the previous year due to lower fuel volumes and lower fuel prices. Despite a decline in fuel sales convenience store sales increased by 11 1 per cent for the year as the compelling value offering continues to resonate with customers.

Coles growth in new channels and services also continued through the year Coles Online achieved more than 25 per cent growth in average weekly transactions. Coles Financial Services now has more than one million customer accounts and flybuys continues to achieve growth in active members.

## PROSPECTS

In a highly competitive food and grocery market, Coles remains committed to being a customer led business and continually providing better value quality and service at all stores across Australia.

Coles aims to continue to lower the cost of the weekly shopping basket at a time when the cost of living remains a challenge for Australian households. Coles will fund the investment in prices, store network, and training and retaining the best talent, by simplifying the business end to end.

Coles will also seek to provide more reasons for customers to shop at its stores through further enhancements and innovation in its Online, Financial Services and flybuys businesses.

Coles remains on track to deliver its five year transformation of the liquor business, with improving sales trends validating the activity so far. To drive the next wave of improvement Coles Liquor is dedicated to delivering lower prices, an improved range and a better store network.

Coles Express expects further growth with its alliance partner through the establishment of new outlets, and by extending the value offer and convenience range in stores.

John Durkan
Managing Director
Coles

# COLES


HIGHLIGHTS

FOOD AND LIQUOR RETAIL SALES GROWTH OF 5.1 PER CENT WHILE LOWERING PRICES FOR CUSTOMERS FOR THE SEVENTH CONSECUTIVE YEAR

CONTINUED INVESTMENT IN BETTER QUALITY, AVAILABILITY, SERVICE AND VALUE FOR CUSTOMERS

4 3 PER CENT GROWTH IN EARNINGS TO

**$1,860M**

OPERATING REVENUE INCREASED $1,041 MILLION TO

**$39.2B**

## Our business

Coles provides fresh food groceries, general merchandise liquor fuel and financial services, with more than 21 million customer transactions on average each week, via its store network and online platform. Coles has more than 102 000 team members and operates 2 431 retail outlets nationally

## Our market

Coles operates in Australia's highly dynamic and evolving food grocery liquor and convenience sector It has a store network of 787 supermarkets 865 liquor stores, 89 hotels and 690 convenience outlets across the nation from as far west as Geraldton in Western Australia to as far east as Ocean Shores in the Northern Rivers region of New South Wales.

Coles also operates in the financial services market offering home, car life and landlord insurance and credit cards. Coles Financial Services has more than one million customer accounts.

## Sustainability

Coles regularly seeks feedback on its sustainability performance. This year feedback provided by a range of stakeholders found that the two most frequently mentioned topics were how Coles supports Australian made food and product quality and safety

Other topics included responsible sourcing, reducing environmental impacts, supplier relationships and community support.

## Australian sourcing

Coles is proud of its Australian Sourcing Policy which aims to support Australian farmers and manufacturers. Today 96 per cent of fresh fruit and vegetables sourced for Coles are Australian grown and 100 per cent of its fresh milk, eggs and fresh meat from the meat department are produced in Australia.

## Community support

Every year Coles supports national and local charities with fundraising, food donations and disaster relief For the 2016 financial year Coles direct support totalled $43 9 million and an additional $7.8 million was contributed by customers, team members and suppliers.

During the year Coles reached a milestone of distributing 15 million kilograms of fresh food, equivalent to 30 million meals, to people in need since its partnership with SecondBite started in November 2011 Coles also continued to support national cancer charity RedKite, with more than $19 million raised by customers and team members since the partnership began in 2013

Coles assisted Bravery Trust to raise awareness of the issues facing service men and women and their families, many of whom return from overseas duty suffering traumatic injuries and significant mental health issues. Since Coles partnership began in 2014 more than $4.3 million has been raised for Bravery Trust

Queensland's only children's hospice Hummingbird House, has now been built with help from more than $400,000 raised by Coles customers and store teams across the state since 2014 The hospice is due to open in late 2016.

## Environment

A highlight for Coles during the year was the opening of a new store at Coburg North the first supermarket in Australia to use 100 per cent natural refrigerants in a combined refrigeration and air conditioning system The initiative has resulted in an additional 17 per cent energy saving compared to Coles green rated Hallam store which had already reduced energy use by 20 per cent

Further information about Coles' sustainability progress is covered in the Wesfarmers Sustainability Report at sustainability.wesfarmers.com.au

## Supplier relationships

Coles continued to develop longer term relationships with its suppliers, helping to provide certainty and transparency for farmers and food producers and drive growth for their business. In June 2016 Coles commenced an unprecedented 10-year contract for truss tomatoes from Sundrop Farms securing year round supply for customers Since completing construction of its greenhouse this year Sundrop has recruited more than 130 employees and will create an extra 200 jobs in peak periods.

During the year Coles also signed the Food and Grocery Code following its ratification by Parliament, and then issued new Code-compliant terms and conditions to all Coles suppliers. More than 700 suppliers attended forums held by Coles around the country to raise awareness of the Code and by 30 June 2016 more than 1,200 suppliers signed up to Code-compliant terms and conditions.

## Supporting small business

To support small business in Australia's food sector Coles allocated nearly $4 million in grants and interest-free loans from its Nurture Fund to innovative food producers In the first round of funding, assistance was provided to nine small businesses to help them develop new market leading products technologies and processes.

**COLES IS PROUD OF ITS AUSTRALIAN SOURCING POLICY, WHICH AIMS TO SUPPORT AUSTRALIAN FARMERS AND MANUFACTURERS**

# COLES

## STRATEGY

Coles continues to offer greater value to Australians through lower prices, improving the quality and availability of fresh food, and providing a better shopping experience as a result of store refurbishments and team member training. By investing in new and improved supermarkets, convenience and liquor outlets, Coles delivers bigger, better stores with new features tailored to the needs of local shoppers.

Coles continues to build long term strategic partnerships with Australian producers in its journey to become Australia's leading fresh food retailer, and to further simplify operations in its supply chain, leading to further reductions in costs, greater efficiency and increased productivity.

Investment in Coles Online continues with the first stand-alone online supermarket launched in April 2016. Focus will be maintained on growing transactions on top of the 25 per cent growth in transactions achieved this financial year.

This year marks the second year of the five-year turnaround plan for Coles Liquor. Focus on the turnaround continues and will include further improving price competitiveness, range and the quality of the store network.

Building great careers for team members and enhancing their capabilities remains a key focus for Coles, with more than 800 team members participating in the Retail Leaders Program. Around 8,000 team members received training in Coles' fresh departments, including baking bread, meat slicing and gaining fresh product knowledge and expertise to share with customers.

### FOOD AND LIQUOR

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| **Deliver a better store network** | – 20 supermarkets opened, nine closed and 53 renewals completed, focusing on bigger better stores<br>– 2.3 per cent growth in supermarkets net selling area during the year<br>– 37 new liquor stores were opened | – Build a better store network and continue to target supermarket net space growth of between two and three per cent per annum |
| **Focus on freshness** | – Continued growth in fresh produce volumes resulted in further improvements in fresh participation<br>– Approximately 8,000 team members received craft skill training to further enhance customer service | – Deliver better value, quality, availability and the right offer in every store<br>– Seek longer-term agreements and deeper collaboration opportunities with key suppliers<br>– Continue to invest in team member capabilities to improve service |
| **Deliver trusted value** | – More than 3,100 items on 'Every Day' pricing at the end of the year | – Become a trusted price leader and further reduce the cost of the weekly shopping basket<br>– Drive targeted marketing through flybuys and customer insights |
| **Simplify supply chain and operations** | – Improved Coles' delivery in-full and on-time metric by more than 100 basis points as distribution centres become more efficient and store delivery scheduling improved | – Deliver further supply chain efficiencies through improved long-term, end-to-end planning<br>– Improve direct sourcing capabilities, customer-led range simplification and trading terms |
| **Boldly extend into new channels and services** | – Coles Online achieved over 25 per cent transaction growth and opened the first stand-alone online supermarket<br>– More than 5.7 million active households across Australia participated in flybuys during the year<br>– flybuys entered a new partnership with Etihad Airways and launched flybuys travel | – Deliver profitable growth in Coles Online<br>– Grow flybuys by providing more personalised offers that are meaningful for customers and provide choice in how customers earn and convert their points<br>– Align financial services growth to value proposition |
| **Transform liquor business** | – Returned to comparable sales growth<br>– Strong transaction growth delivered with Liquorland being the key driver<br>– Further improvements made to the store network, with 30 underperforming stores closed through the year | – Continue the five-year turnaround strategy and invest in value, range and the store network<br>– Offer more exclusive brands and a liquor-direct offer to allow customers to shop in a more flexible way |
| **Build great careers** | – More than 350 team members participated in the graduate program<br>– More than 800 team members, 48 per cent of whom were women, participated in the Retail Leaders Program and more than 8,000 team members received craft skill training<br>– The number of Indigenous team members rose to more than 2,300 in the 2016 financial year which is 2.2 per cent of Coles' workforce<br>– The First Steps Program – Coles' Indigenous retail training program – was recognised in December 2015 by the Australian Human Rights Commission, winning the 2015 Human Rights Business Award | – Build the right culture and capabilities in-store to further engage customers<br>– Continue to nurture talent through the Retail Leaders Program and the Graduate Program<br>– Increase the percentage of Indigenous team members to three per cent (representative of the Indigenous population in Australia) by 2020 |



## STRATEGY (CONTINUED)

Funded by the benefits of simplifying the way it operates, Coles continues to invest in providing better value, service and quality for customers. A commitment to provide market-leading customer service is supported by ongoing investment by Coles in its team members.

### CONVENIENCE

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| **Deliver a better store network** | – Opened 31 new Coles Express sites | – Grow the store network with the alliance partner and aim to open 100 new stores over the next five years<br>– Renew between 75 and 100 sites each year with big, bold rebranding |
| **Inspire customers through greater value** | – Provided greater value to customers by extending Coles 'Every Day' value to more products throughout the store, resulting in stronger sales | – Extend the 'Every Day' value offer across a greater range of products<br>– Provide a competitive fuel offer to customers |
| **Focus on freshness, quality and additional range** | – Extended the range of everyday essentials and convenience products | – Improve product quality and freshness<br>– Expand product range, including the food-to-go offer |

## RISK

Coles' risks relate to issues that might affect business operations or the competitive dynamics within the market place moving forward. These include product availability, retention of personnel, regulatory changes, competitive intensity and entry of new competitors.

### FOOD AND LIQUOR

| RISKS | MITIGATION |
|---|---|
| **Increased competitive intensity limiting Coles' ability to achieve profitable growth** | Coles will continue to simplify its business and reduce costs to fund further investments in price. It continues to focus on improving its fresh offer supported by securing long-term contracts with key suppliers. It has appropriate lease structures and management practices in place to protect tenure of existing stores. A new store pipeline focused on priority network gaps is governed by a disciplined approach to capital investment. |
| **Attraction, retention and succession of key roles** | Effective succession planning and career development have ensured a smooth leadership transition following the initial phase of the turnaround. Retention of existing senior leadership will enable continuity of initiatives and the advancement of new focus areas. |
| **Regulatory change which limits growth and value offer** | Coles has worked constructively with government, regulatory and industry bodies in the past in order to promote good faith commercial conduct and will continue to do so in the future. |

### CONVENIENCE

| RISKS | MITIGATION |
|---|---|
| **Changing consumer preferences leading to lower fuel consumption** | Coles Express will focus on maintaining a convenience store network with high quality sites and will continue to invest in the store offering to drive continued growth. Coles will continue to review underperforming stores and assess new opportunities for growth. |
| **Disruption to fuel supply** | Coles has an exclusive fuel supply agreement with its alliance partner Viva Energy, until 2024. Either party has the option to extend for a term up to five years. |

# HOME IMPROVEMENT

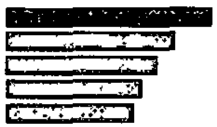
Bunnings' customer-focused approach underpinned continued performance gains in Australia and New Zealand creating a platform to extend into new markets. The acquisition of Homebase in the United Kingdom and Ireland provides an exciting opportunity for future growth.


## YEAR IN REVIEW

### REVENUE

**$11,571M**

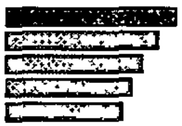
| | |
|---|---|
| 2016 | 11 571 |
| 2015 | 9 534 |
| 2014 | 8 546 |
| 2013 | 7 661 |
| 2012 | 7 162 |



### EBIT

**$1,214M**

| | |
|---|---|
| 2016 | 1 214 |
| 2015 | 1 088 |
| 2014 | 979 |
| 2013 | 904 |
| 2012 | 841 |



### KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Revenue ($m) | 7,162 | 7 661 | 8 546 | 9 534 | 11,571 |
| Earnings before interest and tax ($m) | 841 | 904 | 979 | 1 088 | 1,214 |
| Capital employed (R12) ($m) | 3 250 | 3 492 | 3 343 | 3 244 | 3,599 |
| Return on capital employed (%) | 25 9 | 25 9 | 29 3 | 33 5 | 33.7 |
| Capital expenditure ($m) | 563 | 531 | 531 | 711 | 538 |



## Performance drivers

### Bunnings

Sales growth was achieved across all areas of the business: in consumer and commercial in every merchandise category and in every major trading region. Continued increases in customer participation reflected ongoing actions to improve each of the key offer elements: price range and service.

The good trading results were a direct outcome of an effective strategic agenda that targets long term value creation. The delivery of greater digital and physical brand reach continued commercial expansion and increased customer value were highlights.

EBIT increased as a result of good trading, productivity gains and operating cost disciplines, which offset higher network development costs and the impact of creating more value for customers.

Ongoing work within a disciplined capital expenditure program supported more expansion and upgrade projects across the store network, together with the renewal of business infrastructure. Well managed property divestment activity took advantage of favourable market conditions. The strong earnings growth and capital management resulted in a significant increase in return on capital.

During the period 22 trading locations were opened including 14 new warehouse stores, seven smaller format stores and one trade centre.

### Homebase

Trading across the early months of ownership has been steady, a good result given disruption from repositioning activities.

Core ranges are being quickly reshaped to focus on the home improvement and garden market. Wider product choices and deeper stock holdings are being established.

New marketing, pricing and operational strategies have also been implemented. On a like-for-like trading basis for the period from sale completion to the end of June 2016 customer participation (as measured by transactions) has increased by 7.5 per cent.

## PROSPECTS

"In Australia and New Zealand Bunnings focus is on driving growth creating better experiences both for customers and the wider community along with strengthening the core of the business. Achieving greater brand reach both digitally and physically is a critical work area and this includes further expansion of Bunnings' digital ecosystem opening new stores and continual reinvestment in the existing network."

The competitive environment remains diverse and robust. Bunnings will continue its focus on delivering breathtaking value to customers funded by ongoing productivity improvements and strong operating cost disciplines.

In the United Kingdom and Ireland current work is prioritised around building strong business foundations. This includes driving a stronger operating performance from the repositioned Homebase business and implementing plans for the establishment of four to six pilot Bunnings Warehouse stores in the 2017 financial year. We will continue to restructure the underlying business infrastructure to provide support for low cost high capability operations.

**John Gillam**
Chief Executive Officer
Bunnings Group

# HOME IMPROVEMENT


**HIGHLIGHTS**

REVENUE GROWTH IN ALL TRADING REGIONS AND FROM ALL PRODUCT CATEGORIES

ACQUISITION OF HOMEBASE BUSINESS IN THE UNITED KINGDOM AND IRELAND

STORE-ON-STORE SALES GROWTH (AUSTRALIA AND NEW ZEALAND) OF 8.1 PER CENT

11 6 PER CENT INCREASE IN EARNINGS TO

**$1,214M**

**22**

TRADING LOCATIONS OPENED IN AUSTRALIA AND NEW ZEALAND

## Our business

*Bunnings* is the leading retailer of home improvement and outdoor products in Australia and New Zealand and a major supplier to project builders, commercial tradespeople and the housing industry

In February 2016 Bunnings acquired Homebase which is the second largest home improvement and garden retailer in the United Kingdom and Ireland

## Our market

In Australia and New Zealand Bunnings caters for consumers and both light and heavy commercial customers across the home improvement and outdoor living market operating out of 314 trading locations (of which more than 240 are warehouse stores)

In the United Kingdom and Ireland Bunnings currently operates the recently acquired Homebase business servicing the home improvement and garden market from 260 trading locations.

## Sustainability

Bunnings defines sustainability as actions that are collectively socially responsible, environmentally aware and economically viable.

Alignment of the Homebase sustainability program with Bunnings standards will be a major feature of the new financial year.

Bunnings continues to focus on sustainability improvements in four key areas across the business:

- growing community support in a sincere localised and meaningful manner
- *maintaining strong processes to ensure global* sourcing meets or exceeds the requirements of local and global standards;
- maintaining and where feasible, increasing the current levels of waste reduction and recycling (on a like-for like site basis) and finding new ways to reduce the reliance on grid sourced energy with a view to achieving further cost effective reductions in the overall carbon footprint and
- maintaining a positive safety performance trend as the store network increases and more team members are employed

## Community support

Bunnings is committed to supporting the communities in which it operates by contributing to local regional and national causes, charities and organisations throughout Australia and New Zealand.

During the year Bunnings stores contributed and helped raise more than $37 million through over 70,000 community activities. A wide variety of national and local community organisations were supported through a number of different activities including fundraising sausage sizzles, hands-on projects, local fundraising initiatives and product contributions.

*Bunnings also worked closely with emergency services* throughout the year For the third consecutive year all Australian stores raised funds for local volunteer fire brigades and emergency services through the Aussie Day Weekend Fundraiser BBQ Through the generous support of customers, volunteers, and team members, more than $497 000 was raised nationally New Zealand stores supported local emergency services during this time as part of Anniversary Weekends in the Auckland Wellington and Nelson regions.

# HOME IMPROVEMENT

### Ethical sourcing and product safety

During the year Bunnings continued to work closely with its suppliers to strengthen sourcing practices with 100 per cent of direct sourced suppliers screened through its ethical sourcing program.

As part of its commitment to responsible timber procurement, since 2012 Bunnings has been working closely with West Papua based merbau timber decking supplier PT Wijaya Sentosa, on its journey to Forest Stewardship Council (FSC) certification. PT Wijaya Sentosa achieved certification in March 2016, becoming the first large scale Indonesian forestry operation to do so.

### Waste reduction and recycling

Bunnings is committed to integrating sustainability throughout its business operations, including sending less waste to landfill.

During the year the national program in Australia to re use and recycle plain timber pallets continued. The 173 participating stores re-used more than 53 000 timber pallets.

A cardboard recycling trial started at the Mt Isa, Queensland store and a trial to recycle plastic strapping continued for Queensland stores.

The Alexandria Warehouse, New South Wales, ran an e waste recycling event with the City of Sydney for the second consecutive year during the World Environment Day weekend in June 2016. Over the two-year period more than 29 tonnes of e waste has been dropped off by customers for recycling.

Throughout the year 10 Bunnings stores continued to participate in the Victorian Batteryback Program, bringing the total collection of household batteries since 2009 to more than 11 700 kilograms. In Queensland nine Bunnings stores in metropolitan Brisbane also took part in the Power Tool Batteryback Program, allowing customers to drop off power tool batteries for recycling.

### Energy efficiency

Following the installation of a new generation solar photovoltaic system at the Alice Springs Warehouse in 2014 four additional stores at Smithfield and Gympie (both Queensland) Ballina (New South Wales) and Geraldton (Western Australia) had 100-kilowatt solar photovoltaic systems installed during the year. Each system is generating between 10 and 20 per cent of the store's daily energy needs.

Bunnings continues to install energy efficient LED lighting in new stores and store upgrades. Following trials at Cranbourne Warehouse and Bayswater Warehouse in Victoria to test new-age LED fittings in an older store environment an additional six existing stores had LED lighting installed.

During the year the Bathurst and Orange Warehouses in New South Wales trialled climate adaptive comfort cooling and heating, a more energy efficient system that utilises natural air tempering.

### Safety

Bunnings Australia and New Zealand achieved a 6 9 per cent reduction in the number of injuries recorded and an 11 1 per cent reduction in the total recordable injury frequency rate.

Key initiatives launched during the year included the See Something Do Something campaign, which encouraged leaders and the team to act in the moment addressing any safety risks and acknowledging great safety practices.

Further training and forums for forklift operators, a continued focus on manual handling, and training for leaders on mental health have been key additional programs that were implemented to support the vision that everyone goes home safe.



## STRATEGY

Bunnings provides its customers with the widest range of home improvement and outdoor living products and is committed to delivering the best service and lowest prices every day. It sets out to attract high quality team members and to provide them with a safe and rewarding working environment.

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| More customer value | - Delivered more value for customers | - Ongoing focus on creating more value for customers |
| Better customer experiences | - Consistency in service basics lifted<br>- Improved stock availability<br>- Greater product and project knowledge | - Better customer experiences and deeper engagement – in-store online and in-home |
| Greater brand reach | - Opened 22 trading locations<br>- Significantly expanded digital ecosystem<br>- Existing store reinvestment | - More stores, more digital and more in-home services with increased format and digital innovation<br>- Expect to further expand the digital ecosystem and open more stores<br>- Continued investment into refreshing the existing store network |
| Expanding commercial | - Created more value and deeper relations<br>- Leveraged the network<br>- Improved service with more localised engagement, becoming easier to deal with | - Continue to leverage core strengths of a total market capability: stores, trade centres, in-field and digital<br>- Wider market focus to expand selling opportunities |
| More merchandise innovation | - Improved range consistency across the network<br>- Expanded ranges and products and made DIY easier | - Creating, leveraging and responding to lifestyle trends and environmental and economic changes<br>- Further product and project innovation with wider ranges and new products |
| Entry into United Kingdom and Ireland markets | - Homebase acquisition integration activities and business plans well advanced post acquisition | - Build strong business foundations<br>- Successfully implement pilot Bunnings Warehouse stores |

## RISK

Bunnings recognises that taking appropriate business risks is a critical aspect of generating acceptable business returns. In doing so Bunnings seeks to appropriately manage risks to minimise losses and to maximise opportunities.

Risks deemed unacceptable in terms of the business' risk appetite are subject to appropriate control and mitigation measures to reduce the negative impact on the business.

The level of controls implemented are commensurate with the impact (likelihood and consequence) on the business from the risk occurring.

| RISKS | MITIGATION |
|---|---|
| Safety | - Continuing focus and targeted in-store awareness campaigns |
| Talent recruitment and retention | - Strategies directed at creating and maintaining status as employer of choice<br>- Succession planning, retention and development plans |
| New and existing competitors | - Relentless focus on strategic pillars of lowest price, widest range and best service<br>- Ongoing strategies to increase customer centricity and deepen customer engagement |
| Homebase acquisition | - Disciplined focus on good execution of integration activities and business plans<br>- Specific governance structure and additional resources implemented to support acquisition plans and mitigate distraction risks |

# DEPARTMENT STORES

The Department Stores division was formed in February 2016 through a combination of Kmart and Target. The division operates 763 stores across Australia and New Zealand, employing 46,000 team members across the two brands.

## YEAR IN REVIEW

**REVENUE**

**$8,646M**

| | |
|---|---|
| 2016 | 8,646 |
| 2015 | 7 991 |
| 2014 | 7 710 |
| 2013 | 7 825 |
| 2012 | 7 793 |

**EBIT**

**$275M**

| | |
|---|---|
| 2016 | 275 |
| 2015 | 522 |
| 2014 | 452 |
| 2013 | 480 |
| 2012 | 512 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014 | 2015 | 2016[2] |
|---|---|---|---|---|---|
| *Revenue ($m)* | 7 793 | 7 825 | 7 710 | 7 991 | 8,646 |
| Earnings before interest and tax ($m) | 512 | 480 | 452 | 522 | 275 |
| Capital employed (R12) ($m) | 4 312 | 4 259 | 4 340 | 3 778 | 3,629 |
| *Return on capital employed (%)* | 11 9 | 11 3 | 10 4 | 13 8 | 7.6 |
| Capital expenditure ($m) | 203 | 182 | 243 | 285 | 293 |

[1] 2014 excludes a $677 million non-cash impairment of Target's goodwill (reported as an NTI)

[2] The 2016 earnings before interest and tax for Target includes $145 million of restructuring and provision costs to reset the business, but excludes the non-cash impairment of $1,266 million.

8 2 PER CENT INCREASE IN DEPARTMENT STORES REVENUE TO

**$8.6B**

### *Performance drivers*

Revenue for the Department Stores division was $8 6 billion for the year an increase of 8.2 per cent, driven by Kmart. Earnings for the division of $275 million were 47.3 per cent lower than the prior year with strong *growth in Kmart offset by a loss* of $195 million in Target. Target's earnings included $145 million of restructuring costs and provisions incurred as part of a revised strategy to reset the business.

During the period a pre-tax, non cash impairment of $1,266 million was recorded in the carrying value of Target, with $1 208 million recorded as a writedown of Target's share of goodwill arising on the acquisition of the Coles Group.

## PROSPECTS

**Target**

Target will continue to focus on embedding the business' revised strategy of quality fashion and basics to everyone at low prices accelerating the conversion *to everyday low prices* (EDLP) exiting unprofitable ranges, prioritising volume/everyday lines further reducing inventory levels and improving the quality of ranges. These priorities will be supported by increased levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification.

A strong focus on capital efficiency is expected to result in moderated capital expenditure. The renewal format will be reset and working capital management improved to support increased cash flow generation Two Target stores will be rebadged to Kmart during the first half of the 2017 financial year

**Kmart**

Kmart will continue to focus on delivering the lowest prices on everyday items for Australian and New Zealand families. The business remains committed to improving its range architecture, driving end to end productivity and maintaining a high *performance culture*

Kmart will continue to invest in its store network, with plans to open 11 new stores, including the rebadge of two existing Target stores to Kmart, and complete 33 store refurbishments in the 2017 financial year

**Guy Russo**
Chief Executive Officer
Department Stores

# TARGET


## YEAR IN REVIEW

**REVENUE**

**$3,456M**

| | |
|---|---|
| 2016 | 3,456 |
| 2015 | 3 438 |
| 2014 | 3 501 |
| 2013 | 3 658 |
| 2012 | 3 738 |

**EBIT**

**$(195)M**

| | |
|---|---|
| 2016 | (195) |
| 2015 | 90 |
| 2014 | 86 |
| 2013 | 136 |
| 2012 | 244 |

### KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014[1] | 2015 | 2016[2] |
|---|---|---|---|---|---|
| Revenue ($m) | 3 738 | 3 658 | 3 501 | 3 438 | 3,456 |
| Earnings before interest and tax ($m) | 244 | 136 | 86 | 90 | (195) |
| Capital employed (R12) ($m) | 2 896 | 2 930 | 2 979 | 2 466 | 2,383 |
| Return on capital employed (%) | 8 4 | 4 6 | 2 9 | 3 6 | (8.2) |
| Capital expenditure ($m) | 87 | 91 | 81 | 122 | 128 |

1 2014 excludes a $677 million non-cash impairment of Target's goodwill (reported as an NTI).
2 The 2016 earnings before interest and tax for Target includes $145 million of restructuring and provision costs to reset the business, but excludes the non-cash impairment of $1,266 million.

### Performance drivers

Target's revenue increased 0.5 per cent to $3.5 billion for the year with an operating loss of $195 million reported. The result included restructuring costs and provisions of $145 million to significantly reset the business, including initiatives to restructure and relocate the store support centre streamline the supply chain and reduce inventory On an underlying basis the business recorded a loss of $50 million due to high levels of stock clearance and the impact of a lower Australian dollar

### Our business

Target operates a national network of more than 300 stores as well as an online business. Its objective is to provide quality fashion and basics for everyone at low prices. Target employs more than 16 000 team members across its stores, support offices and direct sourcing operations in Asia.

### Our market

Target participates in the Australian clothing, homewares and general merchandise retail sector This sector is competitive and comprises department stores, independent specialty retailers and a growing online channel The sector is characterised by an expanding presence of international retailers, an increasing level of direct sourcing and online growth The addressable market exceeds $80 billion and within this market Target has a sound competitive position supported by a strong brand heritage characterised by quality and value.

### Sustainability

Target is committed to proactively managing team member safety embracing diversity and supporting the communities in which it operates in as well as maintaining a strong focus on environmental practices and ethical supply chain transparency

### Ethical sourcing

Target continues to focus on improving conditions for workers in supplier factories through a transparent supply chain Target is committed to ensuring the safety and wellbeing of workers in supplier factories, and is a signatory to both the Accord on Fire and Building Safety in Bangladesh and the Responsible Sourcing Network's Cotton Pledge. Target is also involved in Impactt's Benefits for Business and Workers program and Care Australia's Safe Motherhood program, both in Bangladesh

### Team member safety

Team member safety continues to be a very strong focus for Target. Further improvements across all safety metrics were delivered reflecting the benefits of ongoing simplification of Target's Safety Management System and a sustained focus on safety across the organisation. Lost time injuries decreased by 14 on the prior year resulting in a 10.4 per cent decline in the lost time injury frequency rate to 4.3

### Energy efficiency

Target continues to focus on minimising environmental impacts and costs across its property portfolio and supply chain Recent activities include leveraging energy data to focus investments in upgrading store lighting to LED and managing air conditioning and building controls through system optimisation and improved plant commissioning.



# KMART

## YEAR IN REVIEW

**REVENUE**

**$5,190M**

| | |
|---|---|
| 2016 | 5,190 |
| 2015 | 4 553 |
| 2014 | 4 209 |
| 2013 | 4 167 |
| 2012 | 4 055 |

**EBIT**

**$470M**

| | |
|---|---|
| 2016 | 470 |
| 2015 | 432 |
| 2014 | 366 |
| 2013 | 344 |
| 2012 | 268 |

### KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Revenue ($m) | 4 055 | 4 167 | 4 209 | 4 553 | 5,190 |
| Earnings before interest and tax ($m) | 268 | 344 | 366 | 432 | 470 |
| Capital employed (R12) ($m) | 1 416 | 1 329 | 1 361 | 1 312 | 1,246 |
| Return on capital employed (%) | 18 9 | 25 9 | 26 9 | 32 9 | 37.7 |
| Capital expenditure ($m) | 138 | 91 | 162 | 173 | 165 |

### Performance drivers

Kmart delivered revenue of $5.2 billion for the year up 14 0 per cent on the prior year with earnings growing 8.8 per cent to $470 million

Sales growth was achieved through growth in customer transactions and units sold driven by a continued focus on providing Australian and New Zealand families with the lowest prices on everyday items All categories achieved sales growth driven by core ranges in home apparel and kids general merchandise.

Earnings growth was delivered through ongoing enhancement of Kmart's range architecture as well as end to-end productivity improvements to reduce costs of doing business. The growth in earnings, combined with a continued focus on working capital management resulted in a 479 basis points improvement in return on capital to 37 7 per cent.

### Our business

Kmart was established in 1969 with the opening of its first store in Burwood, Victoria Kmart operates more than 200 stores throughout Australia and New Zealand offering customers a wide range of apparel and general merchandise products at low prices every day Kmart employs approximately 30 000 team members, who are focused on delivering the Kmart vision – where families come first for the lowest prices on everyday items. Kmart Tyre and Auto Service has more than 240 centres in Australia providing customers with retail automotive services, repairs and tyres.

### Our market

Kmart operates in the department store market with key competitors including Big W Myer Target and David Jones. Trading both in store and online, Kmart also competes with specialist shops and online businesses locally and internationally The market is highly competitive and this will continue to increase as international retailers enter the market and existing competitors expand store networks.

Kmart sources from both local and overseas suppliers with product sourcing offices in Hong Kong, China, Bangladesh India and Indonesia.

### Sustainability

Kmart has launched its Better Together' sustainability program focused on people partners and planet and has begun developing a sustainable materials strategy and review of the environmental risks and opportunities across the factories where primary suppliers operate. Kmart is also continuing its work in developing a long term strategy in relation to living wage.

Kmart is focused on enhancing working conditions and empowering workers throughout the supply chain shown through the business' commitment to the Accord on Fire and Building Safety in Bangladesh and the ILO/IFC Better Work program in Indonesia Cambodia and Bangladesh It was also the first non European retailer to join ACT (Action Collaboration Transformation) a collaboration between international retailers and IndustriALL, the global union, to address living wage.

Kmart continues to support international organisations such as Salaam Baalak in Delhi and Gurgaon Room to Read in Bangladesh and Half the Sky in China along with the Kmart Wishing Tree Appeal in Australia.

Kmart remains committed to the safety of its team members, customers and suppliers. The business recorded a total recordable injury frequency rate of 27 1 for the year with the lost time injury frequency rate decreasing from 7 0 last year to 6 8 this year

# DEPARTMENT STORES

## STRATEGY

Target

Following the creation of the Department Stores division in February 2016, Target's vision and supporting strategies have been reset. Target's vision is to deliver quality fashion and basics *to everyone at low prices*.

Target has adopted the following strategic framework to refocus the business:

- Product: volume, quality, fashion and basics;
- Price: low prices everyday;
- Promotion: brand love *with mass reach*;
- Customer: easiest and most enjoyable customer experience;
- Place: great stores and location, and
- People: inspired team living Target's values.

Kmart

Kmart's vision is to provide families with everyday products at the lowest prices. *Kmart delivers its strategy* through four strategic pillars:

- Volume retailing;
- Operational excellence;
- Adaptable stores; and
- A high performance culture.

Kmart is focused on delivering growth and improving productivity, and efficiencies to support further investment in lower prices. It will continue to invest in the store network by opening new stores to extend customer reach and refurbishing existing stores to optimise category mix and enhance the customer shopping experience. Kmart's high calibre team and strong culture supports the success of the business.

### TARGET

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| Product: volume, quality, fashion and basics | - Reduced inventory ~15 weeks at June 2016 (~20 weeks at March 2016)<br>- Identified volume lines<br>- Reset cost base<br>- Progress clearance of aged, seasonal and slow-moving inventory | - Continue to reduce inventory and SKUs<br>- Fix merchandise planning systems<br>- Increase volume and 365 lines<br>- Reset quality and fashion<br>- Direct sourcing on one critical path |
| Price: low prices everyday | - Started lowering of prices<br>- Accelerated the conversion to everyday low prices (EDLP) | - Introduce a 'clear as you go' markdowns policy<br>- Implement a consistent price and range architecture across 'Good, Better Best'<br>- Complete EDLP conversion |
| Promotion: brand love with mass reach | - Reduced marketing investment to be more effective, tailored and commercial<br>- Reduced point of sale to simplify store operations and customer messaging<br>- Reset catalogue strategy to fewer distributions per year | - Leverage customer insights<br>- Develop and implement a clear brand strategy<br>- Brand relaunch |
| Place: great stores and locations | - Progressed implementation of a revised Department stores division network plan<br>- Reviewed store renewal program | - Complete trial store formats |
| People: inspired team, living our values | - Reset vision and values<br>- Retail leaders program further progressed<br>- Initiated store support office simplification and restructure<br>- Safety performance further improved | - Build on good safety culture<br>- Embed new organisational structure<br>- Drive values and behaviours |
| Easiest customer experience | - Improved customer navigation in-store<br>- Accelerated supply chain offsite closure plans | - Simplify store operations to reduce costs<br>- Improve stock management |

### KMART

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| Volume retailer | - Delivered strong sales growth, supported by increased customer transactions and units sold<br>- Continued to improve Kmart's customer reach via the online platform | - Invest in growth categories and keep the product range relevant to meet customer expectations and continue to create new sales opportunities |
| Operational excellence | - Productivity improvements completed during the year primarily in sourcing, inventory management and costs of doing business | - Continue to focus on cost and productivity to improve end-to-end operational execution |
| Adaptable stores | - Opened six new stores and completed 37 store refurbishments during the year | - Continue to invest in the store network via new stores and refurbishments |
| High performing culture | - Strong emphasis placed on Kmart's core values of delivering results, integrity, customers coming first, teamwork, and boldness, has enabled Kmart to drive a strong culture and deliver results | - Continue to support and develop team members and maintain a strong culture<br>- Focus on creating a stimulating and encouraging work environment so everyone can thrive as one team |



## RISK

Target

Following the creation of the Department Stores division, Target's strategy *has been reset and will focus* on progressing changes to the operating model, the implementation of which will be a key risk to Target. *This journey* will be undertaken in an increasingly competitive apparel and general merchandise environment, however, the entry of new market participants (international and online), planned store network expansion by existing players and the scale of the addressable market collectively indicate that the market remains an attractive one.

Kmart

Kmart's risks include foreign exchange rate fluctuations, maintaining price leadership, new market entrants and the expansion of existing competitors. Fluctuations in the Australian dollar present a risk for Kmart as a decline in the Australian dollar may result in increased costs of goods sourced from overseas, potentially affecting trading margins.

Price is a key differentiator between Kmart and its competitors, given high levels of product substitution exist within the market. Competitors' pricing strategies may pose a threat to Kmart's price leadership position. New market entrants will increase market competitiveness and will continue to create a challenging environment to maintain and grow market share.

### TARGET

| RISKS | MITIGATION |
|---|---|
| Implementation of strategic plan | - New leadership team with previous turnaround experience<br>- Revised and focused strategy with operational plans that underpin key strategic initiatives<br>- Clear accountabilities, objectives and performance indicators |
| Operating model change | - Merchandising and operating discipline, including management of critical path<br>- Increased direct sourcing<br>- Business simplification and cost base reset to reduce activity |
| Exchange rate volatility | - Hedging, and product and pricing frameworks will be used to effectively manage foreign exchange movements |

### KMART

| RISKS | MITIGATION |
|---|---|
| Exchange rate volatility | Hedging, and product and pricing frameworks will be used to effectively manage foreign exchange movements |
| Maintaining price leadership | Remain focused on maintaining its lowest price position and ensure the product pricing architecture continues to deliver value |
| New market entrants and expansion of existing competitors | Continue to *lead on price and value despite increased competition from new entrants,* online and existing competitors |

# OFFICEWORKS

Officeworks is Australia's leading retailer and supplier of office products and solutions. Officeworks seeks to be a one-stop shop for those looking to start, run and grow a business, as well as for students and households.

## YEAR IN REVIEW

### REVENUE

**$1,851M**

| | |
|---|---|
| 2016 | 1,851 |
| 2015 | 1 714 |
| 2014 | 1 575 |
| 2013 | 1 506 |
| 2012 | 1 482 |

### EBIT

**$134M**

| | |
|---|---|
| 2016 | 134 |
| 2015 | 118 |
| 2014 | 103 |
| 2013 | 93 |
| 2012 | 85 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Revenue ($m) | 1 482 | 1 506 | 1 575 | 1 714 | 1,851 |
| Earnings before interest and tax ($m) | 85 | 93 | 103 | 118 | 134 |
| Capital employed (R12) ($m) | 1 210 | 1 147 | 1 097 | 1,034 | 994 |
| Return on capital employed (%) | 7 1 | 8 1 | 9 4 | 11 4 | 13.5 |
| Capital expenditure ($m) | 24 | 18 | 26 | 39 | 41 |

## Performance drivers

Officeworks earnings of $134 million were 13 6 per cent higher than the prior year with revenue growth of 8 0 per cent.

Strong sales growth was achieved both in stores and online. Customers continued to respond favourably to the every channel strategy which seeks to provide them with a unique one stop experience across every channel – anywhere anyhow anytime.

The introduction of new and expanded merchandise categories, ongoing price investments to strengthen the value proposition and improved service levels both in stores and online all contributed to growth in sales and earnings.

An improved customer experience was supported through store layout and design changes, along with ongoing enhancements to the online offer Strong momentum in the business-to business segment was also maintained.

Strong sales growth effective cost control and disciplined capital management delivered strong growth in earnings and an increase in return on capital of 207 basis points to 13 5 per cent

Ongoing investment in stores and online to support the future growth of the business was reflected in a strong capital expenditure program during the year, which represented Officeworks largest capital deployment since the 2009 financial year

Six new stores were opened during the year and at the end of June 2016 there were 159 stores operating across Australia.

## PROSPECTS

Officeworks will continue to drive growth and productivity by executing its every channel strategy and providing customers with a compelling offer The market is expected to remain competitive, requiring a continued focus on cost and margin management.

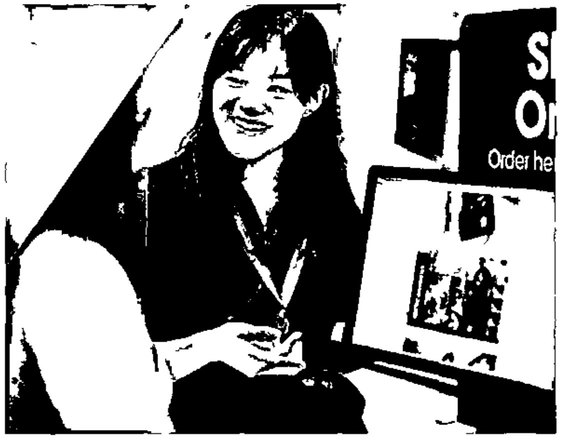
Key focus areas in the 20 7 financial year will include strengthening and expanding the customer offer by adding new products and ranges; strengthening Officeworks' position as a one stop shop for small to medium size businesses, students and households. Improving and extending more value-adding services to complement the existing range will also be a priority Officeworks will continue to focus on providing more value to customers by delivering the lowest prices and great customer service through an engaged team

Investment in the store network will continue through more store openings and ongoing enhancements to the store layout and design Likewise enhancements to the online offer will continue.

Officeworks remains committed to making a positive difference in the community and providing our team with a safe, rewarding and engaging place to work.

**Mark Ward**
Managing Director
Officeworks

# OFFICEWORKS




13 6 PER CENT INCREASE IN EARNINGS TO

**$134M**

'EVERY CHANNEL' STRATEGY CONTINUES TO RESONATE WITH CUSTOMERS

RETURN ON CAPITAL INCREASE OF 207 BASIS POINTS TO 13.5 PER CENT

## Our business

Officeworks is Australia's leading retailer and supplier of office products and solutions for home small to medium size businesses and education Operating through a nationwide network of stores, online platforms, a call centre and a business sales force, Officeworks is focused on delivering a one stop shop for small to medium businesses, students and households.

## Our market

The office products market in Australia is approximately $12 billion The market remains highly competitive, with a wide variety of participants in both multiple categories and specialist areas.

Officeworks has continued to expand its addressable market through range and category expansion and to drive innovation in core office products.

## Sustainability

Officeworks Positive Difference Plan encompasses three pillars – environment responsible sourcing and people.

### Environment

Officeworks has continued to reduce the impacts of its products. During the year Officeworks collected 947,349 printer cartridges for recycling through its work with Planet Ark, 390 651 kilograms of computer equipment through the BringITback program and the equivalent of 41,364 mobile phones and batteries through MobileMuster

Officeworks has continued to improve energy efficiency through the rollout of LED lighting to an additional 40 stores and installation of energy monitoring systems to 27 stores. During the year Officeworks increased the percentage of waste recycled to 71 per cent.

### Responsible sourcing

Officeworks partnered with Australian Paper to produce the exclusive Keji and J Burrows premium paper ranges, which are sourced from Forest Stewardship Council (FSC) certified local forests Over the past 12 months, Officeworks has significantly increased the percentage of paper products derived from 100 per cent recycled content or having FSC certification.

### People

Through a number of local community involvement initiatives, Officeworks helped to raise more than $1 1 million for local communities. This included $325 000 of indirect and in kind product donations to The Smith Family and the Australian Literacy and Numeracy Foundation.

Officeworks continued to invest in safety initiatives and reduced its all injury frequency rate by 17 2 per cent. Officeworks remains committed to lifting team member diversity including women in leadership positions. Officeworks also celebrated National Reconciliation Week as part of its Indigenous engagement program



## STRATEGY

Through an every channel strategic agenda Officeworks aims to provide customers with the widest range of products and great service at the lowest prices, while providing a safe, rewarding and engaging place to work for team members.

Officeworks will continue to drive growth by:

- strengthening and expanding the customer offer
- extending its every channel reach
- embedding great service in every channel
- doing things better;
- investing in talent, diversity and team safety
- making a positive difference in the community and
- improving and value adding more services.

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| Strengthen and expand the customer offer | – Introduced new and expanded ranges<br>– Introduced exclusive international brands | – Continue to add inspiration, innovation and differentiation to products<br>– Strengthen position in furniture<br>– Ongoing investment in lowest prices |
| Extend our 'every channel' reach | – Six new stores<br>– Delivered an even more relevant online experience<br>– Strong B2B customer growth<br>– 'Click and collect' approximately 20 per cent of online orders | – Make customer engagement easier – new stores, new formats<br>– Ongoing investment in seamless 'every channel' service proposition – Clicks and Bricks working together<br>– Accelerate B2B customer growth |
| Embed great service in 'every channel' | – Implemented a new point of sale system<br>– New self-serve print and copy offer in stores<br>– Additional service hours through ongoing task reduction and process efficiencies | – Make it easier for customers to shop through 'every channel'<br>– Make it easier for our team to provide great service |
| Do things better | – Implemented layout and design changes across selected stores<br>– Transitioned to a new consolidated supply chain facility in Queensland<br>– Rolled out 'Ship from Store' in regional locations | – Continue to invest in an efficient, cost-effective and agile supply chain<br>– Improve space utilisation<br>– Improve cost of doing business and productivity |
| Invest in talent, diversity and team safety | – Delivered a range of development programs to the team<br>– Remained committed to diversity with a specific focus on Women in Leadership and Indigenous engagement<br>– Reduced the all injury frequency rate by 17.2 per cent | – Ongoing investment in leadership development programs<br>– Continued focus on lifting team member diversity, including women in leadership positions<br>– Rigorous approach to improving safety behaviours and outcomes |
| Make a positive difference in the community | – Collected 947,349 printer cartridges<br>– Installed LED lighting in 40 stores<br>– Facilitated more than $1 1 million in community contributions | – Lift recycling levels, reduce energy consumption further<br>– Continue to find ways to do things that are better for the environment<br>– Continue to foster community partnerships |
| Develop more value-adding services | – New and enhanced self-serve print and copy offer in all stores<br>– Embedded the Mailman offer | – Continue to enhance the print and copy offer<br>– Drive repeat transactions for Mailman<br>– Deliver services to help customers to start run and grow their business |

## RISK

Officeworks accepts that risk is an important part of exploring opportunities to operate successfully In order to continue to operate successfully Officeworks seeks to understand and manage risk with a view to minimising unintended consequences. Risks deemed unacceptable to the business are the focus of a number of controls aimed at reducing their likelihood or minimising their consequence Including risk transference through contractual arrangements insurance or avoidance.

| RISKS | MITIGATION |
|---|---|
| Market conditions | – Officeworks continues to expand its addressable market through range and category expansion and to drive innovation in core office products<br>– With customer sentiment and behaviours changing Officeworks is continually focused on providing a compelling offer to customers<br>– Officeworks relentlessly drives continuous improvement to remain competitive |
| Data and IT security | – Dedicated internal capability focused on IT systems and security<br>– An array of IT related controls are in place including appropriate firewalls, disaster recovery plans periodic system testing and an awareness program to keep all team members informed of their responsibilities |
| Sourcing | – Dedicated internal capability focused on responsible sourcing<br>– Officeworks has an ethical souring framework which is underpinned by data captured via the Officeworks Forest Survey and the Supplier Ethical Data Exchange (SEDEX)<br>– Officeworks is aligned with programs such as the Forestry Stewardship Council (to strengthen controls around responsible timber sourcing) SEDEX (to identify high risk overseas factories) and the Global Forest and Trade Network (to create a market for environmentally responsible forest products) |

# INDUSTRIALS

The Industrials division was formed in August 2015 by combining Wesfarmers' three industrial businesses: Chemicals, Energy and Fertilisers; Industrial and Safety; and Resources. The organisational restructure streamlined reporting and decision-making, enhanced sharing of knowledge and ideas, and better positioned the division for future growth.

## YEAR IN REVIEW

### REVENUE

$4,672M

| | |
|---|---|
| 2016 | 4,672 |
| 2015 | 4 985 |
| 2014 | 4 977 |
| 2013 | 4 991 |
| 2012 | 5 608 |

### EBIT

$47M

| | |
|---|---|
| 2016 | 47 |
| 2015 | 353 |
| 2014 | 482 |
| 2013 | 582 |
| 2012 | 887 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Revenue ($m) | 5 608 | 4 991 | 4 977 | 4 985 | 4,672 |
| Earnings before interest and tax ($m) | 887 | 582 | 482 | 353 | 47 |
| Capital employed (R12) ($m) | 3 957 | 3 999 | 4 125 | 4 245 | 4,244 |
| Return on capital employed (%) | 22 4 | 14 1 | 11 7 | 8 3 | 1.1 |
| Capital expenditure ($m) | 608 | 392 | 386 | 258 | 220 |

Refer to individual business key financial indicators for footnotes.

## Performance drivers

Earnings across the Industrials division during the year were adversely affected by lower coal prices and continued challenging conditions across the mining and resources sector Earnings of $47 million were $306 million below the prior year primarily driven by a reported loss of $310 million in the Resources business.

Strong earnings growth in the Chemicals Energy and Fertilisers business resulted in earnings increasing by 26.2 per cent above the prior year to $294 million, with higher earnings reported for all three business units.

Industrial and Safety reported earnings of $63 million 10 0 per cent below the prior year reflecting one-off costs associated with the implementation of the Fit for Growth Improvement program. On an underlying basis, earnings increased by 8.9 per cent to $98 million driven by cost savings and simplifications delivered through Fit for Growth as well as higher earnings in Workwear Group's corporate wear business and Coregas. Continuing challenging conditions in the mining and resources sectors negatively affected sales and gross margins in Blackwoods and Workwear Group's industrial wear business.

The Resources business reported an operating loss of $310 million compared to earnings of $50 million in the prior year The Resources business operated under very challenging conditions during the year, with further declines in export coal prices, lower metallurgical coal sales volumes due to extreme wet weather events and currency hedges offsetting the benefits of a lower Australian dollar During the period, the business also recorded a non cash impairment charge of $850 million (pre tax) in the carrying value of Curragh

## PROSPECTS

A number of significant changes were introduced in the past year to reduce costs and provide opportunities for future earnings growth across Industrials.

Chemicals Energy and Fertilisers will continue to focus on maintaining strong operational performance although earnings will remain subject to international commodity pricing exchange rates competitive factors and seasonal outcomes.

Industrial and Safety will benefit from the simplification of its business model and a reduction in operating costs delivered through the Fit for Growth program. This together with the ability to leverage its new platforms for growth, will mitigate market and competitive pressures in the coming year Blackwoods in Australia and New Zealand will invest in sales and service merchandising, digital and supply chain to deliver improved performance.

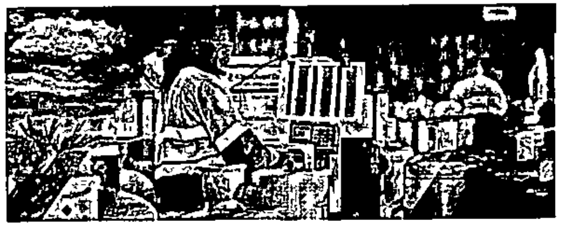
Workwear Group will shift focus from integration to turnaround and Coregas will continue to grow through further development of new channels to market.

Market conditions are expected to remain challenging for Resources. The business will continue to focus on improving operational productivity cost control and capital discipline

Safety continues to remain the highest priority across the Industrials division and the business will continue to implement training programs and other measures to build awareness and minimise the risk of injury

**Rob Scott**
Managing Director
Industrials

# CHEMICALS, ENERGY AND FERTILISERS



## YEAR IN REVIEW

**REVENUE**

**$1,820M**

| | |
|---|---|
| 2016 | 1,820 |
| 2015 | 1 839 |
| 2014 | 1 812 |
| 2013 | 1 805 |
| 2012 | 1 786 |

**EBIT**

**$294M**

| | |
|---|---|
| 2016 | 294 |
| 2015 | 233 |
| 2014 | 221 |
| 2013 | 249 |
| 2012 | 258 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012[1] | 2013 | 2014[2] | 2015[3] | 2016[4] |
|---|---|---|---|---|---|
| Revenue ($m) | 1 786 | 1 805 | 1 812 | 1 839 | 1,820 |
| Earnings before interest and tax ($m) | 258 | 249 | 221 | 233 | 294 |
| Capital employed (R12) ($m) | 1 282 | 1 400 | 1 539 | 1 535 | 1,554 |
| Return on capital employed (%) | 20 1 | 17 8 | 14 4 | 15 2 | 18.9 |
| Capital expenditure ($m) | 167[5] | 283[5] | 172[5] | 56 | 60 |

1. WesCEF divested the enGen business in August 2011 and the Bangladesh LPG joint venture in January 2012. Gains on disposal of these entities are excluded from the divisional results and reported as an NTI as part of 'Other' earnings within the Group's result.
2. 2014 excludes a $95 million gain on the sale of the 40 per cent interest in ALWA (reported as an NTI).
3. 2015 includes a net $10 million gain comprising insurance proceeds and the gain on the sale of Kleenheat's east coast LPG operations, partially offset by asset writedowns.
4. 2016 includes $32 million of one-off restructuring costs associated with the decision to cease PVC manufacturing.
5. Excludes capitalised interest.

## Performance drivers

Operating revenue of $1.8 billion was one per cent below the prior year with higher volumes in fertilisers and chemicals offset by the sale of Kleenheat's east coast LPG operations in February 2015

EBIT of $294 million was 26.2 per cent higher than last year, including $32 million in closure costs associated with the cessation of PVC manufacturing. Excluding these costs, EBIT of $326 million was 46.2 per cent higher than last year with higher earnings reported across all businesses.

## Our business

WesCEF operates *eight businesses in Australia and* employs approximately 1,200 people. WesCEF is structured into three business units: Chemicals, Kleenheat, and CSBP Fertilisers.

## Our market

Chemicals includes:

- the manufacture and supply of ammonia, ammonium nitrate (AN) and industrial chemicals primarily to the Western Australian resource and industrial sectors through CSBP
- Queensland Nitrates (QNP) CSBP's 50 per cent joint venture with Dyno Nobel Asia Pacific which manufactures and supplies ammonium nitrate to the resource sector in the Bowen Basin coal fields
- Australian Gold Reagents (AGR) CSBP's 75 per cent joint venture with Coogee Chemicals which manufactures and supplies sodium cyanide to the West Australian and international gold mining sector
- Australian Vinyls which supplies polyvinyl chloride (PVC) resin to the Australian industrial sector
- ModWood which manufactures wood plastic composite decking and screening products

Kleenheat extracts LPG from natural gas and distributes bulk and bottled LPG to the residential and commercial markets in Western Australia and the Northern Territory It distributes bulk LNG through its subsidiary EVOL LNG primarily to the remote power generation market in Western Australia. Kleenheat is also a retailer of natural gas to residential and commercial markets, and electricity to businesses in Western Australia.

CSBP Fertilisers manufactures, imports and distributes phosphate, nitrogen and potassium based fertilisers for the Western Australian agricultural sector CSBP Fertilisers also provides technical support services through a network of employees and accredited partners in regional Western Australia

Wesfarmers owns a 13.7 per cent interest in Quadrant Energy which supplies domestic gas in Western Australia and oil across Australia Earnings from this interest are included in WesCEF's results.

### Sustainability

During the year WesCEF focused on a range of areas to improve sustainability including improving safety through its Safe Person Safe Process, Safe Place program investing in leadership capability operating its businesses responsibly positively contributing to the communities in which it operates, and maintaining an ongoing commitment to environmental stewardship.

WesCEF continued to support a range of community organisations, including sponsorships with the Clontarf Gilmore College Moorditj Koort, WACA Regional Junior Cricket Program as well as a range of emerging partnerships associated with the development of WesCEF's STEM (science technology engineering, mathematics) project as one of its key community investment activities.

**STRATEGY**

WesCEF's objective is to develop a portfolio of successful and innovative industrial businesses that deliver satisfactory shareholder returns and continually strengthen its reputation for the management of health safety and the environment.

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| Invest in its businesses capacity to meet the needs of their customers | - Increased sales of AN into domestic and export markets following expansion of production capacity<br>- Record sales of AN sodium cyanide and fertilisers<br>- AN and sodium cyanide plants operating at full expanded production capacity<br>- Successfully rolled out a customised web portal nutritional data management and mapping interface for fertiliser customers | - Optimise AN sales.<br>  - Secure contract extensions<br>  - Actively pursue new volumes<br>  - Strengthen export capability<br>  - Supplement sales with supply to CSBP Fertilisers<br>- Continued focus on plant reliability process efficiency and productivity improvements<br>- Continued investments to grow and expand fertiliser services<br>- Strengthen fertiliser channels to market |
| Execute opportunities for growth in existing and new markets | - Continued growth of natural gas retailing business in Western Australia<br>- Growth in shareholder value through cessation of PVC manufacturing | - Ongoing evaluation of opportunities to grow in existing and new markets<br>- Prepare for Full Retail Contestability in the West Australian electricity market |
| Foster a culture that recognises that people are central to the success of the business | - Significant investment in the Aboriginal Engagement and Employment Plan with an emphasis on job creation and skill building as well as creating an inclusive culture<br>- Delivery of structured leadership programs and the introduction of a management essentials program available to employees<br>- Programs for engineering graduates engineering cadets and vacation programs<br>- Forums for women and sponsorships for female university engineering students | - Implementation of further targeted programs to attract, develop and retain an engaged, diverse workforce<br>- Continue a strong focus on leadership training and growing a more inclusive culture<br>- Ongoing development of technical competence training and skills enhancement across our complex operations |
| Focus on sustainable operations for the benefit of employees, customers and communities in which we operate | - Community acceptance and regulatory compliance<br>- 90 per cent greenhouse gas abatement equating to 1 2 million tonnes of carbon dioxide equivalent<br>- Direct community contributions of $310 000 supporting Clontarf's Gilmore College Moorditj Koort, and the WACA Regional Junior Cricket Program, as well as STEM based initiatives delivered with the Kwinana Industries Council<br>- Donated $80 000 through WA Farmers Esperance Fire Appeal, and offered free soil sampling and analysis to help the region recover from bushfires in December 2015 | - Ongoing commitment to improve safety performance and capability<br>- Continual focus on regulatory compliance<br>- Ongoing support of local community initiatives, in particular the STEM project<br>- Sell surplus land at Bayswater Western Australia<br>- Manage the contaminated land issues and sell surplus land at Laverton, Victoria (previous Australian Vinyls site) |

**RISK**

WesCEF manages risk as an intrinsic part of its business and is committed to conducting business activities in a way that ensures the continued growth of shareholder value in a sustainable manner. Risks deemed unacceptable are transferred (through contractual arrangements or insurance) reduced by mitigation action or avoided.

| *RISKS* | *MITIGATION* |
|---|---|
| Serious injury, safety or environmental incident | - Continue to invest in improving safety culture and performance for the safe operation of its facilities and distributing its products in a way that minimises any adverse effect on people, the environment or the communities in which it operates<br>- Maintain a strong focus on operating facilities in a manner which minimises the effect on the environment |
| Raw material input price and exchange rate volatility | - Mitigate earnings volatility from raw material price movements through a variety of price pass-through arrangements with customers, and detailed demand planning and forecasting processes, including regular mark to-market of inventories<br>- Exchange rate impacts on raw material costs are monitored closely and are included as a criterion for product pricing decisions. Where appropriate and aligned with Wesfarmers guidelines, foreign exchange hedges are put in place to remove earnings volatility |
| Reducing market demand for products | - Establishing a balance of long-term contracts with minimum volume requirements and established pricing mechanisms (predominantly with domestic customers) with short term spot agreements, including placing products into export markets from time to time |

# INDUSTRIAL AND SAFETY

## YEAR IN REVIEW

**REVENUE**

# $1,844M

| | |
|---|---|
| 2016 | 1,844 |
| 2015 | 1 772 |
| 2014 | 1 621 |
| 2013 | 1 647 |
| 2012 | 1 690 |

**EBIT**

# $63M

| | |
|---|---|
| 2016 | 63 |
| 2015 | 70 |
| 2014 | 131 |
| 2013 | 165 |
| 2012 | 190 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012 | 2013 | 2014 | 2015[1] | 2016[2] |
|---|---|---|---|---|---|
| Revenue ($m) | 1 690 | 1 647 | 1 621 | 1 772 | 1,844 |
| Earnings before interest and tax ($m) | 190 | 165 | 131 | 70 | 63 |
| Capital employed (R12) ($m) | 1 187 | 1 119 | 1 127 | 1 257 | 1,339 |
| Return on capital employed (%) | 16 0 | 14 7 | 11 6 | 5 5 | 4.7 |
| Capital expenditure ($m) | 49 | 50 | 51 | 65 | 44 |

[1] 2015 includes restructuring costs of $20 million related to branch closures business consolidation and organisational redesign.

[2] 2016 includes $35 million of restructuring costs associated with the Fit for Growth transformation.

## Performance drivers

Revenue increased by 4 1 per cent to $1 8 billion largely due to the full-year contribution from Workwear Group which was acquired in December 2014 Reported earnings of $63 million included $35 million of one off restructuring costs and represented a 10 0 per cent decline on the prior year Excluding one off restructuring costs underlying earnings increased 8 9 per cent to $98 million

## Our business

Wesfarmers Industrial and Safety (WIS) comprises three main operating businesses: Blackwoods Australia and NZ Safety Blackwoods; Workwear Group and Coregas.

Blackwoods Australia is a leading supplier of industrial supplies and safety products, offering a large range of quality and competitively priced products. During the year the business significantly consolidated its operations through the merger of 17 branches and four distribution centres, nationalised its merchandising and supply chain capabilities, and simplified its structure and brands. Under new leadership, the business has established a platform to deliver tailored products and specialist technical services to the business to-business markets in which it operates.

NZ Safety Blackwoods services business customers in New Zealand with an extensive national branch network in a range of specialty areas including maintenance repair and operations, engineering, safety workwear and packaging.

Workwear Group is Australia's largest provider of industrial and corporate workwear, featuring iconic Australian brands such as Hard Yakka, King Gee and Stubbies. It also supplies uniforms and imagewear to leading airlines, financial services providers retailers and other large corporates through NNT and Incorporatewear (United Kingdom) as well as specialised garments to defence and emergency services customers in Australia and New Zealand

Coregas is a national industrial gas distributor serving customers of all sizes through multiple sales channels including Blackwoods Gas and Trade N Go Gas.

## Our market

In Australia, Blackwoods, Coregas and Workwear Group service customers across diverse industries including mining, construction retail food and beverages manufacturing, transport, facilities maintenance and government. They provide a comprehensive range of industrial safety and workwear products and services, which is complemented by technical expertise in safety and specialised products such as industrial gases and lifting and rigging.

In New Zealand NZ Safety Blackwoods' services primarily small to-medium size businesses in a wide range of industries, supplemented by selected large enterprise customers.

## Sustainability

Industrial and Safety undertook a rigorous prioritisation process to identify key areas of focus in relation to sustainability issues. Health and safety initiatives continue to focus on key areas of fatal risks. Product safety and ethical sourcing initiatives with domestic and global suppliers seek to maximise product safety and compliance with the WIS Ethical Sourcing Policy covering safety regulations, product quality and sustainable packaging. WIS reached a cumulative total of $500 000 in donations to the Fred Hollows Foundation since the community partnership began in 2007



## STRATEGY

Industrial and Safety will seek to drive growth through implementing its new simplified platform to improve performance in Blackwoods by investing in:

- Sales and service: improve targeting of customer specific segments and industries with dedicated technical expertise and service support
- Merchandising: range reviews aligned to customer needs, improve pricing disciplines and stronger preferred supplier relationships
- Supply chain: improve inventory management and operational processes to deliver on customer promises; and
- Digital: development of online innovations that target offers to specific customer segments utilising the latest technology, analytics and platforms.

Other strategic priorities include implementing a turnaround plan for Workwear Group and further growing Coregas through new distribution channels.

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| Implementation of a more customer-centric and competitive Blackwoods platform | - Consolidated five brands into the new Blackwoods with 18 branch and four distribution centre mergers completed<br>- Reduced complexity in structure, operations and brand<br>- Eliminated internal competition and duplication<br>- Increased focus on customers needs and channels to market | - Reinvest cost savings to improve capabilities across sales and service merchandising supply chain and digital<br>- Grow medium-size customer segment in core heavy industrial markets<br>- Grow customer base and penetration of adjacent markets<br>- Leverage the Blackwoods platform to grow into light industrial sectors |
| Turnaround performance in Workwear Group | - Integration complete<br>- New leadership team in place | - Reduce complexity and improve speed to market<br>- Improve range and pricing architecture<br>- Drive a results-focused culture |
| Grow Coregas through new distribution channels | - Established multiple channels including Blackwoods gas to serve large customers and Trade N Go Gas to serve the trade market through partnering with Bunnings | - Further develop new distribution channels |

## RISK

As a supplier of industrial safety and workwear products the business is exposed to the performance of customers industry sectors as well as macro-economic factors such as capital investment, employment, exchange rates and interest rates.

| RISKS | MITIGATION |
|---|---|
| Subdued market conditions in traditional customer segments of mining and resources | - Implement the new Blackwoods platform in Australia and New Zealand for growth across different market sectors<br>- Continue to execute performance improvement plans in Blackwoods and Workwear Group<br>- Further develop new distribution channels in Coregas |
| New digital entrant | - Develop a more customer-centric and relevant platform<br>- Develop and launch new digital capabilities |
| Safety or environmental incident | - Establish quality systems and ensure compliance with standards<br>- Fully operational safety program including regular monitoring and continuing the safety culture<br>- Active safety engagement by senior management |

# RESOURCES

## YEAR IN REVIEW

**REVENUE**

**$1,008M**

| | |
|---|---|
| 2016 | 1 008 |
| 2015 | 1 374 |
| 2014 | 1 544 |
| 2013 | 1 539 |
| 2012 | 2 132 |

**EBIT**

**$(310)M**

| | |
|---|---|
| 2016 | (310) |
| 2015 | 50 |
| 2014 | 130 |
| 2013 | 148 |
| 2012 | 439 |

## KEY FINANCIAL INDICATORS

| FOR THE YEAR ENDED 30 JUNE | 2012[1] | 2013 | 2014 | 2015 | 2016[2] |
|---|---|---|---|---|---|
| Revenue ($m) | 2 132 | 1 539 | 1 544 | 1 374 | 1,008 |
| Earnings before interest and tax ($m) | 439 | 148 | 130 | 50 | (310) |
| Capital employed (R12) ($m) | 1 488 | 1 480 | 1 459 | 1 453 | 1,351 |
| Return on capital employed (%) | 29 5 | 10 0 | 8 9 | 3 4 | (22.9) |
| Capital expenditure ($m) | 392 | 79 | 163 | 137 | 116 |

[1] Resources divested the Premier Coal business in December 2011 A gain on disposal of this entity is excluded from the divisional results and reported as an NTI as part of 'Other' earnings within the Group's result.

[2] The 2016 earnings before interest and tax excludes the $850 million non-cash impairment of Curragh.

### Performance drivers

Revenue of $1 0 billion was 26.6 per cent below last year due to a continued decline in export *metallurgical and steaming* coal prices, with the benefits of a lower Australian dollar more than offset by currency hedging losses, and a 13 0 per cent decline in metallurgical export coal sales volumes.

Despite continued cost control the business reported an operating loss of $310 million, *which excludes the non-cash* impairment charge of $850 million in the carrying value of Curragh

### Our business

Resources has investments in two coal mines producing metallurgical and steaming coal Both mines are world scale, low-cost open-cut producers, and the majority of production is exported to Asia.

#### Curragh (100 per cent)

Situated in Queensland's Bowen Basin, Curragh is one of the world's largest metallurgical coal mines with an operating track record of more than 30 years. It produces metallurgical coal for export markets and also supplies steaming coal to the Queensland Government's Stanwell Corporation under a long term contract until approximately 2025 Curragh's current nameplate production capacity is 8.5 million tonnes per annum (mtpa) for export metallurgical coal and 3.5 mtpa for steaming coal

#### Bengalla (40 per cent)

The business has a 40 per cent interest in the Bengalla mine, located south west of Muswellbrook, in the Hunter Valley region of New South Wales. Bengalla produces steaming coal for export markets and has a 10 7 mtpa run-of-mine capacity (100 per cent)

### Our market

#### Curragh

*Curragh is reliable, flexible and one of a select few* independent Australian producers of metallurgical coal It has a well-established and geographically diverse customer portfolio with a number of long standing relationships with world leading steel makers. In the 2016 financial year Curragh's metallurgical *exports by volume went to Japan (39 per cent)* South Asia (29 per cent) North Asia (20 per cent) Europe (8 per cent) and other (4 per cent)

#### Bengalla

Bengalla's steaming coal is used for power generation *and is exported primarily to customers based in Japan* and North Asia

### Sustainability

Wesfarmers Resources strives to be a highly ethical business that puts the safety and wellbeing of its people first. This is achieved by focusing on workplace health and safety to prevent accidents and injuries. No lost time injuries were recorded at Curragh during the 21 months period to 30 June 2016

The business is committed to operating in a sustainable manner and takes its environmental and social responsibilities seriously It seeks to make a positive and lasting contribution to the communities in which it operates and to the nation through its economic activity

Resources continues to support local communities *particularly in times of hardship* as a result of natural disasters and improved employment opportunities for local Indigenous communities.



### STRATEGY

The resources investment time horizon is long term and each mine seeks to maximise shareholder value through commodity cycles. In the current environment of low export coal prices, both mines continue to respond with a strong focus on cost control and implementing measures to improve productivity All options that maximise shareholder value are under *review*

| GROWTH STRATEGIES | ACHIEVEMENTS | FOCUS FOR THE COMING YEARS |
|---|---|---|
| Business excellence | Curragh. - Curragh unit cash costs have been reduced approximately 30 per cent from the peak of the first half of the 2012 financial year - Completion of export panel review to identify further cost and productivity improvements - Continued improvements in safety with no lost time injuries recorded in the 21 months to 30 June 2016 Bengalla. - Management change following New Hope Group's acquisition of Rio Tinto's 40 per cent interest in Bengalla Successful internalisation of management functions to Bengalla Mining Company | - Continuous improvement of safety performance - Continue strong focus on operational productivity cost control and capital discipline - Implementation of export panel review recommendations |
| Mine expansions | Curragh: - Mining leases granted over the MDL 162 area adjacent to Curragh. Awaiting Commonwealth approvals - Feasibility study completed for a second stage expansion to 10mtpa export capacity | - Progress MDL 162 Commonwealth approvals - Investment decision to expand Curragh subject to market conditions - Evaluation of 'next stage' mine expansion for Bengalla |

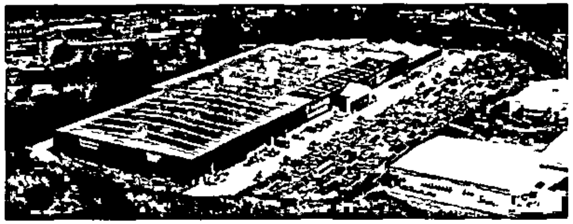
### RISK

Resources has direct financial exposure to the global commodity cycle. In the case of Curragh the exposure is to global steel production and the flow-on demand for export metallurgical coal with metallurgical coal and iron ore being the two key raw material inputs for steel making. In the case of Bengalla, the exposure is to export demand for steaming coal in north Asia.

| RISKS | MITIGATION |
|---|---|
| Revenue – export coal price movements (upside and downside risk) | - Both mines maintain established, long-term close relationships with export customers - Export sales are diversified by customer and geography - With respect to coal prices, both mines sell into cyclical export markets which have significant price variability across the commodity price cycle - Currency hedges now fully closed out, in line with major Australian metallurgical coal competitors |
| Mine operations | - There are a number of inherent risks in operating coal mines including weather geological variability safety management, production logistics and equipment performance - Resources has detailed operating practices and procedures in place to ensure that both mines are operating sustainability and efficiently for the long term - Both Curragh and Bengalla have established track records of operating performance, safety and reliability |

# OTHER ACTIVITIES

Wesfarmers is also a major investor in the BWP Trust, Gresham Partners and Wespine Industries



## BWP TRUST

Wesfarmers' investment in the BWP Trust (the Trust) contributed earnings of $77 million compared to $52 million last year

The Trust was established in 1998 with a focus on warehouse retailing properties and in particular Bunnings warehouses leased to Bunnings Group Limited. BWP Management Limited the responsible entity for the Trust, is a wholly owned subsidiary of Wesfarmers Limited Units in the Trust are listed on the Australian Securities Exchange and Wesfarmers holds, through a wholly owned subsidiary 24 8 per cent of the total units issued by the Trust as at 30 June 2016

During the 2016 financial year the Trust acquired one site adjoining a Trust owned Bunnings Warehouse property and completed two Bunnings Warehouse upgrades. The Trust also completed the sale of one industrial property

The Trust's portfolio as at 30 June 2016 consisted of a total of 81 properties: 79 established Bunnings warehouses, eight of which have adjacent retail showrooms that the Trust owns and are leased to other retailers and two fully-leased stand-alone showroom properties.

## GRESHAM PARTNERS

Wesfarmers has a 50 per cent shareholding in Gresham Partners Group Limited the holding company for the Gresham Partners investment house operations. Gresham is a leading independent financial services business focused primarily on the provision of financial advisory services, structured finance and property and private equity funds management.

During the year Gresham participated in a number of significant advisory transactions, including mergers and acquisitions, corporate restructurings and refinancings on behalf of a range of domestic and international clients. Its property funds management business, which is the manager of three established institutional funds or syndicates, continued to support a range of Australian development projects.

Wesfarmers is a participant in the Gresham Private Equity funds which saw the progressive realisation of investments during the year with the remaining holding being an underground mining services business operating both in Australian and overseas markets.

## WESPINE INDUSTRIES

The 50 per cent-owned Wespine Industries operates a plantation softwood sawmill in Dardanup, Western Australia

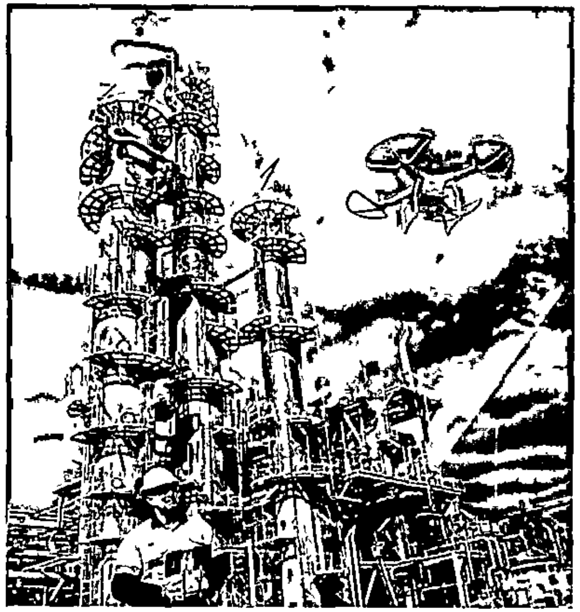
Timber sales for the 2016 financial year decreased by 24 per cent largely due to the deterioration in Western Australian house building activity Operating margins also deteriorated during the year due to increased competition from imported timbers and an overall surplus in supply volumes.

Safety performance improved with a 20 per cent reduction in the total recordable injury frequency rate for the year achieving a period of 98 continuous days injury-free. The management team is continuing its focus on the identification and mitigation of occupational risks, notably manual handling.



# SUSTAINABILITY

Wesfarmers has been committed to creating value for our shareholders, employees and communities for more than a century



*Innovative technologies are helping to drive business efficiency, limit risk and improve safety at our CSBP operations in Kwinana, Western Australia.*

Long term value creation is only possible if we play a positive role in the communities we serve. At Wesfarmers, sustainability is about understanding and managing the ways we impact our community and the environment to ensure that we will still be creating value in the future.

We acknowledge that the world is changing. Climate change is here and it has the potential to impact our operations and supply chains. We believe climate change has serious implications for our customers, the community and the economy These are risks we are managing because investing in Australia's response to climate change will deliver significant economic social and environmental benefits for us all

Wesfarmers is committed to minimising our footprint and to delivering solutions that help our customers and the community do the same. We endeavour to improve continuously our performance and publicly report on our progress in our annual sustainability report. The Dow Jones Sustainability Index tracks sustainability performance of leading companies around the world In September 2016 Wesfarmers was advised it had recorded a significant increase in its ranking.

Our full sustainability report will be available in October 2016 at sustainability wesfarmers.com.au

This year we are proud of our progress in the following areas:

- Total recordable injury frequency rate reduced by 15 2 per cent
- Promoted diversity in our workplaces with more than 3,300 employees identifying as Indigenous.
- Improved the transparency of our supply chain with more than 3 000 factories in our audit program
- Contributed more than $110 million to the community through direct support and contributions from our customers and team members
- Reduced our scope one and two emissions by more than two per cent in the last year and decreased the emissions intensity of our business by more than 30 per cent over five years.

We acknowledge that we can always do better

- While Wesfarmers workforce is made up of 55 per cent women and 45 per cent men a key opportunity for the Group is to increase the percentage of leadership positions held by women
- Despite our efforts ongoing reduction in waste disposed and water use is hard to maintain as our businesses continue to grow We will continue to seek opportunities to do this
- We will continue to focus on ethical sourcing, especially supply chain transparency Strengthening our relationships with suppliers ensures that we can contribute positively in this area

# OUR COMMUNITY AND ENVIRONMENTAL IMPACT PRINCIPLES

We have 10 principles related to sustainability issues that have been identified as being most 'material' to the Group

## SAFETY

We maintain a relentless focus on providing safe workplaces.

Maintaining a safe workplace for our employees and keeping our customers, suppliers and other visitors safe across all our sites is our highest priority. Sustainable improvements in safety will continue to be core to our operations and we remain focused on safety leadership, strategies targeting risk reduction and improving physical and mental health.

Our safety performance still requires improvement but we are pleased that we are seeing the benefits of this relentless focus on making our workplaces safer.

### Our safety performance

Across the Group, our safety performance *is monitored by measuring total* recordable injuries and lost time injuries.

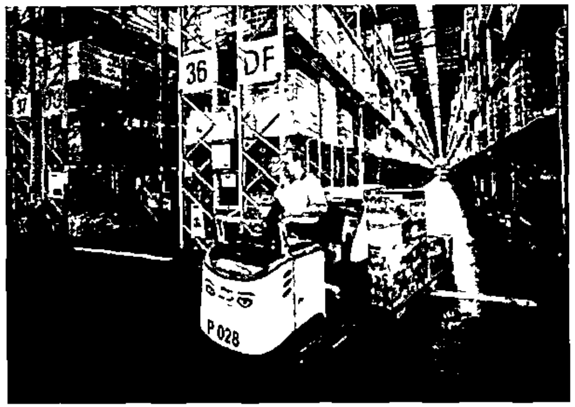
There were no team member fatalities across the Group during the year, and team member safety continues to be *our highest priority.*

This year, our total recordable injury frequency rate was 33.4, a decrease of 15.2 per cent on last year.

### Our safety initiatives

Each of our divisions have undertaken safety initiatives this year that target their particular safety risks.

- Bunnings engaged its team in driving a simplified safety strategy. This is reflected in a 6.9 per cent reduction in the number of injuries recorded and an 11.1 per cent reduction in the total recordable injury frequency rate. Key initiatives at Bunnings include its 'See Something... Do Something' campaign, which encourages team members to act in the moment, address any safety risks and acknowledge great safety practices.



*Have you seen me campaign in Coles distribution centres.*

Further training for Bunnings forklift operators on manual handling and training for leaders on mental health are key programs that were implemented to support Bunnings' vision that everyone goes home safe.

- As part of creating a mentally healthy workplace, Coles launched the 'Mind Your Health' program with three pillars of the strategy being awareness, leadership and risk reduction.
- Target delivered a new team member safety training program, upgraded the Target incident reporting database and held a safety focus week.
- In Wesfarmers' Industrial and Safety Blackwoods business, branch and warehouse teams have been well supported during the branch merger program with careful risk management planning, resilience training and leadership tools and resources.

TOTAL RECORDABLE INJURY FREQUENCY RATE[1]

**33.4**

| | |
|---|---|
| 2016 | 33.4 |
| 2015 | 39.4[2] |
| 2014 | 42.7 |
| 2013 | 38.7 |
| 2012 | 42.7 |

[1] TRIFR is the number of lost time injuries and medical treatment injuries per million hours worked.

[2] Restated due to maturation of data.

LOST TIME INJURY FREQUENCY RATE[1]

**7.2**

| | |
|---|---|
| 2016 | 7.2 |
| 2015 | 7.3 |
| 2014 | 7.7 |
| 2013 | 9.0 |
| 2012 | 10.9 |

[1] LTIFR is the number of lost time injuries per million hours worked.



## PEOPLE DEVELOPMENT

We provide opportunities for our people to enhance their job performance and develop their careers.

Wesfarmers businesses provide employment to approximately one in 60 working Australians or one in 17 working Australians under 20 years of age.

We distribute 61 per cent of the wealth we create in salaries, wages and benefits to our employees.

The quality of our people is our greatest competitive advantage and providing them with opportunities to improve their performance and their careers is key to our success.

We employ approximately 220,000 people globally, including more than 198,000 in Australia, making Wesfarmers Australia's largest private sector employer. Of our people, approximately 73 per cent are employed on a permanent basis and 27 per cent are employed on a casual basis.

In addition to our employees, our divisions engage contractors in a range of roles. There are also seasonal variations in employment numbers, with a peak throughout the Christmas/summer period in line with the broader retail industry.

In the 12 months to 30 June 2016, we employed 50,607 new people across the Group in a range of permanent, part-time and casual roles. Over the same period we have had a net increase in our overall employee numbers of approximately 13,500 people. This increase is due to the acquisition in February 2016 of the Homebase business from the Home Retail Group.

### Training and development

Each division provides a wide range of training and development in job-specific technical aspects as well as generic skills, such as customer service, teamwork and leadership.

## DIVERSITY

We strive to create an inclusive work environment, with particular attention to gender diversity and the inclusion of Aboriginal and Torres Strait Islander peoples

### Gender diversity

While Wesfarmers' workforce is made up of 55 per cent women and 45 per cent men, a key opportunity for the Group is to increase the percentage of leadership positions held by women. Women hold 44 per cent of salaried roles and 58 per cent of award or Enterprise Bargaining Agreement (EBA) roles.

The Wesfarmers Diversity Policy outlines four core objectives which are used to measure performance in this area. The objectives are reviewed annually and are intended to remain relevant to the Group over a number of years. Specific progress targets are linked to senior executive key performance objectives under the annual incentive plan. Given the diversity of the Wesfarmers portfolio, each division has developed its own gender diversity plan in line with the Group policy and tailored to the specific circumstances of that division.

The four core objectives of the Wesfarmers Diversity Policy are:

**Foster an inclusive culture:** Seek to leverage each individual's unique skills, background and perspectives.

**Improve talent management:** Seek to embed gender diversity initiatives into our broader talent management processes in order to support the development of all talent.

**Enhance recruitment practices:** Commitment to hiring the best person for the job, which requires consideration of a broad and diverse talent pool.

**Ensure pay equity:** Aim to ensure equal pay for equal work across our workforce.

*Further details on gender diversity* at Wesfarmers, including indications of progress for the core objectives, is available on our website.

### Indigenous engagement

Wesfarmers produced its first public Reconciliation Action Plan (RAP) in 2009, with a focus on 'Relationships', 'Respect', and 'Opportunities'. Using the RAP as a guide our *businesses identify and* implement opportunities that best suit their operations.

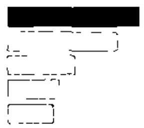
As Australia's largest private sector employer, we believe we are able to provide Indigenous people with greater opportunities to participate in sustainable employment, and it is the primary focus of our RAP.

At 30 June 2016, Wesfarmers had 3,329 Indigenous team members, representing 1.7 per cent of Wesfarmers' Australian workforce. This is a 20.5 per cent increase on the previous year.

*Over the past year, Coles has increased its number of Indigenous team members by more than 500, taking its total number of Indigenous team members to 2,318.*

INDIGENOUS TEAM MEMBERS

| | |
|---|---|
| 2016 | 3,329 |
| 2015 | 2 762 |
| 2014 | 1 711 |
| 2013 | 1 302 |
| 2012 | 1 152 |



Across the Group, we have made commitments to: increasing our Indigenous cultural awareness, investing in partnerships supporting Indigenous education, increasing purchasing from Indigenous-owned businesses; and growing our Indigenous workforce.

Our RAP is registered with Reconciliation Australia and is the overarching document *for divisional Indigenous engagement* strategies. It will be available in October 2016 at wesfarmers.com.au/our-impact/indigenous-engagement

## SUPPLIERS

### We commit to strong and respectful relationships with our suppliers.

Our relationships with more than 15,000 suppliers across the Group are very important to us. This year we paid more than $45 billion to our suppliers. We want to provide value to our customers and sustainable growth for our suppliers and their employees. Striving for better efficiency in our consumer supply chains ensures their continued competitiveness.

Coles is our largest consumer business and it continues to look for efficiencies in its supply chain. Coles' relationship with food and grocery suppliers in Australia continues to be the focus of some attention, and Coles is focused on strengthening these relationships to develop sustainable, long-term agreements with suppliers around Australia.

#### Australian first at Coles

Coles has an Australian Sourcing Policy, which aims to support Australian farmers and manufacturers where possible when sourcing fresh produce and Coles brand products. Today, 96 per cent of fresh fruit and vegetables sourced for Coles are Australian-grown and 100 per cent of its fresh milk, eggs and fresh meat from the meat department are produced in Australia.

#### Supporting small business

In April 2015, Coles established the Nurture Fund which is allocating $50 million over five years to help small Australian food and grocery producers, farmers and manufacturers to innovate and grow their businesses. Successful applicants receive grants or interest free loans to fund new market leading products, technologies, systems and processes.

In 2016, Coles allocated nearly $4 million in grants and interest-free loans from the Nurture Fund, with nine small businesses receiving assistance. Among the recipients were:

- Ashley Wiese and his business partners from Three Farmers in Western Australia, who have used a $500,000 grant to help build mainland Australia's first quinoa processing plant. Three Farmers has since started processing Australian white quinoa and supplying Coles brand, replacing imports from South America.

*By changing the way broccoli is transported Coles has reduced waste to landfill.*

- Australian Fresh Leaf Herbs in outer Melbourne, which has used an interest-free loan of more than $430,000 to build a state-of the-art greenhouse, which uses cloud technology to help advise the best time to plant, pick and pack their herbs.
- The Clark family from Westerway Raspberry Farm in Tasmania, who have used a $260,000 grant from Coles to adopt new freezing technology to supply Tasmanian frozen raspberries to customers.
- Onion and garlic grower Moonrocks, which has used a $400,000 grant to help grow and pack garlic in remote Queensland, extending the availability of Australian-grown garlic in that state.
- Family business Harvey Citrus which has used a $500,000 grant to develop Western Australia's first seedless lemons and has planted thousands of additional lime and mandarin trees to provide locally-grown produce for the upcoming citrus season.

#### Food and Grocery Code of Conduct

Since 2013, Coles has been a leading voice in the development and implementation of a voluntary Food and Grocery Code of Conduct with the Australian Food and Grocery Council. Coles signed the code once it was ratified by Parliament and it came into effect from 1 July 2015. The voluntary code governs certain conduct between grocery retailers and wholesalers in their dealings with suppliers, including supply agreements, payments, termination of agreements and dispute resolution. The Australian Competition and Consumer Commission regulates the code which is prescribed under the *Competition and Consumer Act 2010*.

#### Coles and dairy farmers

Following a dramatic fall in world dairy prices caused by global oversupply, milk processors Murray Goulburn and Fonterra announced in May 2016 that they would retrospectively cut prices paid to farmers for their milk.

The retrospective price reductions led to widespread media coverage about what factors were to blame and Coles' '$1 a litre' milk was brought into focus as part of the debate.

As a result, there was a reduction in sales of Coles' $1 a litre milk and orders of branded milk were increased to meet the change in demand.

In response, Coles highlighted that:

- Coles brand milk is 100 per cent fresh milk sourced from Australian farmers.
- Coles brand milk accounts for around three per cent of Australian dairy production.
- Coles' drinking milk only accounts for five per cent of Murray Goulburn's production.

Coles announced in May 2016 that it would support the dairy industry in southern Australia by working with farmer organisations to launch a new milk brand that would deliver 20 cents a litre to an independent industry fund.



## ETHICAL SOURCING

### We strive to source products in a responsible manner while working with suppliers to improve their social and environmental practices

Wesfarmers' retail businesses source products for resale from a range of locations. Some of the major locations we source from outside Australia include China, Bangladesh, Europe, Indonesia, India, Thailand, New Zealand, Vietnam, South Korea and Malaysia. Buying products from these regions creates economic benefits for them as well as allowing our businesses to provide affordable products to consumers.

The breadth, depth and interconnectedness of our supply chain make it challenging to manage ethical sourcing risks including child labour, forced labour and freedom of association. However, we are committed to working with our suppliers to adhere to ethical business conduct and proactively address these issues through a range of actions.

We have a Group-wide Ethical Sourcing Policy, which sets the minimum standards expected of our divisions. Each division has its own ethical sourcing policy appropriate to its business.

The apparel industries are recognised as carrying a higher risk of child labour, forced labour and freedom of association, due to the lower skill level required in the manufacturing process. With a high volume of apparel sold by our Department Stores division, ethical sourcing practices are material issues for Wesfarmers.

During the year, Target, Kmart and Coles continued to lead the way for Australian retailers in relation to supply chain transparency by disclosing supplier details on their websites.

#### Ethical sourcing audit programs

To mitigate the risk of unethical practices occurring in our supply chains, the relevant Wesfarmers businesses (Coles, Bunnings, Target, Kmart, Officeworks and WIS) apply an ethical sourcing audit program to certain suppliers. Suppliers are considered lower risk if they operate in more regulated countries, or if they are supplying recognised international brands.

This year, our audit program covered 3,211 factories used to manufacture house-brand products for resale.

Factories in the audit program are required to have a current audit certificate, which means they have been audited by us or another party whose audits we accept.

#### Ethical sourcing training

We deliver training on ethical sourcing requirements to our team members, third party auditors, suppliers and factories to ensure they understand ethical sourcing risks and the standards expected by our divisions. During the year, our divisions delivered more than 2,800 hours of training.

Our divisions continuously review and make enhancements to ensure our ethical sourcing programs run effectively and are up to industry standards and the expectations of our customers and stakeholders. The ethical sourcing teams in the divisions participate in forums and seminars and have regular discussions with other stakeholders including retailers, industry associations, non-government organisations and third-party audit firms to understand emerging trends and risks.

Our cross-divisional ethical sourcing forum meets quarterly to share best practice and audit program outcomes, and ethical sourcing practices are reported regularly to the Audit and Risk Committee.

#### Timber procurement

As the leading timber product retailer in Australia and New Zealand, Bunnings' material ethical sourcing risk relates to the procurement of sustainable timber and wood-based products. Bunnings' timber and wood products purchasing policy has been part of Bunnings' mandatory supplier trading terms since 2003, requiring all timber and wood products to originate from legal and well-managed forest operations.

Bunnings is confident that more than 99 per cent of timber products are confirmed as originating from low risk sources including plantation, verified legal, or certified responsibly sourced forests. Within that, more than 90 per cent of its total timber products are sourced from independently certified forests or sourced with demonstrated progress towards achieving independent certification, such as that provided by the Forest Stewardship Council and the Programme for the Endorsement of Forest Certification (PEFC)

*Kmart and Target have joined ACT, a partnership to improve wages in factories.*

#### Living wage

Sourcing products from less developed countries contributes to the economic development of those countries, but concerns are sometimes raised as to whether workers, particularly in apparel supply chains, earn enough to meet their basic needs (a 'living wage'). This is a complex issue and our businesses are working to understand how they can appropriately contribute.

Living wage is defined as the minimum income necessary for a person to meet their basic needs and his/her family, including some discretionary income. This is in contrast to the minimum wage, which is the lowest wage permitted legally within a country or sector

Kmart and Target have signed 'ACT' (Action, Collaboration, Transformation), a partnership between brands, retailers, manufacturers and IndustriALL (the global union) aimed at achieving living wages in apparel-sourcing countries.

**ETHICAL SOURCING FACTORY AUDIT PROGRAM**

**3,211** TOTAL NUMBER OF FACTORIES

| | |
|---|---|
| APPROVED | 1,555 |
| CONDITIONALLY APPROVED | 1,373 |
| EXPIRED AUDITS | 241 |
| CRITICAL BREACHES | 42 |

We ensure that all our products comply with relevant mandatory standards before they are offered for sale.

## PRODUCT SAFETY

### We are committed to providing consumers with safe products.

All consumer products we supply must be safe and meet consumer guarantees under the consumer laws of the countries where we operate. As well as safety testing and compliance with required standards, our divisions implement product recalls where possible safety issues arise.

**Product safety initiatives**

During the year, Kmart made a business-wide commitment to improve the quality and safety of its products. As part of this commitment, a framework was developed to provide a foundation for quality improvement programs.

Coles regularly reviews and improves its Coles brand range as part of its strategy to deliver quality, affordable products to customers. Coles has invested in developing the Coles food manufacturing supplier requirements to support suppliers in demonstrating compliance and traceability.

Target continually strives to improve quality and safety standards to ensure its customers can be confident in the products they buy. Approval processes continue to be reviewed to ensure that products that do not meet these strict standards are not shipped.

Bunnings continues to proactively engage with suppliers to ensure adherence to product safety standards. Bunnings conducts regular product audits to ensure conformance with relevant mandatory standards, and also undertakes independent safety tests on selected products to confirm compliance to safety standards and customer expectations.

Officeworks continues to work closely with suppliers to ensure its products conform to all quality and safety standards and labelling. During the year, Officeworks published quality assurance guides on furniture and electrical equipment to all relevant suppliers.

WIS has established an accredited product test laboratory in its Global Sourcing Office in China, giving it the opportunity to test products closer to their source of manufacture. This will ensure safety and quality issues are identified quickly and addressed prior to shipping.

WIS also enhanced its purchasing specification procedures with a checklist to ensure thorough product safety and compliance due diligence is completed before a product is launched. This checklist includes mandatory packaging requirements and product related risk assessments which will further strengthen sourcing processes.

In relation to button batteries, relevant Wesfarmers businesses have participated in the Australian Competition and Consumer Commission-facilitated industry working group, tasked with developing an industry code for button battery safety. Wesfarmers' retail divisions have been actively involved in the development of this new standard.

## COMMUNITY CONTRIBUTIONS

### We make a positive contribution to the communities in which we operate

We have an impact on our communities in a variety of ways: meeting the basic needs of the community such as food, clothing and tools; providing employment; paying taxes to governments; and providing support to not-for-profit organisations. With 96 per cent of our revenue earned in Australia and the vast majority of our shares held in Australia, we have a significant positive impact on the Australian economy, as well as contributing to other economies.

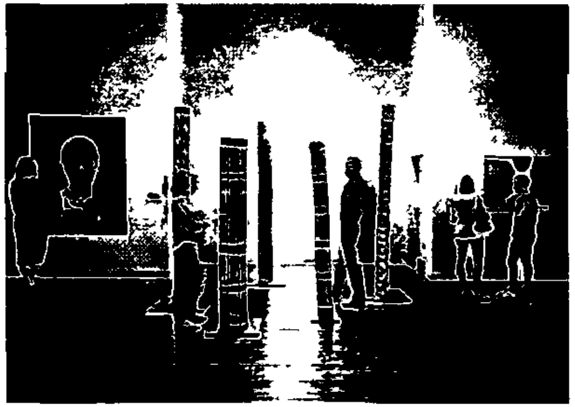
Wesfarmers has always believed that a strong business environment is underpinned by a cohesive and inclusive community environment. Accordingly, Wesfarmers has had a long-term commitment to investing in community initiatives linked to long term social and economic outcomes.

In 2016, the Wesfarmers Group collectively contributed $58 million in direct funding to community organisations across Australia, New Zealand and other countries where we operate. The Group also facilitated donations from customers and employees of $54 million this year.

Reflecting the divisional autonomy of the Group, our approach to community engagement is driven and managed by our businesses to ensure that value is created in ways that best fit with their operations and geographic spread.

At a corporate level, the Wesfarmers Board approves partnerships focused on four areas: medical research and health, Indigenous programs, particularly targeting education and employment outcomes; community and education initiatives; and the Wesfarmers Arts program.





*LUMINOUS WORLD: contemporary art from the Wesfarmers Collection on display at the National Art School, Sydney February 2016.*


*Officeworks stores participated in the Australian Literacy and Numeracy Foundation's (ALNF) Wall of Hands campaign throughout September 2015.*

The majority of these partnerships are long-term commitments with West Australian-based organisations, such as the Telethon Kids Institute, the Harry Perkins Institute of Medical Research, the Clontarf Foundation and Curtin Business School. In 2015, we renewed our partnership with Surf Life Saving WA by continuing to support the Wesfarmers Lifesaver Jetski teams. We also established a new partnership with Reconciliation WA, a commitment which builds on our other partnerships supporting Indigenous programs and reflects our ongoing commitment to closing the gap.

Financial and in-kind emergency relief support was provided by Wesfarmers and a number of its businesses to the West Australian communities of Esperance and Yarloop, who both suffered devastating bushfires over the 2015/16 summer.

Many of our divisions have major, long-term partnerships at a national level. However, a significant part of the contribution from our businesses is directed towards local community groups, either through financial or in-kind donations. For example, some of our retail businesses support local community groups by providing gift vouchers for use in their stores, or facilitate the collection of customer donations for local fundraising initiatives.

The well-recognised Bunnings sausage sizzles' provide opportunities for different local community groups to fundraise for their cause. As a result of these locally-driven fundraising activities, there is a significant number of community programs supported across Australia, including environmental projects, education programs and mental health initiatives.

**Wesfarmers Arts**

Wesfarmers has supported the arts in Australia for more than three decades, with long-term support of a wide range of premier performing and visual arts organisations as well as the ongoing development of the Wesfarmers Collection of Australian Art.

During the year, *Luminous World: contemporary art from the Wesfarmers Collection* embarked on the final leg of an extensive three-year national tour that saw the exhibition enjoyed by regional communities across Australia, from the Northern Territory to Tasmania. *Luminous World* completed its tour at the acclaimed historic National Art School in Sydney in February 2016.

Wesfarmers also contributed $2.5 million in support of the activities of 12 leading arts organisations, including the National Gallery of Australia, Perth International Arts Festival, the Art Gallery of Western Australia, West Australian Ballet, West Australian Opera, West Australian Symphony Orchestra, Black Swan Theatre Company, Awesome Children's Festival, Form Contemporary Craft and Design, the Western Australian tours of the Australian Chamber Orchestra, the Bell Shakespeare Company and Musica Viva Australia.

Wesfarmers Arts continued its major support of the performing arts in Western Australia as Principal Partner of West Australian Symphony Orchestra, West Australian Opera and the Art Gallery of Western Australia. In May 2016, we made a major donation to the Gallery to refurbish and upgrade rooms and open spaces formerly closed to the public. The new Sky and Garden Micro Galleries and Imagination Room now present changing displays of large-scale works from the Wesfarmers Collection and a dedicated area for education, family and artist events.

## CLIMATE CHANGE RESILIENCE

### We strive to improve the emissions intensity of our businesses and improve their resilience to climate change

We acknowledge that the world is changing due to climate change. Many communities are experiencing the effects of rising temperatures, water shortages and increasingly scarce food supplies. These changes will continue to have serious implications for our employees, our customers, the community and the economy.

We want to be proactive about managing these risks because responding to climate change will deliver significant economic, social and environmental benefits for us all.

Our divisions respond to climate change in two ways. Firstly, we actively monitor and manage our own greenhouse gas (GHG) emissions and reduce them where possible. Secondly we work to understand the specific risks created by climate change for our businesses and address those risks.

#### Our position on climate change

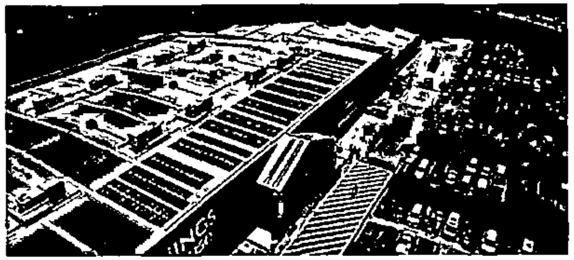
We recognise that the climate is changing due to human actions and we acknowledge that business and Australia have a part to play in mitigating this climate change.

We will continue to improve the GHG efficiency of our operations, which reduces our own business costs and risk, as well as contributing to climate change mitigation.

As the global population steadily grows, the continued development of emerging economies depend on access to affordable energy. Both renewables and lower-emission fossil fuels will form an integral part of the energy generation mix throughout the transition to a low emission global economy

#### Managing our emissions

Our divisions are continually looking for ways to improve energy efficiency, reduce emissions across their operations and supply chains and invest in low-emissions and renewable technologies.



*As part of ongoing efforts to improve the energy efficiency of its business operations, Bunnings has been trialling renewable micro generation projects since 2009.*

We emit greenhouse gases both directly and indirectly. Our direct (scope one) emissions come from our industrial businesses, including the use of natural gas and diesel, and fugitive emissions from coal mining. Our main source of indirect (scope two) emissions is electricity used in our operations. We also estimate other indirect (scope three) emissions that occur as a result of our operations such as air travel, but are not controlled by us.

This year, we emitted a total of 3.9 million tonnes carbon dioxide equivalent ($CO_2$-e) in scope one and two emissions, which was more than two per cent lower than last year.

This year, the reduction in our emissions was driven by continued monitoring and management of electricity use across all sites. Our retailers all invested in LED lighting upgrades in some of their stores, with Kmart recording an average reduction in energy consumption of 31 per cent for stores where LED has been implemented to date. Bunnings continued to rollout solar photovoltaic systems at its stores, generating between 10 and 20 per cent of the stores' daily energy needs. At Target, energy use is down due to continued monitoring and management of electricity use across all sites and investment in LED lighting upgrades at 104 stores which was completed in November 2015

This year, WesCEF's GHG emissions increased by 6.3 per cent compared to last year as a result of increased operating hours across its plants. The performance of the nitrous oxide abatement technology installed in CSBP's nitric acid plants continues to minimise GHG emissions. An average 90 per cent total nitrous oxide abatement was achieved during the year, which equates to a reduction of 1,220,422 tonnes of $CO_2$-e.

#### Adapting for climate change

##### Natural resource management

We are committed to being responsible stewards of the natural resources we use in our operations. Forests are a critical part of our efforts to reduce GHG emissions and our divisions are focused on ensuring the forestry products they source are from legal and well-managed forests.

##### Helping customers reduce their emissions

Our divisions are committed to helping customers avoid GHG emissions. For example, Bunnings continues to provide information and education to help customers make sustainable living choices and take practical actions at low cost or no cost to save energy use less water and reduce waste. This includes providing a wide range of expert advice in-store and online, free do-it yourself workshops and guides.

Officeworks is Australia's largest retail collector of used printer cartridges, computers and electronic accessories. Through recycling these materials, Officeworks has reduced the need for resource extraction, thus reducing the carbon intensity of its products.

##### Internal shadow carbon price

Since 1 July 2015, we have used an internal shadow carbon price in capital allocation processes. This shadow carbon price is designed to promote marginal emissions abatement projects and to ensure that regulatory, reputational and stranded asset risks are taken into account in relation to emissions intensive investments.



*Curragh is focused on reducing water use at its mine site, and through a number of initiatives it has reduced raw water consumption by 27 per cent since June 2014.*

## WASTE AND WATER USE

### We strive to reduce our waste to landfill and water use where possible.

Water use is a material issue in our industrial businesses and our focus is on using water more efficiently or replacing scheme water with reclaimed or recycled water where possible.

Our retail businesses produce most of our waste. We are working to reduce the quantity of our waste and to divert as much as possible to recycling, both in our operations and for our customers.

#### Recycling and waste

This year, we increased our waste to landfill by 11 per cent to 151,000 tonnes and increased our waste recycled by 17 per cent to 356,000 tonnes. This is primarily due to improved data capture methods (which allow us to capture liquid waste disposed and recycled at Coles, Kmart and WesCEF), as well as store growth at Coles and Bunnings.

As one of Australia's largest food retailers, the Group's main source of waste is cardboard, food and plastic at Coles. Coles has comprehensive strategies to recycle and divert waste from landfill for these components. The principal component of Coles' recycling stream is cardboard, and this year its stores recycled 5.3 per cent more than last year. Coles donated more than 7,800 tonnes of food via its partnerships with SecondBite and Foodbank, a 50 per cent increase on last year.

During the year Kmart conducted a review of its waste, and identified a number of opportunities for improvement. This includes better separation and recycling of flexible plastic and cardboard, and the reduction or recycling of polystyrene packaging.

Officeworks has increased the percentage of waste recycled to 71 per cent. Major initiatives included a waste optimisation program aimed at reducing waste bin size and an ongoing awareness program to educate team members on what is recyclable.

This year, Target, Kmart and Officeworks funded the collection and recycling of more than 142 tonnes of unwanted televisions and computer waste, under the National Television and Computer Recycling Scheme Product Stewardship Agreement.

#### Reducing water use

This year, the Group recorded water use of 16 000 megalitres, which is in line with consumption last year. Of this, 29 per cent is reclaimed and recycled water at the Curragh mine site.

Curragh continues to reduce raw water consumption. River water use at the mine has decreased over the past two years by 27 per cent. This can be attributed to greater water efficiencies, innovation and increased use of reclaimed mine water.

## ROBUST GOVERNANCE

### We maintain robust corporate governance policies in all our businesses.

The Governance section of this report contains access to all relevant corporate governance information, including director profiles, Board and committee charters and Group policies.

#### Anti-bribery Policy

Wesfarmers is committed to complying with the laws and regulations of the countries in which its businesses operate and acting in an ethical manner, consistent with the principles of honesty, integrity, fairness and respect.

Bribery and the related improper conduct are serious criminal offences for both the company and any individuals involved They are also inconsistent with Wesfarmers' values.

#### Political donations

Our Anti-bribery Policy stipulates that political donations must not be made at business unit or divisional level. Any political donations must be authorised by the Wesfarmers Board and disclosed as required by law and recorded in the Wesfarmers Group accounts. Any donations above a level determined in Federal legislation must be disclosed annually to the Australian Electoral Commission and will be published on its website.

Wesfarmers does not make political donations. However, occasionally and on a non-partisan basis, Wesfarmers representatives do pay fees to attend functions and forums organised by political parties. These forums provide an opportunity to discuss and exchange views with policymakers on issues of importance to the company and its shareholders.

> An important part of sustainability at Wesfarmers is being transparent with all our stakeholders. We do this by measuring and publishing our performance for each of our material issues in our sustainability report. Our full sustainability report contains numerous case studies and data available for download. It is prepared in accordance with the Global Reporting Initiatives G4 standard and assured by Ernst & Young. It will be available in October 2016 at sustainability.wesfarmers.com.au

# BOARD OF DIRECTORS

## Michael Chaney AO, age 66

*Chairman*

BSc MBA Hon LLD W.Aust FAICD FATSE

Term: Chairman since November 2015. Director since June 2015

**Skills and experience:** After an early career in petroleum geology and corporate finance, Michael joined Wesfarmers in 1983 as Company Secretary and Administration Manager. He became Finance Director in 1984 and was appointed Managing Director in July 1992. He retired from that position in July 2005.

**Directorships of listed entities (last three years) other directorships/offices (current and recent)**

- Chairman of Woodside Petroleum Limited (since July 2007)
- Chancellor of The University of Western Australia (since December 2005)
- Member of Commonwealth Science Council (since October 2014)
- Chairman of Gresham Partners Holdings Limited (retired May 2015)
- Chairman of National Australia Bank Limited (retired December 2015)
- Member of Prime Minister's Business Advisory Council (retired December 2015)

## Richard Goyder AO, age 56

*Managing Director*

BCom FAICD

Term: Director since July 2002.

**Skills and experience:** Richard joined Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He was Managing Director of Wesfarmers Landmark Limited in 1999 until he became Finance Director of Wesfarmers Limited in 2002 and then Deputy Managing Director and Chief Financial Officer in 2004. Richard assumed the role of Managing Director and Chief Executive Officer in July 2005.

**Directorships of listed entities (last three years) other directorships/offices (current and recent)**

- Director of Gresham Partners Holdings Limited (since July 2002)
- Australian Football League Commissioner (since November 2011)
- Chairman of JDRF Australia (director since March 2016, Chairman since June 2016)
- Chairman of Australian B20 (appointment expired December 2014)

## Terry Bowen, age 49

*Finance Director*

*BAcct FCPA*

Term: Director since May 2009

**Skills and experience:** Terry held a number of finance positions with Tubemakers of Australia Limited. Terry joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark Limited, including Chief Financial Officer until 2003. He then became Chief Financial Officer for Jetstar Airways, prior to rejoining Wesfarmers as Managing Director Wesfarmers Industrial and Safety in 2005. Terry became Finance Director, Coles in 2007 and Wesfarmers Finance Director in 2009.

**Directorships of listed entities (last three years), other directorships/offices (current and recent)**

- Director of Gresham Partners Holdings Limited (since April 2009)
- Director of Gresham Partners Group Limited (since April 2009)
- Chairman of the West Australian Opera Company Incorporated (since April 2014)
- President of the National Executive of the Group of 100 Inc (retired December 2013)
- Director of Harry Perkins Institute for Medical Research Incorporated (retired May 2013)

## Paul Bassat, age 48

B Comm, LL.B (Melb)

*Term: Director since November 2012.*

**Skills and experience:** Paul started his career as a lawyer in 1991. He co-founded SEEK Limited in 1997 and served as Chief Executive Officer and then as joint Chief Executive Officer until 2011. He is a co-founder and director of Square Peg Capital Pty Ltd, *a venture capital fund* that invests in early stage and growth stage technology companies. He is also a director of the Peter MacCallum Cancer Foundation, Mt Scopus College Foundation and the P&S Bassat Foundation and is a member of *Innovation Australia.*

**Directorships of listed entities (last three years) other directorships/offices (current and recent)**

- Australian Football League Commissioner (since February 2012)
- Director of AFL Sportsready Pty Ltd (since August 2015)

## *James Graham AM, age 68*

BE (Chem)(Hons)(Syd) MBA (UNSW) FIEAust FTSE FAICD SF Fin

Term: Director since May 1998.

**Skills and experience:** James has had an active *involvement in the growth of Wesfarmers since* 1976 as Chairman and Managing Director of Gresham Partners Limited and previously as Managing Director of Rothschild Australia Limited. James was also previously Chairman of Rabobank Australia Limited. Chairman of the Darling Harbour Authority and a director of Hill Samuel Australia Limited.

**Directorships of listed entities (last three years) other directorships/offices (current and recent)**

- Chairman of the Advisory Council of the Institute for Neuroscience and Muscle Research *(since 1999)*
- Director of Wesfarmers General Insurance Limited (resigned June 2014)

## Tony Howarth AO, age 64

CitWA, Hon LLD (UWA), SF Fin, FAICD

Term: Director since July 2007

**Skills and experience:** Tony has more than 30 years' experience in the banking and finance industry. He was Chairman of Home Building Society Limited and Deputy Chairman of Bank of Queensland Limited. Tony has held several senior management positions during his career, including Managing Director of Challenge Bank Limited and Chief Executive Officer of Hartleys Limited.

**Directorships of listed entities (last three years), other directorships/offices (current and recent)**

- Director of BWP Management Limited (since October 2012)
- Chairman of MMA Offshore Limited (director *since July 2001. Chairman since August 2006)*
- Chairman of St John of God Health Care Inc. (since January 2004)
- Chairman of the West Australian Rugby Union Inc. (since September 2015)
- Director of Alinta Holdings Pty Ltd (since March 2011)
- Chairman of International Chamber of Commerce, Australia Limited (retired March 2014)

## Wayne Osborn, age 65

Dip Elect Eng, MBA, FAICD, FTSE

Term: Director since March 2010

**Skills and experience:** Wayne started working in the iron ore industry in the mid 1970s and joined Alcoa in 1979. He worked in various roles across the Australian business, including accountability for Alcoa's Asia Pacific operations, prior to being appointed Managing Director in 2001, retiring in 2008.

**Directorships of listed entities (last three years) *other directorships/offices (current and recent)***

- Director of South32 Limited (since May 2015)
- Director of Alinta Holdings Pty Ltd (since March 2011)
- Director of Iluka Resources Limited (retired May 2016)
- Chairman of the *Australian Institute of Marine* Science (retired December 2014)

## Diane Smith-Gander, age 58

B Ec MBA, Hon DEc W.Aust (UWA) FAICD FGIA

Term: Director since August 2009

**Skills and experience:** Diane has extensive experience in corporate governance and providing strategic advice to corporations in Australia and overseas. She was a partner with McKinsey & Company in the USA, became a senior adviser to McKinsey & Company in Australia in 2016 and has more than a decade of executive experience in the banking industry.

**Directorships of listed entities (last three years) other directorships/offices (current and recent)**

- Chairman of Broadspectrum Limited (formerly known as Transfield Services Limited) which delisted in June 2016 (director since October 2010. Chairman since October 2013; retired September 2016)
- Chair Safe Work Australia (since February 2016)
- CEDA – Committee for Economic Development *of Australia (trustee since September 2014* director since November 2015)
- Director of Keystart Home Loans (since July 2016)
- Board member of Henry Davis York (since July 2016)
- Commissioner of Tourism WA (appointment expired June 2015)
- Director of Co-operative Bulk Handling Limited and CBH Grain Limited (resigned February 2014)
- Deputy Chairman of NBN Co Limited (National Broadband Network) (resigned September 2013)

## Vanessa Wallace, age 53

B Comm (UNSW) MBA (IMD Switzerland) MAICD

Term: Director since July 2010.

**Skills and experience:** Vanessa is an experienced management consultant who had been with Strategy& (formerly Booz & Company) for more than 25 years. She has deep expertise in the financial services sector across the spectrum of wealth management, retail banking and insurance, with particular functional depth in risk management, post merger integration and capturing business opportunities associated with channels, customers and markets.

***Directorships of listed entities (last three years)*** **other directorships/offices (current and recent)**

- Director of AMP Limited (since March 2016)
- Chairman of AMP Capital Holdings Limited (director since March 2016, Chairman since August 2016)
- *Executive Chairman of Strategy& (Japan) Inc.* (April 2013 – retired June 2015)
- Director of Booz & Company entities in Australia, New Zealand, Thailand and Indonesia (varied tenure through to February 2013)

## Jennifer Westacott, age 56

BA (Honours), FAICD FIPAA

Term: Director since April 2013

**Skills and experience:** Jennifer is Chief Executive of the Business Council of Australia. Prior to that, she was a Board director and lead partner at KPMG. Jennifer has extensive experience in critical leadership positions in the New South Wales and Victorian governments.

**Directorships of listed entities (last three years), other directorships/offices (current and recent)**

- Adjunct Professor at the City Futures Research Centre of the University of New South Wales
- Co-chair, Advisory Board, Australia Sino One *Hundred Year Agricultural and Food Safety* Partnership (since July 2015)
- Chair of the Mental Health Council of Australia (since January 2013)
- Co-chair of the Australia-Canada Economic Leadership Forum Organising Committee (since February 2016)
- Member of the Melbourne School of Government Advisory Board (since March 2016)
- Member of the Prime Minister's Expert Advisory Panel on the Reform of the Federation (concluded December 2015)
- Board member of Urban Renewal Authority *South Australia (retired July 2013)*
- Member of the Prime Minister's Cyber Security Review Panel (concluded April 2016)

## CORPORATE GOVERNANCE OVERVIEW

The Board of Wesfarmers Limited is committed to providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders.

Set out below is an overview of selected aspects of Wesfarmers' corporate governance framework and key focus areas of the Board and its committees in 2016.

A copy of Wesfarmers' full 2016 Corporate Governance Statement, which provides detailed information about governance, and a copy of Wesfarmers Appendix 4G which sets out the company's compliance with the recommendations in the third edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Principles) is available on the corporate governance section of the company's website at www.wesfarmers.com.au/cg

The Board believes that the governance policies and practices adopted by Wesfarmers during 2016 are in accordance with the recommendations contained in the ASX Principles.

### Roles and responsibilities of the Board and management

The role of the Board is to approve the strategic direction of the Group, guide and monitor the management of Wesfarmers and its businesses in achieving its strategic plans and oversee good governance practice. The Board aims to protect and enhance the interests of its shareholders, while taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

In performing its role, the Board is committed to a high standard of corporate governance practice and fostering a culture of compliance which values ethical behaviour, personal and corporate integrity, accountability and respect for others.

The Wesfarmers Managing Director has responsibility for the day-to-day management of Wesfarmers and its businesses, and is supported in this function by the Wesfarmers Leadership Team. Details of the members of the Wesfarmers Leadership Team are set out under the Wesfarmers Leadership Team profiles in the corporate governance section of the company's website (www.wesfarmers.com.au/cg). The Board maintains ultimate responsibility for strategy and control of Wesfarmers and its businesses.

In fulfilling its roles and responsibilities, some key focus areas for the Board during the 2016 financial year are set out below.

**Key focus areas of the Board during the 2016 financial year included:**

- Overseeing management's performance in strategy implementation
- Monitoring the Group's operating and cash flow performance, financial position and key metrics, including financial covenants and credit ratings
- Reviewing business operations and development plans of each division likely to impact long-term shareholder value creation
- Monitoring the Group's safety performance and overseeing implementation of strategies to improve safety performance and enhance workplace safety awareness
- Reviewing talent management and development
- Approving an organisational restructure combining the Chemicals, Energy and Fertilisers, Industrial and Safety and Resources businesses to form a new Industrials division with Rob Scott as Managing Director
- Approving an organisational restructure combining the Target and Kmart businesses to form a new Department Stores division with Guy Russo as Chief Executive Officer
- Approving the acquisition of the United Kingdom retailer Homebase and other growth opportunities to complement the existing portfolio
- Monitoring the implementation of risk management plans to address identified operational, financial and reputational risks for Group businesses
- Reviewing policies to improve the Group's system of corporate governance, including approving amendments to the Securities Trading Policy and revising delegated authorities

### Structure and composition of the Board

Wesfarmers is committed to ensuring that the composition of the Board continues to include directors who bring an appropriate mix of skills, experience, expertise and diversity (including gender diversity) to Board decision-making.

The Board currently comprises 10 directors, including eight non-executive directors. Detailed biographies are set out on pages 60 and 61 of this annual report. The current directors possess an appropriate mix of skills, experience, expertise and diversity to enable the Board to discharge its responsibilities and deliver the company's strategic priorities as a diversified corporation with current businesses operating in supermarkets, liquor, hotels and convenience stores; home improvement; department stores; office supplies; and an Industrials division with businesses in chemicals, energy and fertilisers, industrial and safety products, and coal.





## CORPORATE GOVERNANCE OVERVIEW

The Board skills matrix set out below describes the combined skills, experience and expertise presently represented on the Board.

| Skills, experience and expertise | |
|---|---|
| - CEO level experience | - Capital markets |
| - ASX listed company experience | - Finance and banking |
| - Strategy and risk management | - E-commerce and digital |
| - Governance | - Human resources and executive remuneration |
| - Financial acumen | - Marketing/customers/retail |
| - Regulatory and government policy | - Resources and industrial |
| - International experience | - Corporate sustainability |

To the extent that any skills are not directly represented on the Board, they are augmented through management and external advisors.

Mr Archie Norman, who has significant retail experience, was appointed in 2009 as an advisor to the Board on retail issues. In this role, Mr Norman attends Wesfarmers Board meetings as required and is a director of the Coles and Target boards.

### Director independence

Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business or other relationship or circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement, having regard to the best interests of the company as a whole.

The Board's assessment of independence and the criteria against which it determines the materiality of any facts, information or circumstances is formed by having regard to the ASX Principles, in particular, the factors relevant to assessing the independence of a director set out in recommendation 2.3 the materiality guidelines applied in accordance with Australian Accounting Standards, any independent professional advice sought by the Board at its discretion, and developments in international corporate governance standards.

The Board has reviewed the position and relationships of all directors in office as at the date of this report and considers that:

- Seven of the eight non-executive directors are independent.
- The Chairman is independent.
- Ms Vanessa Wallace is independent. Ms Wallace previously held senior roles within Strategy&, which forms part of the PwC network, which is a provider of material professional services to the Group. Within the last three years, Ms Wallace's role was based in Japan and focused on managing the operations of Strategy&, Japan. During that period, Strategy& has not been a material provider of professional services to the Group. The Board is of the opinion that Ms Wallace's past relationship with Strategy& and PwC does not compromise Ms Wallace's exercise of objective or independent judgement in relation to the company's affairs.
- Mr James Graham is not independent, by virtue of his position as Chairman of Gresham Partners Limited (Gresham), which acts as an investment advisor to the company. Details of Mr Graham's association with Gresham are set out in note 26 on page 127 of this annual report.

### Committees of the Board

The Board has established a Nomination Committee, a Remuneration Committee, an Audit and Risk Committee, and a Gresham Mandate Review Committee as standing committees to assist with the discharge of its responsibilities. Details of the current membership and composition of each committee are set out in the 2016 Corporate Governance Statement.

### Role of the Nomination Committee

As part of the Nomination Committee's oversight of Board succession planning, it is responsible for identifying suitable candidates to fill Board vacancies as and when they arise, or to identify candidates to complement the existing Board, and make recommendations to the Board on their appointment. Where appropriate, external consultants are engaged to assist in searching for candidates. The Nomination Committee is responsible for scheduling formal performance reviews of the Board and its committees at least every two years. The Board then undertakes an evaluation process to review its performance which is facilitated by an external consultant. More details about Wesfarmers' review process for both the Board and its committees is set out in the 2016 Corporate Governance Statement.

**Key focus areas of the Nomination Committee during the 2016 financial year included:**

- Scheduling of the performance review of the Board and individual directors
- Consideration of feedback from major shareholders during the Chairman's Roadshow conducted prior to the 2015 Annual General Meeting

# CORPORATE GOVERNANCE OVERVIEW

## Role of the Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board in relation to overall remuneration policy. Full details of the remuneration paid to non-executive and executive directors, and senior executives are set out in the remuneration report on pages 71 to 84 of this annual report.

Senior executives comprising members of the Wesfarmers Leadership Team have an annual and long term incentive or 'at risk' component as part of their total remuneration package. The mix of remuneration components and the performance measures used in the incentive plans have been chosen to ensure that there is a strong link between remuneration earned and the achievement of the Group's strategy and business objectives and, ultimately, generating satisfactory returns for shareholders. Annual performance reviews of each member of the Wesfarmers Leadership Team, including the executive directors, for the 2016 financial year have been undertaken. More details about Wesfarmers' performance and development review process for senior executives is set out in the 2016 Corporate Governance Statement.

**Key focus areas of the Remuneration Committee during the 2016 financial year included:**

- Reviewing and making a recommendation to the Board in relation to the fixed remuneration, annual incentive and long-term incentive awards for the Group Managing Director and his direct reports
- Reviewing the senior executive remuneration framework and policies, including terms of employment such as notice periods restraint and non-solicitation clauses
- Reviewing and making a recommendation to the Board in relation to the structure of the Wesfarmers variable remuneration plans and recommending to the Board the vesting outcomes of the 2012 Wesfarmers Long Term Incentive Plan shares based on the achievement of the performance conditions as at 30 June 2016
- Reviewing and making a recommendation to the Board in relation to non-executive director fees
- Reviewing and monitoring diversity targets and gender pay equity

## Role of Audit and Risk Committee

Wesfarmers is committed to the identification, monitoring and management of material risks associated with its business activities across the Group.

The Board recognises that a sound culture is fundamental to an effective risk management framework. Wesfarmers promotes a culture which values the principles of honesty, integrity, fairness and accountability, and these values are reflected in the Group Code of Conduct.

The Audit and Risk Committee monitors internal control policies and procedures designed to safeguard Group assets and to maintain the integrity of financial reporting.

**Key focus areas of the Audit and Risk Committee during the 2016 financial year included:**

- Reviewing and assessing the Group's processes which ensure the integrity of financial statements and reporting and associated compliance with accounting legal and regulatory requirements
- Reviewing the processes and controls around the recognition of commercial income by the retail divisions to ensure recognition is in accordance with Accounting Standards and accepted industry practice
- Monitoring the ethical sourcing of products for resale through the Group's retail networks to ensure that there are appropriate safeguards and processes in place
- Monitoring the Group's cyber security framework and the reporting structure and escalation process on information security risks
- Reviewing and evaluating the adequacy of the Group's insurance arrangements to ensure appropriate cover for identified operational and business risks
- Monitoring the retail shrinkage control measures and reporting procedures in the Group's divisions
- Monitoring the Group's tax compliance program both in Australia and overseas to ensure its obligations are met in the jurisdictions in which the Group operates



# CORPORATE GOVERNANCE OVERVIEW

## Role of the external auditor

The company's external auditor is Ernst & Young. The effectiveness, performance and independence of the external auditor is reviewed annually by the Audit and Risk Committee. Mr Darren Lewsen is the lead partner for Ernst & Young and was appointed on 1 July 2013.

Ernst & Young provided the required independence declaration to the Board for the financial year ended 30 June 2016. The independence declaration forms part of the directors' report and is provided on page 70 of this annual report.

## Risk Management Framework

The Risk Management Framework of Wesfarmers is reviewed by the Board on an annual basis and was approved in May 2016. This framework details the overarching risk management controls that are embedded in the Group's risk management processes, procedures and reporting systems, and the division of the key risk management functions between the Board, Wesfarmers Managing Director and Finance Director, Audit and Risk Committee, divisional management and Group Assurance and Risk, including:

- the Group Code of Conduct;
- established Group and divisional structures, reporting lines and, appropriate authorities and responsibilities, including guidelines and limits for approval of all expenditure, including capital expenditure and investments, and contractual commitments,
- Operating Framework that clearly sets out the Board, Board committees and divisional board activities and reports,
- a formal director induction program and a directors' program of annual site visits to Wesfarmers' operations to enhance the Board's understanding of key and emerging business risks;
- a formal corporate planning process which requires each division to assess trends that are likely to affect and shape their industry perform scenario planning and prepare a SWOT analysis;
- Group policies and procedures for the management of financial risk and treasury operations, such as exposures to foreign currencies and movements in interest rates;
- a Group compliance reporting program supported by approved guidelines and standards covering safety information technology; the environment; legal liability; taxation compliance risk identification, quantification and reporting; and financial reporting controls;
- a comprehensive risk financing program, including risk transfer to external insurers and reinsurers;
- annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends;
- appropriate due diligence procedures for acquisitions and divestments;
- crisis management systems for all key businesses in the Group and
- external and internal assurance programs.

## Investor engagement

Wesfarmers recognises the importance of providing its shareholders and the broader investment community with facilities to access up to-date high quality information, participate in shareholder decisions of the company and provide avenues for two-way communication between the company, the Board and shareholders. Wesfarmers has developed a program on investor engagement for engaging with shareholders, debt investors, the media and the broader investment community. In addition, the company's shareholders have the ability to elect to receive communications and other shareholder information electronically

## Governance policies

The corporate governance section of the company's website (www.wesfarmers.com.au/cg) contains access to all relevant corporate governance information, including Board and committee charters and Group policies referred to in the 2016 Corporate Governance Statement.

## Diversity

As a diverse workforce is of significant social and commercial value, Wesfarmers recognises the importance of being an inclusive employer. Wesfarmers strives to create a work environment which is inclusive of all people regardless of gender, age, race, disability, sexual orientation, cultural background, religion, family responsibilities or any other areas of potential difference. All areas of diversity are important and Wesfarmers pays particular attention to gender diversity and the inclusiveness of Indigenous people.

Wesfarmers prepared and committed to its first Reconciliation Action Plan (RAP) in 2009, which outlines specific measurable actions to be undertaken across the Group, targeting Indigenous employment, business engagement, community partnerships and staff secondments to Indigenous organisations.

Wesfarmers' Gender Diversity Policy outlines four core objectives which are used to measure performance in this area. to foster an inclusive culture; to improve talent management; to enhance recruitment practices, and to ensure pay equity

Further details on diversity are set out on page 53 of this annual report and in the 2016 Corporate Governance Statement on the company's website at www wesfarmers.com.au/cg

# DIRECTORS' REPORT – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

The information appearing on pages 2 to 65 forms part of the directors' report for the financial year ended 30 June 2016 and is to be read in conjunction with the following information.

## Results and dividends

| | $m | $m |
|---|---|---|
| Year ended 30 June | 2016 | 2015 |
| **Profit** | | |
| Profit attributable to members of the parent entity | 407 | 2,440 |
| **Dividends** | | |
| The following dividends have been paid by the company or declared by the directors since the commencement of the financial year ended 30 June 2016: | | |
| (a) out of the profits for the year ended 30 June 2015 and retained earnings on the fully-paid ordinary shares: | | |
| (i) fully-franked final dividend of 111 cents (2014: 105 cents) per share paid on 30 September 2015 (as disclosed in last year's directors' report) | 1,247 | 1 200 |
| (ii) a fully-franked special 'Centenary' dividend of 10 cents per share paid on 9 October 2014 | - | 114 |
| (b) out of the profits for the year ended 30 June 2016 on the fully-paid ordinary shares: | | |
| (i) fully-franked interim dividend of 91 cents (2015: 89 cents) per share paid on 7 April 2016 | 1,025 | 999 |
| (ii) fully-franked final dividend of 95 cents (2015: 111 cents) per share to be paid on 5 October 2016 | 1,070 | 1,247 |
| **Capital management** | | |
| The following distributions have been paid by the company in the financial year ended 30 June 2015 | | |
| (i) a capital return of 75 cents per fully-paid ordinary share paid on 16 December 2014 | - | 664 |
| (ii) a fully-franked dividend component of 25 cents per fully-paid ordinary share paid on 16 December 2014 | - | 287 |

## Principal activities

The principal activities of entities within the consolidated entity during the year were:

- retailing operations including supermarkets, general merchandise and specialty department stores;
- fuel, liquor and convenience outlets;
- retailing of home improvement and outdoor living products and supply of building materials;
- retailing of office and technology products;
- coal mining and production;
- gas processing and distribution;
- industrial and safety product distribution;
- chemicals and fertilisers manufacture; and
- investments.

## Directors

The directors in office at the date of this report are:

- M A Chaney (Chairman)
- R J B Goyder (Group Managing Director)
- T J Bowen (Finance Director)
- P M Bassat
- J P Graham
- A J Howarth
- W G Osborn
- D L Smith-Gander
- V M Wallace
- J A Westacott

All directors served on the Board for the period from 1 July 2015 to 30 June 2016. R L Every retired as Chairman and as a director of the company on 12 November 2015 at the conclusion of the 2015 Annual General Meeting.

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report appear on pages 60 and 61 of this annual report.



# DIRECTORS' REPORT – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

**Directors' shareholdings**

Securities in the company or in a related body corporate in which directors had a relevant interest as at the date of this report are:

| | BWP TRUST | WESFARMERS LIMITED | |
|---|---|---|---|
| | Units | Performance Rights | Shares |
| P M Bassat | - | - | 19 411 |
| T J Bowen* | - | 174 083 | 332,260 |
| M A Chaney | - | - | 87,347 |
| R J B Goyder* | - | 254 408 | 795,828 |
| J P Graham | 15 120 | - | 791 483 |
| A J Howarth | 20,000 | - | 17 184 |
| W G Osborn | - | - | 8,481 |
| D L Smith-Gander | - | - | 12,045 |
| V M Wallace | - | - | 13,483 |
| J A Westacott | - | - | 3,957 |

* R J B Goyder holds 254,408 performance rights and T J Bowen holds 174,083 performance rights, allocated under the 2013 Wesfarmers Long Term Incentive Plan (WLTIP), 2014 and 2015 WLTIP. The 2013 WLTIP performance rights of 88,000 and 55,000 respectively are subject to a four-year performance period, being 1 July 2013 to 30 June 2017. The 2014 WLTIP performance rights of 79 188 and 49,408 respectively are subject to a four-year performance period, being 1 July 2014 to 30 June 2018. The 2015 WLTIP performance rights of 87,220 and 69,657 respectively are subject to a four-year performance period, being 1 July 2015 to 30 June 2019. In general, if the relative total shareholder return and compound annual growth rate in return on equity performance conditions are met, executives will be allocated Wesfarmers fully-paid ordinary shares at the end of the performance period. For further details, please see the remuneration report on pages 71 to 84 of this annual report.

R L Every retired as Chairman and as a director of the company on 12 November 2015 at the conclusion of the 2015 Annual General Meeting. At retirement, Dr Every had a relevant interest in 27,541 Wesfarmers Limited shares. He had no relevant interests in Wesfarmers Limited performance rights or BWP Trust units at retirement.

**Directors' meetings**

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2016 and the number of meetings attended by each director:

| | Board | | Audit and Risk Committee | | Remuneration Committee | | Nomination Committee | | Gresham Mandate Review Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (A)[1] | (B)[2] | (A) | (B) | (A) | (B) | (A) | (B) | (A) | (B) |
| P M Bassat | 11 | 10 | - | | 4 | 4 | 3 | 3 | | |
| T J Bowen | 11 | 10 | | - | | - | | - | - | |
| M A Chaney[3,4] | 10 | 10 | - | | 4 | 4 | 3 | 3 | | - |
| R L Every[5] | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | | |
| R J B Goyder | 11 | 11 | | | - | | - | - | - | |
| J P Graham[3] | 10 | 10 | - | | 4 | 4 | 3 | 3 | | - |
| A J Howarth | 11 | 11 | 6 | 6 | | - | 3 | 3 | - | |
| W G Osborn[3] | 11 | 11 | - | | 4 | 4 | 3 | 3 | 4 | 3 |
| D L Smith-Gander | 11 | 11 | 6 | 6 | | - | 3 | 3 | 6 | 6 |
| V M Wallace | 11 | 10 | | | 4 | 4 | 3 | 3 | - | - |
| J A Westacott | 11 | 11 | 6 | 6 | | | 3 | 3 | 6 | 6 |

1 (A) = number of meetings eligible to attend.

2 (B) = number of meetings attended.

3 M A Chaney and J P Graham were ineligible to attend one Board meeting due to a conflict of interest. W G Osborn was ineligible to attend one Gresham Mandate Review Committee meeting due to a conflict of interest.

4 Notwithstanding he is not a member, M A Chaney attended all meetings of the Audit and Risk Committee held during the year.

5 R L Every retired as Chairman and as a director of the company on 12 November 2015 at the conclusion of the 2015 Annual General Meeting.

## DIRECTORS' REPORT – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

### Insurance and indemnification of directors and officers

During or since the end of the financial year, the company has paid premiums in respect of a contract insuring all directors and officers of Wesfarmers Limited and its related entities against certain liabilities incurred in that capacity. Disclosure of the nature of the liability covered by the insurance and premiums paid is subject to confidentiality requirements under the contract of insurance.

In accordance with the company's constitution, the company has entered into Deeds of Indemnity, Insurance and Access with each of the directors of the company. These Deeds:

- indemnify a director to the full extent permitted by law against any liability incurred by the director:
  - as an officer of the company or of a related body corporate; and
  - to a person other than the company or a related body corporate, unless the liability arises out of conduct on the part of the director which involves a lack of good faith;
- provide for insurance against certain liabilities incurred as a director; and
- provide a director with continuing access, while in office and for a specific period after the director ceases to be a director, to certain company documents which relate to the director's period in office.

In addition, the company's constitution provides for the indemnity of officers of the company or its related bodies corporate from liability incurred by a person in that capacity.

No indemnity payment has been made under any of the documents referred to above during or since the end of the financial year.

### Indemnification of auditors

The company's auditor is Ernst & Young.

The company has agreed with Ernst & Young, as part of its terms of engagement, to indemnify Ernst & Young against certain liabilities to third parties arising from the audit engagement. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young.

During the financial year:

- the company has not paid any premium in respect to any insurance for Ernst & Young or a body corporate related to Ernst & Young; and
- there were no officers of the company who were former partners or directors of Ernst & Young, whilst Ernst & Young conducted audits of the company.

### Directors' and other officers' remuneration

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and company performance are contained in the remuneration report on pages 71 to 84 of this annual report.

### Options

No options over unissued shares in the company were in existence at the beginning of the financial year or granted during, or since the end of the financial year.

### Company Secretary

Linda Kenyon was appointed as Company Secretary of Wesfarmers Limited in April 2002.

Linda holds Bachelor of Laws and Bachelor of Jurisprudence degrees from The University of Western Australia and is a Fellow of the Governance Institute of Australia (formerly the Chartered Secretaries Australia). She joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of BWP Management Limited (formerly Bunnings Property Management Limited), the responsible entity for the listed BWP Trust (formerly Bunnings Warehouse Property Trust). Linda is also Company Secretary of a number of Wesfarmers Group subsidiaries, and a member of the Wesfarmers Leadership Team.



## DIRECTORS' REPORT – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

### Significant changes in the state of affairs

Particulars of the significant changes in the state of affairs of the consolidated entity during the financial year are as follows:

- revenue from ordinary activities up from $62,447 million to $65,981 million
- profit for the year down from $2,440 million to $407 million (including net of tax impairment of Target and Curragh of $1,844 million)
- dividends per share of $1.86 (2015: $2.00 per share)
- total assets up from $40,402 million to $40,783 million
- shareholders' equity down from $24,781 million to $22,949 million
- net borrowings up from $6,209 million to $7,103 million
- net cash flows from operating activities down from $3,791 million to $3,365 million

### Review of results and operations

The operations, financial position, business strategies and prospects for future financial years of the consolidated entity are detailed in the operating and financial review on pages 10 to 50 of this report.

### Events after the reporting period

The following significant events have arisen since the end of the financial year:

#### Dividend

On 24 August 2016, a fully-franked final ordinary dividend of 95 cents per share resulting in a total dividend of $1,070 million was declared for a payment date of 5 October 2016. This dividend has not been provided for in the 30 June 2016 full-year financial statements.

### Non-audit services

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2016 and received, or is due to receive, the following amounts for the provision of these services:

| | $'000 |
|---|---|
| Tax compliance | 1,096 |
| Assurance related | 2,215 |
| Other | 882 |
| Total | 4,193 |

The total non-audit services fees of $4,193,405 represents 39.7 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2016. During the year, Ernst & Young were engaged to provide forensic accounting services at Target, and due diligence and tax services in relation to the acquisition of the Homebase business in the United Kingdom and Ireland. Excluding these engagements, the non-audit services fees represented 31.1 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2016.

The Audit and Risk Committee has, following the passing of a resolution of the Committee, provided the Board with written advice in relation to the provision of non-audit services by Ernst & Young.

The Board has considered the Audit and Risk Committee's advice, and the non-audit services provided by Ernst & Young, and is satisfied that the provision of these services during the year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act 2001 for the following reasons:

- the non-audit services provided do not involve reviewing or auditing the auditor's own work or acting in a management or decision-making capacity for the company;
- all non-audit services were subject to the corporate governance procedures and policies adopted by the company and have been reviewed by the Audit and Risk Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- there is no reason to question the veracity of the auditor's independence declaration (a copy of which has been reproduced on the following page).

## DIRECTORS' REPORT – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

The Directors received the following declaration from Ernst & Young:

EY
Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

### Auditor's Independence Declaration to the Directors of Wesfarmers Limited

As lead auditor for the audit of Wesfarmers Limited for the financial year ended 30 June 2016 I declare to the best of my knowledge and belief there have been

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Wesfarmers Limited and the entities it controlled during the financial year

Ernst & Young

Ernst & Young

D S Lowson
Partner
21 September 2016

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

### Environmental regulation and performance

The activities of the consolidated entity are subject to environmental regulation by various authorities throughout Australia and the other countries in which the Group operates.

Licences granted to the consolidated entity regulate the management of air and water quality and quantity the storage and carriage of hazardous materials the disposal of wastes and other environmental matters associated with the consolidated entity's operations.

During the year there have been no known material breaches of the consolidated entity's licence conditions.

### Proceedings on behalf of the company

No proceedings have been brought on behalf of the company nor have any applications been made in respect of the company under section 237 of the *Corporations Act 2001*

### Corporate governance

In recognising the need for high standards of corporate behaviour and accountability the directors of Wesfarmers Limited support and have followed the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. An overview of the company's corporate governance statement can be found on pages 62 to 65 of this annual report. The full corporate governance statement is available on the Corporate Governance section of the company's website at www.wesfarmers.com.au/cg

### Corporate information

Wesfarmers Limited is a company limited by shares that is incorporated and domiciled in Australia. The company's registered office and principal place of business is 11th Floor, Wesfarmers House, 40 The Esplanade Perth Western Australia.

### Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars unless otherwise stated (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which the instrument applies.





## REMUNERATION REPORT 2016 (AUDITED)

## Contents



### Executive remuneration

### 1 Introduction

The Wesfarmers Limited Board is committed to an executive remuneration framework that is focused on driving a performance culture and linking executive pay to the achievement of the Group's strategy and business objectives and ultimately generating satisfactory returns for shareholders.

Senior executive remuneration is set at levels which are competitive with executives in comparable companies and roles, noting that our divisional CEOs[1] are responsible for strategy and the direction of large stand alone businesses. This is vital to attracting and retaining the best people and reflects each executive's contribution competencies and capabilities.

Remuneration information in the statutory format is provided in section 3.6 A summary of the year's highlights and key remuneration outcomes is set out below

[1] This includes the Managing Director Coles Chief Executive Officer Bunnings Group Chief Executive Officer Department Stores, and Managing Director Wesfarmers Industrials.

1.1 2016 Summary

**Operational reorganisation**

The reorganisation of the Group into four main operating divisions (Coles, Home Improvement, Department Stores and Industrials) and the confirmation of our four divisional leaders, resulted in a material change in the size and scope of the roles and responsibilities of a number of our senior executives.

**Key management personnel changes**

As part of the structural reorganisation, the Group has reviewed which of our senior executives have the requisite authority and responsibility within the Group to meet the definition of key management personnel for the purpose of disclosure in this report. The disclosures in this report reflect this change from previous years.

**Fixed remuneration**

The fixed remuneration of our Group Managing Director was not increased this year and has not changed since October 2011

The change in roles for a number of our executives prompted a review of the appropriate remuneration for these new roles. This review which considered the market rates for comparable roles and the activity in the market for key talent over the past year (particularly as major competitors attempted to replace senior executives) led to increases in the fixed remuneration (and consequently the incentive opportunities) of a number of our senior executives. The Board upon recommendation of the Remuneration Committee, is satisfied that these changes are not only justified but also warranted in light of the performance and potential of these executives and in the interests of protecting the significant investment made by the Group in developing its key talent

**Annual incentives**

The non-cash impairments recorded in Target and in Curragh impacted the annual incentive outcomes for the Group Managing Director and Finance Director. Overall their annual incentive was below target.

Strong results in the 2016 financial year across most of our retail businesses resulted in above target annual incentive outcomes for the leaders of these divisions. Despite the more difficult conditions faced by our Industrials division, the annual incentive of our Industrials division Managing Director was at target. Following the resignation of Target's Managing Director during the year the 2016 annual incentive opportunity was forfeited and he did not receive any payment

As a result of the organisational restructure and in light of divisional performance the Group Managing Director recommended to the Board, and the Board agreed that it exercise its discretion to pay an amount equal to 100 per cent of fixed remuneration at target (rather than 60 per cent of fixed remuneration at target) this year for the Finance Director and divisional CEOs. Awards under the annual incentive plan will be delivered in cash up to 60 per cent of fixed remuneration and deferred into restricted equity for amounts awarded above that. The maximum opportunity continued to be capped at 120 per cent of fixed remuneration for these roles.

**Long-term incentives**

The 2012 Wesfarmers Long Term Incentive Plan (WLTIP) grant was available to vest this year. Following from testing of the relative total shareholder return (TSR) and relative return on equity (ROE) performance measures (explained further in section 3.4 below), none of the 2012 WLTIP grant vested and therefore all performance rights lapsed

**Review of remuneration structure**

Our current remuneration structures, comprising fixed remuneration, an annual bonus (including a deferred component) and an annual grant of long-term incentive, has been in place for a number of years. As indicated last year the Remuneration Committee has undertaken a comprehensive review over the past 18 months. This review has been undertaken in the context of our operational restructure into four divisions, the fact that we comprise a number of sizeable diversified, stand-alone businesses whose performance is affected by different factors and our unwavering commitment to retention and development of our key talent to enable internal succession to the Group's senior roles. Accordingly we will implement a new remuneration structure for our divisional CEOs for 2017. The new plan, to be called the Key Executive Equity Performance Plan (KEEPP), will provide for individual rewards to be determined annually within an approved range based on divisional performance (including annual EBIT and ROC targets, together with strategic targets), the majority will be granted in equity and the equity will comprise both restricted and performance shares that are required to be held for the long term. Further details of the operation of the plan will be included in next year's remuneration report.

The Group Managing Director and Finance Director will continue to participate in WLTIP for the 2017 financial year. Performance will be measured solely against relative TSR. It was not considered appropriate to use compound annual growth rate in ROE given the asset impairment charges taken against Target and Curragh in the 2016 financial year and the material effect these have had on FY2016 ROE (which would be the starting point from which performance would be measured)

# REMUNERATION REPORT 2016 (AUDITED)

## 2. Framework

Wesfarmers is committed to an executive remuneration framework that is focused on:

- driving a performance culture; and
- linking executive pay to the achievement of the Group's strategy and business objectives.

*The overriding objective is to provide* satisfactory returns to shareholders and the remuneration principles are focused on driving the leadership performance and behaviours consistent with achieving this objective.

The executive key management personnel (referred to in this remuneration report as KMP) includes the executive directors (the Group Managing Director and Finance Director) and those executives who have authority and *responsibility for planning,* directing and controlling the activities of a major profit-generating division of Wesfarmers. A significant organisational restructure was undertaken during the 2016 financial year, which resulted in a revision to the KMP of the Group. The executive KMP are: the Group Managing Director (Richard Goyder), Finance Director (Terry Bowen) and the heads of our four main operating *divisions,* known as our divisional CEOs, being:

- Managing Director, Coles (John Durkan),
- Chief Executive Officer, Bunnings Group (John Gillam),
- Chief Executive Officer, Department Stores (Guy Russo) and
- Managing Director, Wesfarmers Industrials (Rob Scott)

Our executive remuneration framework comprises fixed annual remuneration, an annual incentive and a long term incentive. The graphs below *show each of the components* as a percentage of total target annual remuneration for the 2016 financial year.

**Group Managing Director**

| | % |
|---|---|
| ● FAR | 34 |
| ○ STI | 33 |
| ● LTI | 33 |

**Other senior executives**

| | % |
|---|---|
| ● FAR | 42 |
| ○ STI | 25 |
| ● LTI | 33 |

- ● Fixed annual remuneration (FAR)
- ○ At risk pay – annual incentive (STI)
- ● *At risk pay – long-term incentive (LTI)*

### 2.1 Four guiding principles

The Remuneration Committee has adopted four guiding principles when considering remuneration plans and policies.

The principles used to guide Wesfarmers' remuneration policy for senior executives are:

**Ownership aligned** – remuneration arrangements should encourage Wesfarmers' senior executives to behave like long-term owners. There should be a strong *link between remuneration earned* and the achievement of sustainable performance that leads to satisfactory returns for shareholders.

**Performance focused** – remuneration arrangements should reward strategic, operational and financial performance of the business. As shown below, a significant proportion of each executive's remuneration *is dependent upon Wesfarmers'* success and individual performance.

***Consistent and market competitive*** – a common set of remuneration practices will generally apply to all senior executive roles. Wesfarmers positions remuneration to be competitive, with an opportunity for highly competitive total remuneration for superior performance.

**Open and fit for purpose** – remuneration arrangements can be innovative to respond to business and operational *needs. However,* all remuneration arrangements for KMP will be communicated to key stakeholders in an open and transparent manner.

As discussed earlier, the Committee has undertaken a *comprehensive review over the past 18 months. It* has considered a number of different potential structures and tested each of those to determine whether they conform to our guiding principles and are fit for purpose given our restructure into four operating divisions and our autonomous management model. As a result a new remuneration structure will be implemented for the 2017 financial year and beyond *for the divisional CEOs. This will* result in a large portion of their annual remuneration being delivered in the form of Wesfarmers shares that are required to be held for the long term. This share grant will comprise restricted shares and performance shares. Details of this new plan will be included in next year's remuneration report.





### 2.2 Remuneration framework

The diagram below provides a snapshot of our framework in the 2016 financial year and the way in which each element of remuneration has been structured to support our Group business objectives and to align with the generation of shareholder wealth.

| Component | Performance measure | At risk weight | Strategic objective/performance link |
|---|---|---|---|
| **FIXED ANNUAL REMUNERATION (FAR)**<br>Salary and other benefits (including statutory superannuation)<br>+ | Key result areas for the role:<br>As outlined in the individual's position description | | - Remuneration set at competitive levels, to attract, retain and engage key talent.<br>Considerations:<br>- Role and responsibility<br>- Business and individual performance<br>- Internal and external relativities<br>- Contribution, competencies and capabilities |
| **ANNUAL *INCENTIVE* (STI)**<br>Cash for target performance<br>Restricted shares for performance above target<br>Voluntary deferral (of portion of cash award into shares)<br>+ | Group financial measures *(for Group executives):*<br>Group Net Profit After Tax (NPAT) and Return on Equity (ROE)<br>Divisional measures (for divisional executives):<br>divisional Earnings Before Interest and Tax (EBIT), divisional Return on Capital (ROC) and where appropriate, *store sales growth and* transaction growth<br>Non-financial measures (for team):<br>Including diversity, talent management, safety and agreed key objectives | Target:<br>*60% of FAR*[1]<br>(100% of FAR Group Managing Director)<br>Maximum:<br>*120% of FAR* | - Rewards performance at Group level. The financial performance measures were chosen principally because Group profit and ROE should drive dividends and share price growth over time.<br>- Recognises and rewards achievement of divisional goals in the areas of earnings, return on capital employed in the division and business-specific financial targets.<br>- *Drives leadership performance and behaviours* consistent with achieving the Group's long-term objectives in areas including safety, diversity, succession planning and talent management.<br>- Aligns to the Group's material business risks, including strategy execution (earnings delivery) and loss of key management personnel (succession planning). |
| **LONG-TERM INCENTIVE (LTI)**<br>Performance rights<br>= | Relative to ASX 50 Index:<br>Total Shareholder Return (TSR) (50% weighting)<br>and<br>Wesfarmers' Compound Annual Growth Rate (CAGR) in ROE (50% weighting)<br>Measured over a four-year performance period | Group Managing Director:<br>100-200% of FAR<br>Others:<br>80-160% *of FAR* | - Ensures a strong link with the creation of shareholder value.<br>- TSR was chosen because it:<br>- Provides a relative, external market performance measure having regard to *Wesfarmers' ASX 50* peers.<br>- CAGR in ROE was chosen as a performance hurdle as it is:<br>- Used by Wesfarmers to measure the return on its portfolio of businesses<br>- A key metric to measure Wesfarmers' long-term success as it contains clear links to shareholder value creation.<br>- The Group Managing Director and Finance Director will continue to participate in WLTIP for the 2017 financial year. Performance will be measured solely against relative TSR. |
| **TOTAL REMUNERATION** | The remuneration mix is designed to reflect the diversified nature of the Wesfarmers business and is structured to reward executives for performance at a Group level and, for divisional executives, also at a divisional level, and to align executive and stakeholder interests through share ownership. | | |

1 As a result of the organisational restructure and in light of divisional performance, the Group Managing Director recommended to the Board, and the Board agreed, that it exercise its discretion to pay an amount equal to 100 per cent of FAR at target (rather than 60 per cent of FAR at target) this year for the Finance Director and divisional CEOs.

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### 3. Outcomes

**3.1 Overview of company performance**

The Group reported NPAT of $407 million for the 2016 financial year. This result included non-cash impairments of Target and Curragh totalling $1 844 million (post tax), as well as $102 million (post-tax) of restructuring costs and provisions to reset Target.

Despite a challenging environment, Wesfarmers' other businesses have continued to demonstrate strong performance against key measures and relative to its peers. The table below summarises details of Wesfarmers' performance for key financial measures over the past five financial years.

| Financial year ended 30 June | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Net profit after tax (NPAT) ($m) | 2,126 | 2,261 | 2,689 | 2,440 | 407 |
| Adjusted NPAT ($m)[1] | 2,126 | 2,261 | 2,253 | 2,440 | 2,353 |
| Total dividends per share (declared) (cents) | 165 | 180 | 200[2] | 200 | 186 |
| Closing share price ($ as at 30 June) | 29.90 | 39 60 | 41.84 | 39 03 | 40.10 |
| Capital management distribution (paid) (cents) | | | 50 | 100 | - |
| Earnings per share (cents) | 164.2 | 195.9 | 234 6[3] | 216 1 | 36.2 |
| Return on equity (rolling 12) (%) | 8.4 | 8.9 | 10.5 | 9.8 | 1.7 |

[1] 2014 excludes $1 179 million in discontinued operations relating to the disposal of the Insurance division and WesCEF's interest in Air Liquide WA Pty Ltd along with ($743) million in non-trading items relating to the impairment of Target's goodwill and Coles Liquor restructuring provision. 2016 excludes $1,249 million non-cash impairment of Target, $595 million non-cash impairment of Curragh and $102 million of restructuring costs and provisions incurred in resetting Target.

[2] 2014 total dividends per share includes the 10 cent special 'Centenary' dividend.

[3] 2014 earnings per share includes the items outlined in footnote 1 above; excluding these items, earnings per share were 196.6 cents per share.

**3.2 Fixed annual remuneration**

Wesfarmers' practice is not to increase fixed remuneration by reference to inflation or indexation as a matter of course. Increases are based on merit; or where there has been a material change in role or responsibility; or the market rate for comparable roles rising materially; or as a result of internal relativities.

The fixed remuneration of the Group Managing Director was not increased this year and has not changed since October 2011

As part of the organisational restructure, the Group undertook a review of the roles and responsibilities of our senior executives. As a result of this review, changes were made to the fixed remuneration of a number of senior executives during the 2016 financial year. The increases to their fixed remuneration have been made in light of internal remuneration comparisons in the Wesfarmers Leadership Team following the restructure as well as external comparisons and factors. As Wesfarmers operates in an environment that is highly competitive for talent and the divisional leaders are akin to CEOs of stand alone entities (albeit without ASX-listed responsibilities), the increases to fixed remuneration have also been made with regard to what they may be offered for a CEO role at peer companies of comparable size.



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**3.3 Annual incentive overview**

The details of Wesfarmers' annual incentive plan are set out in section 3 7 The plan is designed to reward performance against measures developed for each of the KMP based upon their areas of responsibility (refer section (a)) and execution of key strategic objectives. For the Group Managing Director and Finance Director these include measures of Group performance – specifically Group NPAT and Group ROE.

**(a) Weighting of performance conditions and outcomes**

The table following sets out the performance conditions for the 2016 annual incentive and the weighting between these measures for each of the executive directors and divisional leaders. The strong performance of Home Improvement, Coles, Kmart and Officeworks resulted in at or above target awards for the leaders of the relevant divisions.

| | WEIGHTING OF FINANCIAL MEASURES (%) | | | | | WEIGHTING OF NON-FINANCIAL MEASURES (%) | |
|---|---|---|---|---|---|---|---|
| Name | Group NPAT (with ROE gate) | Divisional EBIT | Divisional ROC | Other specific divisional objectives* | | Agreed objectives include diversity, talent management and safety | |
| R J B Goyder | ● 60 | - | | | | ● 40 | |
| T J Bowen | ● 50 | | | | | ● 50 | |
| | | | | | | Agreed objectives | Safety |
| J P Durkan | | ● 40 | ● 20 | ● 10 | ● 10 | ● 10 | ● 10 |
| J C Gillam[1] | | ● 35 | ● 35 | - | | ● 20 | ● 10 |
| G A Russo[2] | - | ● 40 | ● 20 | ● 10 | | ● 20 | ● 10 |
| R G Scott | | ● 50 | ● 15 | | | ● 25 | ● 10 |
| Former senior executives | | | | | | | |
| S B Machin[3] | | 40 | 20 | 10 | 10 | 10 | 10 |
| T J P O'Leary | | ● 35 | ● 35 | | | ● 20 | ● 10 |

● Threshold not met ● Threshold met or exceeded ● Target met or exceeded ● Maximum achieved

* Other specific divisional objectives include – store sales growth and transaction growth.

[1] J C Gillam's annual incentive relates to Bunnings Group and Officeworks.

[2] G A Russo's annual incentive relates to Kmart, Target and Department Stores.

[3] S B Machin resigned during the year and forfeited his 2016 annual incentive opportunity.

**(b) Annual incentive outcomes – 2016 financial year**

The table below sets out specific information relating to the actual annual incentive awards for the 2016 financial year. The non-cash impairments recorded in Target and Curragh impacted the annual incentive outcomes for the Group Managing Director and Finance Director. Overall their annual incentive was below target.

| | | | | | | | PERCENTAGE OF MAXIMUM STI | |
|---|---|---|---|---|---|---|---|---|
| Name | Total award $ | Cash $ | Shares $ | Number mandatory deferred shares | Number voluntary deferred shares | Allocation share price $ | Awarded % | Forfeited % |
| R J B Goyder | 1 051,800 | 1,051,800 | | - | - | - | 25.0 | 75.0 |
| T J Bowen | 1,038,000 | 1,038,000 | | | - | | 48.7 | 53.3 |
| J P Durkan | 1,883,714 | 1,260 000 | 623,714 | 14 105 | | 44.2169 | 74.8 | 25.2 |
| J C Gillam | 2,221 902 | 1,200,000 | 1 021,902 | 23,111 | | 44 2169 | 92.6 | 7 4 |
| G A Russo | 1 777,222 | 1 110,000 | 667,222 | 15 089 | - | 44 2169 | 80.1 | 19.9 |
| R G Scott | 960,000 | 720 000 | 240,000 | 5,427 | | 44 2169 | 66.7 | 33.3 |
| Former senior executives | | | | | | | | |
| S B Machin | | | - | | - | - | - | 100.0 |
| T J P O'Leary | 1 108,800 | 1 108,800 | | | | | 88.0 | 12.0 |

Annual incentive cash payments are made, and deferred restricted shares were allocated on 26 August 2016 for the current year The number of shares is determined based upon the allocation share price on 26 August 2016. The shares were purchased on market at an average price of $44 2169

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### 3.4 Long-term incentive overview

The long-term incentive is issued as performance rights granted under the WLTIP Key terms of this scheme are detailed in section 3 7

#### (a) *LTI awarded during the year*

Performance rights were allocated to executives under the 2015 WLTIP on 13 November 2015, and are subject to a four-year performance period but not subject to any additional trading restrictions. Awards are subject to two hurdles (detailed in section 3 7)

| | Rights granted[1] | Award value ($) | Value at grant[2] ($) |
|---|---|---|---|
| R J B Goyder | 87,220 | 3,505,966 | 2,341 421 |
| T J Bowen | 69 657 | 2 799,989 | 1,889,936 |
| J P Durkan | 79,608 | 3,199 988 | 2,228,238 |
| J C Gillam[3] | 65,676 | 2,639 966 | 1,838,629 |
| G A Russo[3] | 55,725 | 2,239,987 | 1,558,345 |
| R G Scott[3] | 34,299 | 1,378,710 | 959 167 |
| Former senior executive | | | |
| S B Machin | 29,853 | 1 199,995 | 834,834 |

[1] The number of performance rights allocated is determined based upon the 10-day volume weighted average price of Wesfarmers shares over the period immediately following the full-year results announced in August (i.e., 21 August to 3 September 2015) being $40.19881 Performance rights have no exercise price.

[2] For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2: Share-Based Payment. The rights subject to market conditions (TSR hurdle) have been independently valued using the Monte Carlo simulation using the Black-Scholes framework. The rights subject to non-market conditions (CAGR in ROE hurdle) have been valued using the Black-Scholes option pricing model. The value per right for executive directors for the TSR performance hurdle and ROE hurdle is $20.97 and $32.71 respectively. The value per right for other executives was $23.07 and $32.86 respectively.

[3] G A Russo, R G Scott and J C Gillam requested that an additional trading restriction (to 13 November 2020 or 13 November 2025) apply to any shares allocated.

#### (b) LTI vesting during the year

The table below shows the performance of the Group against the targets for the 2012 WLTIP award, whose four-year performance period ended on 30 June 2016. The threshold vesting levels were not achieved and therefore none of the 2012 WLTIP grant vested into shares and all the performance rights lapsed.

| Vesting condition | Outcome (2012-2016) | Percentile ranking vs ASX 50 | % of maximum award | Total % of shares vested | Number of shares vested |
|---|---|---|---|---|---|
| CAGR in ROE (75% of the award) | (33.34)% | 28.89% | 0 | 0 | 0 |
| TSR (25% of the award) | 82.93% | 45.65% | 0 | | |

### 3.5 Summary of awards held under Wesfarmers' long-term incentive arrangements

The table below sets out details of performance rights granted to senior executives under the 2015 WLTIP allocation (i.e., during the 2016 financial year) and vested under the 2012 WLTIP allocation as well as details of rights granted under prior year WLTIP awards.

| Name | Held at 1 July 2015[1] | Granted during year | Vested | Lapsed during the year[2] | Net change | Held at 30 June 2016[3] |
|---|---|---|---|---|---|---|
| R J B Goyder | 287 186 | 87,220 | - | (100 000) | (12,780) | 254,406 |
| T J Bowen | 154 406 | 69,657 | | (50,000) | 19,657 | 174 063 |
| J P Durkan | 95,149 | 79,608 | | | 79,608 | 174 757 |
| J C Gillam | 126,973 | 65,676 | - | (40,743) | 24 933 | 151 906 |
| G A Russo | 108,663 | 55 725 | | (34 922) | 20,803 | 129 466 |
| R G Scott[4] | - | 34,299 | | (30,557) | 86,774 | 86,774 |
| Former senior executives | | | | | | |
| S B Machin[5] | 75,082 | 29,853 | | (104,935) | (104 935) | |
| T J P O'Leary[6] | 87,581 | - | | (28,113) | (87,581) | - |

[1] Reflects prior year WLTIP allocations which are subject to performance conditions at that time which remain unvested (i.e., under the 2012, 2013 and 2014 WLTIP allocation of performance rights).

[2] The rights that did not vest under the 2012 WLTIP lapsed, as performance hurdles were not met.

[3] Reflects the WLTIP allocations subject to performance conditions at that time which remain unvested (i.e., the 2013, 2014 and 2015 WLTIP rights).

[4] Reflects the period since R G Scott became a member of the KMP on 1 September 2015.

[5] Reflects the period until S B Machin ceased to be a member of the KMP on 23 February 2016.

[6] Reflects the period until T J P O'Leary ceased to be a member of the KMP on 31 August 2015, prior to the 2015 WLTIP allocation.



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### 3.6 Executive remuneration (statutory presentation)

**How remuneration outcomes are presented**

Remuneration outcomes are presented based on the requirements of accounting standards (which has the benefit of being readily *comparable with other companies) rather than a take-home pay basis* (being cash and benefits and the value of equity on vesting during the financial year) Examples of this are:

- Annual incentive awards can be paid in restricted shares. These are recognised as an expense typically over two years, including the year of the award. This year's outcome includes expenses relating to this year's and last year's restricted shares as well as this year's cash award.
- Long term incentive awards are recognised over the performance period (four years) based on their assessed value when originally granted to the executive. This may be significantly different to their value, if and when the incentive vests to the executive.
- In some circumstances, amounts are recorded as remuneration when no shares or rights vest to the executive and in other cases there can be negative remuneration from LTIs in a given year due to non vesting.

**Footnotes to remuneration table on the following page**

[1] Share-based payments: Refer to section 3.3 for detailed disclosures under the annual incentive plan and sections 3.4 for the various long-term incentive plans.
The amounts included for the 'Value of annual incentive shares' includes the portion of the 2016 annual incentive that was deferred into shares and is recognised for accounting purposes over the performance and forfeiture periods, which together are referred to as the 'service period' For accounting purposes, the 2014 and 2015 annual incentive shares continue to be expensed in the 2016 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions.

The amounts included for the 'Value of long-term incentive equity' for the 2015 WLTIP are detailed in section 3.4 For accounting purposes, the 2012, 2013 and 2014 WLTIP continue to be expensed in the 2016 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions, together referred to as the service period.

[2] The percentage performance related for the 2016 financial year is the sum of the annual incentive and share-based payments divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year

The percentage of total remuneration that consists of performance rights only, being the amount expensed in the 2016 financial year for the 2012, 2013, 2014 and 2015 WLTIP is as follows – R J B Goyder (1 7%), T J Bowen 5.5%, J P Durkan 17.2%, J C Gillam 5.1%, G A Russo 4 7% and R G Scott 1 1%.

[3] Short-term benefits, non-monetary benefits, include the cost to the company of providing parking, vehicle, life insurance and travel. Short-term benefits, other includes the cost of directors and officer insurance.

[4] Long-term benefits relate to leave entitlements accrued for the year

[5] Post-employment benefits, other benefits, include the retention incentive accrual (equal to nine months FAR) from last year to this year which is payable upon termination of employment for T J Bowen, J C Gillam, G A Russo and R G Scott. A portion of the retention incentive previously earned for satisfying the applicable service condition under the legacy retention incentive plan, equal to nine months FAR (at the level of FAR when the executive departs), is payable to these executives at the time of termination of employment (except in the case of termination for serious misconduct). These amounts were earned in the 2010 financial year however the payment is not due to be made until the relevant employee ceases his employment with the Group. Although it will be paid at the time of cessation of employment, such payments do not constitute a termination benefit for the purposes of the termination payment legislation.

[6] R G Scott became a member of the KMP following his appointment as the Managing Director Industrials, effective 1 September 2015.

[7] S A Butel ceased to be a member of the KMP on 30 June 2015 as he was not considered to exercise the necessary degree of authority and responsibility for a major profit-generating division of Wesfarmers.

[8] S B Machin ceased to be a member of the KMP following the establishment of the Department Stores division effective 23 February 2016 and resigned on 8 April 2016. Following his resignation, all unvested STI and LTI awards were forfeited

[9] T J P O'Leary ceased to be a member of the KMP following the restructure of the Industrials division effective 1 September 2015.

| | SHORT-TERM BENEFITS | | | | LONG-TERM BENEFITS | POST-EMPLOYMENT BENEFITS | | SHARE-BASED PAYMENTS | | TERMINATION BENEFITS | TOTAL | PERCENTAGE PERFORMANCE RELATED |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cash salary $ | Annual incentive $ | Non-monetary benefits $ | Other $ | Leave $ | Super-annuation $ | Other benefits $ | Value of annual incentive (STI) – STI shares $ | Value of long-term incentive (LTI) – LTI equity $ | Termination payments $ | $ | % |
| **Executive directors** | | | | | | | | | | | | |
| **R J B Goyder – Group Managing Director, Wesfarmers Limited** | | | | | | | | | | | | |
| 2016 | 3,348,835 | 1,051,800 | 206,891 | 7,482 | 58,433 | 31,948 | - | 878,442 | (94,191) | - | 5,489,640 | 33.4 |
| 2015 | 3,340,858 | 2 103,600 | 200,089 | 6,987 | 58,433 | 32,077 | - | 1,538,339 | 2,682,882 | | 9,963,073 | 63.1 |
| **T J Bowen – Finance Director, Wesfarmers Limited** | | | | | | | | | | | | |
| 2016 | 1,788,052 | 1,036,000 | 18,696 | 7,482 | 30,833 | 26,948 | 75,000 | 359,298 | 195,741 | - | 3,545,950 | 44.9 |
| 2015 | 1 722,823 | 1,050,000 | 69 684 | 6,987 | 29 166 | 27 077 | | 795,614 | 1,609,175 | - | 5,310 838 | 65.1 |
| **Senior executives** | | | | | | | | | | | | |
| **J P Durkan – Managing Director, Coles** | | | | | | | | | | | | |
| 2016 | 2,055,690 | 1,260,000 | 3,053 | 7,482 | 35,000 | 19,310 | - | 408,851 | 1,600,619 | - | 5,288,005 | 59.9 |
| 2015 | 1,981,215 | 1,200,000 | 2 718 | 6,987 | 33,333 | 18,785 | | 137 122 | 1 184 159 | | 4,564,319 | 55.2 |
| **J C Gillam – Chief Executive Officer, Bunnings Group** | | | | | | | | | | | | |
| 2016 | 1,822,344 | 1,200,000 | 13,622 | 7,482 | 33,333 | 27,658 | 150,000 | 820,416 | 225,162 | - | 4,400,215 | 63.3 |
| 2015 | 1,572,823 | 990,000 | 2,718 | 6,987 | 27,500 | 27,077 | 150 000 | 723 077 | 1,299,841 | - | 4,800 123 | 62.8 |
| **G A Russo – Chief Executive Officer, Department Stores** | | | | | | | | | | | | |
| 2016 | 1,705,552 | 1,110,000 | 3,053 | 7,482 | 30,833 | 31,948 | 337,500 | 622,227 | 188,942 | - | 4,037,537 | 47.6 |
| 2015 | 1,327 923 | 840,000 | 2,718 | 6,987 | 23,333 | 32,077 | 120,000 | 435,682 | 1 039,579 | | 3,828,299 | 60.5 |
| **R G Scott – Managing Director, Industrials** | | | | | | | | | | | | |
| 2016 | 943,501 | 698,033 | 43,943 | 6,215 | 15,612 | 16,032 | 60,426 | 202,982 | 20,765 | - | 1,907,599 | 43.1 |
| **Former senior executives** | | | | | | | | | | | | |
| **S A Butel – Managing Director, Wesfarmers Resources** | | | | | | | | | | | | |
| 2015 | 950,125 | 453,179 | 50,518 | 6,987 | 17 167 | 32,077 | | 217,841 | 741,583 | | 2 469,475 | 57.2 |
| **S B Machin – Managing Director, Target** | | | | | | | | | | | | |
| 2016 | 763,414 | - | 1,985 | 4,965 | 13,005 | 17,539 | - | - | (678,404) | - | 122,403 | (554.2) |
| 2015 | 1 172,823 | 180,000 | 2 718 | 6,987 | 20,000 | 27,077 | | - | 494 937 | | 1 904 642 | 35.4 |
| **T J P O'Leary – Managing Director, Wesfarmers Chemicals, Energy & Fertilisers** | | | | | | | | | | | | |
| 2016 | 169,588 | 187,830 | 617 | 1,257 | 2,964 | 5,412 | - | 12,717 | 7,681 | - | 387,986 | 53.7 |
| 2015 | 979,934 | 630,000 | 28,207 | 6,987 | 17,500 | 32,077 | 37,500 | 204 141 | 788,769 | - | 2,723,114 | 69.5 |
| **Total** | | | | | | | | | | | | |
| 2016 | 12,606,076 | 6,443,663 | 289,880 | 49,747 | 221,013 | 176,652 | 622,926 | 3,402,943 | 1,369,336 | - | 25,179,415 | - |
| 2015 | 13,048,622 | 7,448,779 | 359,378 | 55,896 | 226,432 | 228,324 | 307,500 | 4 051,616 | 9 738,934 | - | 35 463 681 | |





**3.7 At risk component**

The key details of Wesfarmers annual incentive plan and long-term incentive plan, known as WLTIP, are summarised below

| | Annual incentive (STI) | Long-term incentive (LTI) |
|---|---|---|
| **Description** | Annual incentive plan delivered in cash (up to 60 per cent of FAR) and mandatory deferred shares (any amounts awarded above that) restricted for three years with forfeiture condition.<br>Opportunity to elect upfront for a longer restriction (up to 15 years from the grant date) and to defer a portion of the cash award into shares (in addition to the mandatory deferral arrangement). | Award of performance rights subject to a four-year performance period. |
| **Performance period** | Financial year | Four years |
| **Amount that can be earned** | Level of performance – Percentage of FAR received:<br>Below threshold or below expectations – 0%<br>Between threshold and target – Up to 60%, on a straight-line basis (up to 100% for the Group Managing Director)<br>Target or meets expectations – 60%* (100% for the Group Managing Director)<br>Above target or well above expectations – Up to 120%<br>In respect of the financial measures, depending on the division, threshold begins at 92.5 per cent or 95 per cent of target and stretch is awarded at or above 105 per cent or 110 per cent of target.<br>Safety targets are based on an improvement on last year's results.<br>* As a result of the organisational restructure and in light of divisional performance, the Group Managing Director recommended to the Board, and the Board agreed, that it exercise its discretion to pay an amount equal to 100 per cent of fixed remuneration at target (rather than 60 per cent of fixed remuneration at target) this year for the Finance Director and divisional CEOs. | Each year an assessment is made of the performance of each executive.<br>Based upon the recommendation by the Group Managing Director and assessment by the Board, a member of the KMP may receive an LTI award equal in value to a minimum of 80 per cent of FAR up to a maximum of 160 per cent of FAR for outstanding performance in the preceding year.<br>In the case of the Group Managing Director the Board may determine his LTI award in the range from a minimum of 100 per cent of FAR up to a maximum of 200 per cent of FAR depending upon his performance rating in the preceding year.<br>The number of performance rights allocated is determined based upon the 10-day volume weighted average price of Wesfarmers shares over the period immediately following the full-year results announced in August. |
| **Conditions and vesting** | Financial and non-financial performance conditions (see section 3.3).<br>Incentive awards are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the Group Managing Director (and in the case of the Group Managing Director by the Board) at the end of the financial year<br>Financial measures (i.e., NPAT EBIT ROC and other specific divisional objectives) and safety measures (i.e., total recordable injury frequency rate) are calculated based on the achievement of actual results against the targets set for these measures at the start of the financial year<br>The performance and development review process is used to capture and assess key objectives and outcomes in relation to non-financial measures (i.e., diversity, talent management and key objectives for the role).<br>The Board confirms final awards based on overall personal and Group performance. In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions.<br>Annual incentive cash payments are made and deferred restricted shares are allocated in late August. | For the 2015 WLTIP allocation (granted during the 2016 financial year) there are two performance hurdles: Wesfarmers' CAGR in ROE (with a 50 per cent weighting) and Wesfarmers' TSR (with a 50 per cent weighting), relative to the CAGR in ROE and TSR of the ASX 50 index.<br>The following vesting schedule applies to both performance hurdles:<br>Percentile ranking – Percentage of awards vesting:<br>Below the 50th percentile – 0% vesting<br>Equal to the 50th percentile – 50% vesting<br>Between the 50th and 75th percentile – An additional 2% of awards vest for each percentile increase<br>Equal to the 75th percentile or above – 100% vesting<br>Following testing, any rights that do not vest, lapse. |
| **Restrictions upon shares allocated** | Restricted shares are subject to a three-year trading restriction while the executive remains an employee of Wesfarmers and the executive can elect for an additional restriction of up to 15 years from the grant date. The Board may determine that mandatory restricted shares are forfeited if an executive resigns or is terminated for cause within one year of the share allocation. | Shares allocated on vesting of the rights after the four-year performance period are not subject to any additional trading restrictions. An executive can, however, elect upfront for an additional trading restriction of up to 15 years of the grant date to apply.<br>If an executive ceases employment with Wesfarmers before the end of the performance period, their entitlement to the rights (if any) will depend on the circumstances of cessation. All rights will lapse in the event of resignation or termination for cause.<br>If an executive ceases employment during the performance period by reason of redundancy, ill health, death, or other circumstances approved by the Board, the executive will generally be entitled to a pro-rata number of rights based on achievement of the ROE and TSR hurdles over the performance period up to ceasing employment and to the extent the performance hurdles have been satisfied at the time of cessation. |
| **Change of control** | Board discretion to release restricted shares. | Board discretion to determine treatment of awards. |
| **Clawback** | The terms of the STI and LTI plans contain a mechanism for the Board to clawback or adjust any incentive awards which vest (or may vest) as a result of a material misstatement in, or omission from, the financial statements or otherwise as a result of fraud, dishonesty or breach of obligations. The Board has discretion to adjust any conditions applicable to an award, if considered appropriate. The Board may, up to the value of the overpaid remuneration, reduce or defer or otherwise require the repayment of any amount paid or payable to the executive to ensure no unfair benefit is derived. | |

## REMUNERATION REPORT 2016 (AUDITED)

### Non-executive director remuneration

### 4. Framework and outcomes

#### 4.1 Overview of non-executive directors remuneration policy and arrangements

*Policy objectives*

- To be market competitive: aim to set fees at a level competitive with non-executive directors in comparator companies; and
- To safeguard independence: to not include any performance-related element, to preserve the independence of non-executive directors.

*Aggregate fees approved by shareholders*

The current maximum aggregate fee pool for non-executive directors of $3,600,000 was approved by shareholders at the 2015 Annual General Meeting. Fees paid to Wesfarmers' non-executive directors for membership of Wesfarmers' divisional boards, in addition to Wesfarmers' Board and Committee fees and superannuation contributions made on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations, are included in this aggregate fee pool.

*Regular reviews of remuneration*

The Board periodically reviews the level of fees paid to non-executive directors, including seeking external advice. A review was undertaken during the 2016 financial year with the assistance of 3 degrees consulting.

Main Board non-executive directors fees were increased by 3.8 per cent and the Chairman fee increased by 1.6 per cent effective 1 January 2016, in order to remain competitive in the market having regard to the size, complexity and market position of the Group. No change was made to the Audit and Risk Committee fees or Remuneration Committee fees, as the current level of fees were considered appropriate.

#### 4.2 Non-executive director fees and other benefits

The fees shown in the table below (inclusive of superannuation) took effect from 1 January of the relevant financial year. Members of the Nomination Committee and Gresham Mandate Review Committee do not receive any additional fees.

| Fees/benefits | Description | 2016 $ | Included in shareholder approved cap |
|---|---|---|---|
| Board fees | Main Board | | |
| | Chairman – R L Every until retirement (on 12 November 2015)<br>M A Chaney (appointed to the role on R L Every's retirement) | 750 000 | Yes |
| | Members – all non-executive directors | 220,000 | |
| Committee fees | Audit and Risk Committee | | |
| | Chairman – A J Howarth | 80,000 | Yes |
| | Members – R L Every* until retirement (on 12 November 2015), D L Smith-Gander, J A Westacott | 40,000 | |
| | Remuneration Committee | | |
| | Chairman – W G Osborn | 52,000 | Yes |
| | Members – R L Every* (until retirement on 12 November 2015), M A Chaney* J P Graham, V M Wallace and P M Bassat | 26,000 | |
| Superannuation | Made to the Wesfarmers Group Superannuation Plan or another regulated superannuation fund. An amount is deducted from gross fees to meet statutory superannuation obligations. | | Yes |
| Other Group fees | Non-executive directors are paid additional fees for participation on Wesfarmers' divisional boards, where applicable. | | Yes |
| Other benefits | Non-executive directors are entitled to reimbursement for business-related expenses, including travel expenses and also receive the benefit of coverage under a directors and officer insurance policy. | | No |

* As from 1 January 2014 the Chairman of the Board no longer receives a separate fee for sitting on any of the Board's committees.



## REMUNERATION REPORT 2016 (AUDITED)

#### 4.3 Non-executive director remuneration

*The fees paid or payable to the non-executive directors in relation to the 2016 financial year are set out below*

| Non-executive directors | | SHORT-TERM BENEFITS: Fees – Wesfarmers Limited $ | SHORT-TERM BENEFITS: Fees – Wesfarmers Group $ | SHORT-TERM BENEFITS: Other benefits[1] $ | POST-EMPLOYMENT BENEFITS: Superannuation[2] $ | Total $ |
|---|---|---|---|---|---|---|
| P M Bassat | 2016 | 222,690 | - | 7,482 | 19,310 | 249,482 |
| | 2015 | 220,590 | | 6,987 | 18,785 | 246,362 |
| M A Chaney[3] | 2016 | 542,150 | - | 7,482 | 19,310 | 568,942 |
| | 2015 | 18,268 | | 574 | 1,565 | 20 407 |
| J P Graham[4] | 2016 | 242,000 | - | 7,482 | - | 249,482 |
| | 2015 | 233,500 | - | 6,987 | - | 240 487 |
| A J Howarth[5] | 2016 | 276,690 | 99,700 | 7,482 | 19,310 | 403,182 |
| | 2015 | 269,215 | 97,500 | 6,987 | 18,785 | 392,487 |
| W G Osborn | 2016 | 248,690 | - | 7,482 | 19,310 | 275,482 |
| | 2015 | 240,215 | | 6,987 | 18,785 | 265,987 |
| D L Smith-Gander | 2016 | 236,690 | - | 7,482 | 19,310 | 263,482 |
| | 2015 | 229 215 | - | 6,987 | 18,785 | 254,987 |
| V M Wallace | 2016 | 222,690 | - | 7,482 | 19,310 | 249,482 |
| | 2015 | 214 715 | - | 6,987 | 18,785 | 240,487 |
| J A Westacott | 2016 | 236,690 | - | 7,482 | 19,310 | 263,482 |
| | 2015 | 229,215 | | 6,987 | 18,785 | 254,987 |
| Former non-executive directors | | | | | | |
| R L Every[6] (retired 12/11/15) | 2016 | 264,311 | - | 87,301 | 8,046 | 359,658 |
| | 2015 | 705,215 | | 6,987 | 18,785 | 730,987 |
| C B Carter[6] (retired 20/11/14) | 2015 | 81 914 | | 20 141 | 7 778 | 109 833 |
| C Macek[6] (retired 20/11/14) | 2015 | 95 656 | | 16,561 | 9 703 | 121,939 |
| Total remuneration | 2016 | 2,492,601 | 99,700 | 147,157 | 143,216 | 2,882,674 |
| | 2015 | 2,537 717 | 97,500 | 93,192 | 150,541 | 2,878,950 |

[1] The benefit included in this column is an apportionment of the premium paid on a policy for directors and officer insurance. In 2015, this benefit also includes the cost to the company (inclusive of fringe benefits tax) of a retirement gift for C B Carter and C Macek. In 2016, this benefit also includes the cost to the company (inclusive of fringe benefits tax) of a retirement gift for R L Every.

[2] Superannuation contributions are made on behalf of non-executive directors in accordance with Wesfarmers statutory superannuation obligations. Also included is any part of a non-executive director's fees that have been sacrificed into superannuation.

[3] M A Chaney was appointed as a non-executive director on 1 June 2015 and appointed as Chairman on 12 November 2015.

[4] J P Graham's fees are paid to Gresham Partners Group Limited for participation on the Board of Wesfarmers Limited.

[5] A J Howarth receives fees for participation on the board of BWP Management Limited.

[6] R L Every retired as Chairman at the conclusion of the 2015 Annual General Meeting on 12 November 2015. C B Carter and C Macek retired at the conclusion of the 2014 Annual General Meeting on 20 November 2014

# REMUNERATION REPORT 2016 (AUDITED)

## Other remuneration information

### 5. Remuneration governance

**5.1 Responsibility for setting remuneration**

Responsibility for setting remuneration policy and determining non-executive director, executive director and senior executive remuneration rests with the Board.

The Remuneration Committee is delegated responsibility to review and make recommendations to the Board. Management and remuneration consultants provide information to assist the Board and Remuneration Committee, but do not substitute for the Board and committee processes.

Detail of the composition of the Remuneration Committee is set out on page 80 of this annual report. Further information regarding the objectives and role of the Remuneration Committee is contained in its charter, which is available on the Corporate Governance section of the company's website at www.wesfarmers.com.au

**5.2 Use of remuneration advisers during the year**

*3 degrees consulting* was engaged by the Remuneration Committee to provide independent advice to the Remuneration Committee on a range of matters, including KMP remuneration. In the 2016 financial year, *3 degrees consulting* provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* in relation to the senior executive remuneration framework for the KMP, which has resulted in the introduction of the KEEPP for the 2017 financial year, the level of participation of the KMP in that new program and levels of our non-executive director fees. *3 degrees consulting* was paid $114,750 excluding GST and disbursements for these services.

The Board is satisfied that the recommendations were made free from any undue influence by the member or members of KMP to whom the recommendations relate. In addition to adhering to Board approved protocols, *3 degrees consulting* provided a formal declaration in this regard.

In addition to providing remuneration recommendations, *3 degrees consulting* acted as the independent remuneration adviser to the Remuneration Committee. *3 degrees consulting* provided a broad range of services to Wesfarmers and the Wesfarmers Group during the year, including human resources strategy and forward planning, undertaking a comprehensive review of the senior executive remuneration framework which commenced in 2015 and continued throughout 2016, providing advice on other aspects of the remuneration of the Group's senior executives and related governance and legal advice. Services also included advice regarding senior executive employment terms (including advice on the terms of employment of executives and other changes in light of the organisational restructure and the Group's investment through the Home Improvement division in, and the transfer of key executives to, the United Kingdom), advice relating to executives who ceased employment during the year, internal and external stakeholder communications (including assistance in relation to the Remuneration Report) and the provision of market data regarding peer remuneration practices. *3 degrees consulting* was paid a total of $735,525 excluding GST and disbursements for these services to the Wesfarmers Group for the 2016 financial year.

**5.3 Senior executive and director share ownership**

The Board considers it an important foundation of the Wesfarmers executive remuneration framework that the senior executive team and directors hold a significant number of Wesfarmers shares to encourage executives to behave like long term 'owners'

- All senior executive KMP hold approximately one year's FAR in Wesfarmers shares, with the majority holding significantly more.
- Directors are required to hold a minimum of 1,000 Wesfarmers shares within two months of appointment.
- Directors are also expected to increase their holdings in Wesfarmers shares to the equivalent of their annual main board fee within a five-year period of appointment.

Non-executive directors have the facility to acquire shares out of their fees under the Wesfarmers Employee Share Acquisition Plan (WESAP). Participation in the plan is voluntary and enables non-executive directors to use their after tax fees to acquire Wesfarmers shares. Shares are purchased on market on a monthly basis (except during blackout periods) by the plan trustee and are subject to a 12-month trading restriction, during which time the shares are held by the plan trustee.

For the 2016 financial year, V M Wallace and J A Westacott elected to utilise the WESAP. A total of 1,135 shares were purchased on behalf of Ms Wallace (with a total value of $43,613.72) and 284 shares were purchased on behalf of Ms Westacott (with a total value of $10,912.78) at share prices ranging between $37.40 and $39.51. Shares were purchased on-market at an average price per share of $38.43.

The Board determined that the non-executive director share plan be suspended effective 1 December 2015 and that no further acquisitions or offers to participate be made until further notice. All shares acquired and held under the plan to date continue to be subject to the terms and conditions of the plan.





The following table sets out the number of shares held directly, indirectly or beneficially by directors and senior executives (including their related parties)

**Director and executive shareholdings**

| Name | Balance at beginning of year | Granted as remuneration | Net change | Balance at year end[1] | Number of shares not vested at year end[2] | Number of rights not vested at year end[3] |
|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | |
| P M Bassat | 19 411 | | | 19 411 | | - |
| M A Chaney | 87,347 | | - | 87,347 | | |
| R L Every[4] | 27,541 | | | 27 541 | - | |
| J P Graham | 809,526 | - | (13,010) | 796,516 | - | - |
| A J Howarth | 16,494 | | 690 | 17 184 | | - |
| W G Osborn | 9 988 | | | 9,988 | - | |
| D L Smith-Gander | 12,045 | | | 12,045 | | - |
| V M Wallace | 12,348 | - | 1 135 | 13,483 | | - |
| J A Westacott | 1 673 | | 284 | 1 957 | - | |
| **Executive directors, senior executives and former senior executives** | | | | | | |
| R J B Goyder | 975,113 | 40 156 | (219 643) | 795 626 | 40,156 | 254,406 |
| T J Bowen | 460,761 | 14,585 | (143,086) | 332,260 | 14,585 | 174,063 |
| J P Durkan | 45,803 | 6,045 | - | 51 848 | 60,773 | 174,757 |
| J C Gillam | 491 257 | 20,890 | (16,074) | 496,073 | 20,890 | 151 906 |
| G A Russo | 324,490 | 15,508 | (11 422) | 328,576 | 15,508 | 129,466 |
| R G Scott[5] | | - | 240,575 | 240,576 | 5,927 | 88,774 |
| S B Machin[6] | 24,688 | | | 24,888 | | - |
| T J P O'Leary[7] | 418,023 | 2,833 | | 420,856 | 2,833 | 85,589 |
| **Total** | **3,736,706** | **100,017** | **(160,551)** | **3,676,172** | **160,672** | **1,058,961** |

[1] Where a director or senior executive has ceased to be a director or senior executive throughout the year, the balance at year end reflects the number of shares as at the date they ceased to be a director or senior executive.
[2] The number of shares not vested reflects the 2015 annual incentive mandatory deferral into shares (which may be subject to forfeiture if the executive resigns prior to 27 August 2016).
[3] The number of performance rights not vested reflects the 2013, 2014 and 2015 WLTIP allocations, which remain subject to performance conditions.
[4] R L Every retired on 12 November 2015.
[5] The information for R G Scott reflects his time as a member of the KMP from 1 September 2015.
[6] The information for S B Machin reflects his time as a member of the KMP up until 23 February 2016.
[7] The information for T J P O'Leary reflects his time as a member of the KMP up until 31 August 2015.

**5.4 Share trading restrictions**

Wesfarmers' securities trading policy reflects the Corporations Act prohibition on key management personnel and their closely related parties entering into any arrangement that would have the effect of limiting the key management personnel's exposure to risk relating to an element of their remuneration that remains subject to restrictions on disposal.

Wesfarmers directors, the Wesfarmers Leadership Team, and certain members of their immediate family and controlled entities are also required to obtain clearance from the Wesfarmers Company Secretary for the sale, purchase or transfer of Wesfarmers securities and for short selling, short-term trading, security interests, margin loans and hedging relating to Wesfarmers securities. The Wesfarmers Company Secretary refers all requests for clearance to at least two members of the Disclosure Committee. Clearance from the Chairman is also required for requests from Wesfarmers directors. Clearance cannot be requested for dealings that are subject to the Corporations Act prohibition referred to above.

The policy is available on the Corporate Governance section of the company's website at www.wesfarmers.com.au. Breaches of the policy are subject to disciplinary action, which may include termination of employment.

## REMUNERATION REPORT 2016 (AUDITED)

### 6 Further information on remuneration

#### 6.1 Service agreements

The remuneration and other terms of employment for the executive directors and senior executives are covered in formal employment contracts. All service agreements are for unlimited duration and may be terminated immediately for serious misconduct. All executives are entitled to receive pay in lieu of any accrued but untaken annual and long service leave on cessation of employment

In the 2016 financial year Wesfarmers amended certain key contractual arrangements for a number of Wesfarmers most senior executives.

Mr Goyder Mr Gillam and Mr Russo must give a minimum of 12 months notice should they wish to resign In addition the restraint and non-solicitation clauses *have been strengthened to further protect* the business interests of the Wesfarmers Group In return Wesfarmers has agreed to give 12 months' notice should it wish to terminate employment (other than for cause)

Mr Bowen Mr Durkan and Mr Scott must give a minimum of six months' notice should they wish to resign.

Other executives will progressively move to similar notice, restraint and non solicitation contractual arrangements

#### 6.2 Other transactions and balances with key management personnel

Mr Graham a director of Wesfarmers, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers. Partly owned subsidiaries of Gresham Partners Group Limited have provided office accommo*dation and financial advisory services* to Wesfarmers and were paid fees of $1,698,838 in 2016 (2015 $2,254 746)

From time to time, directors of the company or its controlled entities, or their director related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature

There were no loans made during the year or remaining unsettled at 30 June 2016, between Wesfarmers and its key management personnel and their related parties.

#### 6.3 Independent audit of remuneration report

The remuneration report has been audited by Ernst & Young. Please see page 133 of this annual report for Ernst & Young's report on the remuneration report.

The directors' report, including the remuneration report is signed in accordance with a resolution of the directors of Wesfarmers Limited

M A Chaney AO
Chairman

R J B Goyder AO
*Managing Director*

Sydney
21 September 2016



## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016 – WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## Contents

## INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

| | Note | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|---|
| **Revenue** | 1 | 65,981 | 62,447 |
| **Expenses** | | | |
| Raw materials and inventory | | (45,525) | (43,045) |
| Employee benefits expense | 2 | (8,647) | (8,198) |
| Freight and other related expenses | | (1,078) | (1,019) |
| Occupancy-related expenses | 2 | (2,959) | (2,637) |
| Depreciation and amortisation | 2 | (1,296) | (1,219) |
| Impairment expenses | 2 | (2,172) | (41) |
| Other expenses | 2 | (3,107) | (2,941) |
| **Total expenses** | | (64,784) | (59,100) |
| Other income | 1 | 235 | 330 |
| Share of net profits of associates and joint ventures | 16 | 114 | 82 |
| | | 349 | 412 |
| **Earnings before interest and income tax expense (EBIT)** | | 1,546 | 3,759 |
| Finance costs | 2 | (508) | (315) |
| **Profit before income tax** | | 1,038 | 3,444 |
| Income tax expense | 3 | (631) | (1,004) |
| **Profit attributable to members of the parent** | | 407 | 2,440 |
| **Earnings per share attributable to ordinary equity holders of the parent** | | | |
| Basic earnings per share | 13 | 36.2 | 216.1 |
| Diluted earnings per share | 13 | 36.2 | 215.7 |



## STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

| | Note | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|---|
| **Profit attributable to members of the parent** | | 407 | 2,440 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| **Foreign currency translation reserve** | 12 | | |
| Exchange differences on translation of foreign operations | | 15 | (11) |
| **Cash flow hedge reserve** | 12 | | |
| Offset to revaluation of foreign currency denominated debt | | - | (177) |
| Unrealised (losses)/gains on cash flow hedges | | (34) | 128 |
| Realised losses transferred to net profit | | 147 | 40 |
| Realised gains transferred to non-financial assets | | (257) | (246) |
| Share of associates and joint venture reserves | | 6 | (13) |
| Tax effect | 3,12 | 46 | 86 |
| *Items that will not be reclassified to profit or loss:* | | | |
| **Retained earnings** | 12 | | |
| Remeasurement (loss)/gain on defined benefit plan | | (5) | 2 |
| Tax effect | 3 | 2 | (1) |
| Other comprehensive loss for the year, net of tax | | (78) | (192) |
| **Total comprehensive income for the year, net of tax, attributable to members of the parent** | | 329 | 2,248 |

## BALANCE SHEET
AS AT 30 JUNE 2016

| | Note | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash and cash equivalents | 4 | 611 | 711 |
| Receivables Trade and other | 5 | 1,628 | 1 463 |
| Receivables Finance advances and loans | 5 | 835 | 808 |
| Inventories | 6 | 6,260 | 5,497 |
| Derivatives | 16 | 54 | 428 |
| Other | | 296 | 188 |
| Total current assets | | 9,684 | 9,093 |
| *Non-current assets* | | | |
| Investments in associates and joint ventures | 18 | 606 | 562 |
| Deferred tax assets | 3 | 1,042 | 558 |
| Property | 7 | 2,396 | 2,475 |
| Plant and equipment | 7 | 7,216 | 7 730 |
| Goodwill | 8 | 14,446 | 14,706 |
| Intangible assets | 8 | 4,625 | 4 601 |
| Derivatives | 16 | 565 | 494 |
| Other | | 202 | 181 |
| Total non-current assets | | 31,099 | 31,309 |
| **Total assets** | | 40,783 | 40,402 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Trade and other payables | | 6,491 | 5,761 |
| Interest-bearing loans and borrowings | 14 | 1,632 | 1 913 |
| Income tax payable | | 29 | 64 |
| Provisions | 9 | 1,861 | 1,605 |
| Derivatives | 16 | 160 | 142 |
| Other | | 251 | 241 |
| Total current liabilities | | 10,424 | 9 726 |
| *Non-current liabilities* | | | |
| Interest-bearing loans and borrowings | 14 | 5,671 | 4,615 |
| Provisions | 9 | 1,554 | 1,061 |
| Derivatives | 16 | 81 | 84 |
| Other | | 104 | 115 |
| Total non-current liabilities | | 7,410 | 5,895 |
| **Total liabilities** | | 17,834 | 15,621 |
| **Net assets** | | 22,949 | 24 781 |
| **Equity** | | | |
| *Equity attributable to equity holders of the parent* | | | |
| Issued capital | 12 | 21,937 | 21,844 |
| Reserved shares | 12 | (28) | (31) |
| Retained earnings | 12 | 874 | 2,742 |
| Reserves | 12 | 166 | 226 |
| **Total equity** | | 22,949 | 24 781 |



## CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

| | Note | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 71,167 | 67,484 |
| Payments to suppliers and employees | | (66,671) | (62,369) |
| Net movement in finance advances and loans | | (29) | (8) |
| Dividends and distributions received from associates | | 74 | 42 |
| Interest received | | 131 | 27 |
| Borrowing costs | | (268) | (283) |
| Income tax paid | | (1,009) | (1 102) |
| **Net cash flows from operating activities** | 4 | 3,365 | 3 791 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment and intangibles | 4 | (1,899) | (2,239) |
| Proceeds from sale of property, plant and equipment and intangibles | 4 | 563 | 687 |
| Net proceeds from sale of controlled entities and associates | | 1 | 124 |
| Net investments in associates and joint arrangements | | (2) | (44) |
| *Acquisition of subsidiaries net of cash acquired* | | (748) | (339) |
| Net investment in loan notes | | (47) | (87) |
| **Net cash flows used in investing activities** | | (2,132) | (1,898) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 2,360 | 930 |
| Repayment of borrowings | | (1,424) | (722) |
| Proceeds from exercise of in-substance options under the employee share plan | 12 | 1 | 4 |
| Equity dividends paid | | (2,270) | (2,597) |
| Capital return paid | | - | (864) |
| **Net cash flows used in financing activities** | | (1,333) | (3,249) |
| *Net decrease in cash and cash equivalents* | | (100) | (1,356) |
| *Cash and cash equivalents at beginning of year* | | 711 | 2,067 |
| **Cash and cash equivalents at end of year** | 4 | 611 | 711 |

# STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

| | | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | | | |
|---|---|---|---|---|---|---|---|
| CONSOLIDATED | Note | Issued capital $m | Reserved shares $m | Retained earnings $m | Hedging reserve $m | Other reserves $m | Total equity $m |
| **Balance at 1 July 2014** | | 22,708 | (30) | 2,901 | 167 | 241 | 25,987 |
| Net profit for the year | | | - | 2,440 | | - | 2,440 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of foreign operations | 12 | - | - | | | (11) | (11) |
| Changes in the fair value of cash flow hedges, net of tax | 12 | - | | - | (182) | | (182) |
| Remeasurement gain on defined benefit plan, net of tax | 12 | | | 1 | | | 1 |
| Total other comprehensive income for the year net of tax | | | | 1 | (182) | (11) | (192) |
| **Total comprehensive income for the year, net of tax** | | | | 2 441 | (182) | (11) | 2,248 |
| Share-based payment transactions | 12 | | | | - | 11 | 11 |
| Capital return and share consolidation | 11 12 | (864) | | | | - | (864) |
| Own shares acquired | 12 | - | (8) | | | - | (8) |
| Proceeds from exercise of in-substance options | 12 | | 4 | | | - | 4 |
| Equity dividends | 12,11 | | 3 | (2,600) | | | (2,597) |
| | | (864) | (1) | (2,600) | - | 11 | (3,454) |
| **Balance at 30 June 2015 and 1 July 2015** | | 21,844 | (31) | 2,742 | (15) | 241 | 24,781 |
| Net profit for the year | | - | - | 407 | - | - | 407 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of foreign operations | 12 | - | - | - | - | 15 | 15 |
| Changes in the fair value of cash flow hedges, net of tax | 12 | | - | - | (90) | | (90) |
| Remeasurement loss on defined benefit plan, net of tax | 12 | - | - | (3) | - | | (3) |
| Total other comprehensive income for the year net of tax | | - | - | (3) | (90) | 15 | (78) |
| **Total comprehensive income for the year, net of tax** | | - | | 404 | (90) | 15 | 329 |
| Share-based payment transactions | 12 | - | | - | - | 15 | 15 |
| Issue of shares | 12 | 93 | - | - | - | - | 93 |
| Proceeds from exercise of in-substance options | 12 | - | 1 | - | | - | 1 |
| Equity dividends | 12,11 | - | 2 | (2,272) | - | - | (2,270) |
| | | 93 | 3 | (2,272) | - | 15 | (2,161) |
| **Balance at 30 June 2016** | | 21,937 | (28) | 674 | (105) | 271 | 22,949 |



# NOTES TO THE FINANCIAL STATEMENTS: ABOUT THIS REPORT
FOR THE YEAR ENDED 30 JUNE 2016

## About this report

Wesfarmers Limited (referred to as 'Wesfarmers') is a for profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of Wesfarmers and its subsidiaries (referred to as 'the Group') are described in the segment information

The consolidated general purpose financial report of the Group for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 21 September 2016 The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which.

- has been prepared in accordance with the requirements of the *Corporations Act 2001* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for investments held by associates and certain financial instruments which have been measured at fair value The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships which are otherwise carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged,
- is presented in Australian dollars with all values rounded to the nearest million dollars ($'000 000) unless otherwise stated in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191
- presents reclassified comparative information where required for consistency with the current year's presentation,
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2015. Refer to note 27 for further details and
- equity accounts for associates listed at note 18

## Key judgements and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes

| Page | | |
|---|---|---|
| 96 | Note 1 | Income |
| 98 | Note 3 | Tax expense |
| 100 | Note 6 | Inventories |
| 101 | Note 7 | Property, plant and equipment |
| 102 | Note 8 | Goodwill and intangible assets |
| 103 | Note 9 | Provisions |
| 118 | Note 17 | Impairment of non-financial assets |
| 120 | Note 18 | Associates and joint arrangements |
| 125 | Note 21 | Commitments and contingencies |

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group A list of controlled entities (subsidiaries) at year end is contained in note 19

The financial statements of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist

In preparing the consolidated financial statements all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-Group transactions have been eliminated Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed The acquisition of subsidiaries is accounted for using the acquisition method of accounting

## Foreign currency

The functional currencies of overseas subsidiaries are listed in note 19 As at the reporting date the assets and liabilities of overseas subsidiaries are translated into Australian dollars at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the year The exchange differences arising on the retranslation are taken directly to a separate component of equity

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date Exchange differences arising from the application of these procedures are taken to the income statement, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity, which are taken directly to equity until the disposal of the net investment and are then recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity

## Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS ABOUT THIS REPORT
## FOR THE YEAR ENDED 30 JUNE 2016

### The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, acquisitions and impairment writedowns; or
- it relates to an aspect of the Group's operations that is important to its future performance.

*The notes are organised into the following sections:*

- *Key numbers*: provides a breakdown of individual line items in the financial statements that the directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;
- *Capital*: provides information about the capital management practices of the Group and shareholder returns for the year;
- *Risk*: discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks;
- *Group structure*: explains aspects of the group structure and how changes have affected the financial position and performance of the Group;
- *Unrecognised items*: provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance; and
- *Other*: provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements. However, these are not considered critical in understanding the financial performance or position of the Group.

### Significant items in the current reporting period

#### Funding activities

**Borrowings - Proceeds**

During February 2016, Wesfarmers established three-year bank facilities totalling £515 million and £115 million of one-year facilities (totalling £630 million or A$1 135 million) to fund the acquisition and provide working capital to Homebase Limited.

In June 2016, Wesfarmers established A$500 million of new three-year bank facilities. Other bank facilities held with Wesfarmers' relationship banks that matured during the financial year were renewed and extended for periods ranging from one year to three years, in line with original facility tenors.

**Borrowings - Repayments**

In July 2015, EURO medium term notes totalling €500 million (A$756 million) matured. In May 2016, US144A bonds totalling US$650 million (A$604 million) matured. These were repaid using existing facilities and cash balances.

For further details refer to note 14 for the Group's debt profile.

#### Acquisition

*Home Improvement*: on 27 February 2016, Wesfarmers' acquisition of the Homebase business for £340 million (A$665 million) was completed. Homebase is the second largest home improvement and garden retailer in the United Kingdom (UK) and Republic of Ireland. The Homebase acquisition delivers an established and scalable platform with stores that are the right size for the UK market and a low-cost operating model. Homebase will be reinvigorated to build a new Bunnings-branded business over three to five years. Refer to note 20 for further details on the acquisition.

#### Impairments

*Target*: impairments to the carrying value of Target of $1 266 million ($1,249 million after tax) were recorded during FY2016. The decrease in Target's recoverable amount largely reflects its current trading performance, short term outlook and changes in its strategic plan. The impairments were recorded as writedowns of Target's share of goodwill arising on the acquisition of the Coles Group, as well as selected individual assets based in stores.

*Curragh*: an impairment to the carrying value of Curragh of $850 million ($595 million after-tax) was recorded during FY2016. The decrease in the recoverable amount reflects the difficult industry environment where the global coal supply has proven to be more resilient than generally expected. This mainly reflects a slower forecast recovery in long-term export coal prices and higher volatility (including in exchange rates). The impairment was recorded as a writedown of the depreciable and amortisable assets of Curragh.

For further details on impairment refer to note 17.



# NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION
## FOR THE YEAR ENDED 30 JUNE 2016

The Group's operating segments are organised and managed separately according to the nature of the products and services provided.

Each segment represents a strategic business unit that offers different products and operates in different industries and markets. The Board and executive management team (the chief operating decision-makers) monitor the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

The types of products and services from which each reportable segment derives its revenues are disclosed below. Segment performance is evaluated based on operating profit or loss (segment result), which in certain respects is presented differently from operating profit or loss in the consolidated financial statements.

Interest income and expenditure are not allocated to operating segments, as this type of activity is managed on a group basis.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. Those transfers are eliminated on consolidation and are not considered material.

The operating segments and their respective types of products and services are as follows.

### Retail

**Coles**

- Supermarket and liquor retailer, including a hotel portfolio;
- Retailer of fuel and operator of convenience stores;
- Financial services provider including insurance and credit cards; and
- Coles property business operator.

**Home Improvement**

- Retailer of building material and home and garden improvement products; and
- Servicing project builders and the housing industry.

**Officeworks**

- Retailer and supplier of office products and solutions for home, small-to-medium size businesses and education.

The Group reported Home Improvement and Officeworks under one segment in 2015. The two segments are now operated and reported more distinctively. The information in this note reflects *Home Improvement and Officeworks as separate segments in* current and comparative periods.

**Department Stores**

**Kmart**

- Retailer of apparel and general merchandise, including toys, leisure, entertainment, home and consumables; and
- Provision of automotive service, repairs and tyre service.

**Target**

- Retailer of apparel, homewares and general merchandise, including accessories, electricals and toys.

### Industrials

**Resources**

- Coal mining and development; and
- Coal marketing to both domestic and export markets.

**Industrial and Safety (WIS)**

- Supplier and distributor of maintenance, repair and operating products;
- Manufacturer and marketing of industrial gases and equipment;
- Supplier, manufacturer and distributor of workwear clothing in Australia and internationally;
- Specialised supplier and distributor of industrial safety products and services; and
- Provider of risk management and compliance services.

**Chemicals, Energy and Fertilisers (WesCEF)**

- Manufacturer and marketing of chemicals for industry, mining and mineral processing;
- Manufacturer and marketing of broadacre and horticultural fertilisers;
- National marketing and distributor of LPG and LNG; and
- LPG and LNG extraction for domestic and export markets.

### Other

Includes:

- *Forest products*: non-controlling interest in Wespine Pty Ltd;
- *Property*: non-controlling interest in BWP Trust;
- *Investment banking*: non-controlling interest in Gresham Partners Group Limited;
- *Private equity investment*: non-controlling interests in Gresham Private Equity Fund No. 2; and
- *Corporate*: includes treasury, head office, central support functions and other corporate entity expenses. Corporate is not considered an operating segment and includes activities that are not allocated to other operating segments.

**Seasonality**

Revenue and earnings of various businesses are affected by seasonality and cyclicality as follows:

- For retail divisions, earnings are typically greater in the December half of the financial year due to the impact of the Christmas holiday shopping period;
- For Resources, the majority of the entity's coal contracted tonnages are renewed on an annual basis from April each calendar year and are subject to price renegotiation on a quarterly basis; and
- For Chemicals, Energy and Fertilisers, earnings are typically greater in the second half of the financial year due to the impact of the Western Australian winter season break on fertiliser sales.

## NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016

**Segment information (continued)**

| | COLES 2016 $m | COLES 2015 $m | HOME IMPROVEMENT[1] 2016 $m | HOME IMPROVEMENT[1] 2015 $m | DEPARTMENT STORES: KMART 2016 $m | KMART 2015 $m | TARGET[2] 2016 $m | TARGET[2] 2015 $m |
|---|---|---|---|---|---|---|---|---|
| Segment revenue | 39,242 | 38,201 | 11 571 | 9,534 | 5 190 | 4,553 | 3 458 | 3 438 |
| Adjusted EBITDA[4] | 2,475 | 2,347 | 1,383 | 1,228 | 571 | 521 | (105) | 178 |
| Depreciation and amortisation | (615) | (564) | (169) | (140) | (101) | (89) | (90) | (88) |
| Segment result | 1,860 | 1 783 | 1,214 | 1 088 | 470 | 432 | (195) | 90 |
| Items not included in segment result[5] | - | | - | - | - | | (1,266) | |
| EBIT | | | | | | | | |
| Finance costs | | | | | | | | |
| Profit before income tax expense | | | | | | | | |
| Income tax expense | | | | | | | | |
| **Profit attributable to members of the parent** | | | | | | | | |
| **Other segment information** | | | | | | | | |
| Segment assets | 22 122 | 21,533 | 6,620 | 4,610 | 2,324 | 2,182 | 1 848 | 3,021 |
| Investments in associates and joint ventures | 17 | 17 | 17 | 17 | - | - | - | |
| Tax assets | | | | | | | | |
| Total assets | | | | | | | | |
| Segment liabilities | (4,273) | (3,913) | (2,186) | (1,115) | (857) | (849) | (479) | (515) |
| Tax liabilities | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | |
| Total liabilities | | | | | | | | |
| Other net assets[6] | (1,426) | (1 436) | (4 237) | (3,394) | 168 | 464 | (488) | (447) |
| Net assets | 16,440 | 16,201 | 214 | 128 | 1,635 | 1 797 | 879 | 2,059 |
| Capital expenditure[7] | 783 | 937 | 538 | 711 | 165 | 173 | 128 | 122 |
| Share of net profit or loss of associates included in EBIT | | 3 | | - | - | | | - |

1 The Home Improvement result includes the UK operation acquired on 27 February 2016. Refer to note 20 business combinations for further information.
2 The Target result includes $145 million of restructuring costs and provisions incurred to reset Target during the year
3 The Resources result includes Government royalties and Stanwell rebates of $143 million (2015. $167 million) and hedge losses of $147 million (2015. $42 million loss).
4 Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and other items not included in the segment results outlined in footnote 5.
5 The 2016 segment result excludes $1,266 million impairment of Target's goodwill and non-current assets, and $850 million impairment of Curragh's assets.
6 Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
7 Capital expenditure includes accruals to represent costs incurred during the year The amount excluding movement in accruals is $1,899 million (2015. $2,239 million).



## NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016

| | INDUSTRIALS: OFFICEWORKS 2016 $m | OFFICEWORKS 2015 $m | RESOURCES[3] 2016 $m | RESOURCES[3] 2015 $m | WIS 2016 $m | WIS 2015 $m | WesCEF 2016 $m | WesCEF 2015 $m | OTHER 2016 $m | OTHER 2015 $m | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segment revenue | 1,851 | 1 714 | 1,008 | 1,374 | 1,844 | 1 772 | 1 820 | 1 839 | (1) | 22 | 65,981 | 62,447 |
| Adjusted EBITDA[4] | 156 | 139 | (164) | 215 | 105 | 108 | 400 | 345 | (83) | (101) | 4,758 | 4 978 |
| Depreciation and amortisation | (22) | (21) | (146) | (165) | (42) | (38) | (106) | (112) | (5) | (4) | (1,296) | (1,219) |
| Segment result | 134 | 118 | (310) | 50 | 63 | 70 | 294 | 233 | (88) | (105) | 3,462 | 3,759 |
| Items not included in segment result[5] | - | | (850) | | | | | | | | (2,116) | |
| EBIT | | | | | | | | | | | 1,346 | 3,759 |
| Finance costs | | | | | | | | | | | (308) | (315) |
| Profit before income tax expense | | | | | | | | | | | 1,038 | 3,444 |
| Income tax expense | | | | | | | | | | | (631) | (1,004) |
| **Profit attributable to members of the parent** | | | | | | | | | | | 407 | 2,440 |
| **Other segment information** | | | | | | | | | | | | |
| Segment assets | 1,379 | 1,349 | 1,004 | 1,692 | 1,863 | 1,828 | 1,553 | 1 732 | 825 | 1,337 | 39,136 | 39,282 |
| Investments in associates and joint ventures | | - | - | - | | | 150 | 143 | 421 | 385 | 605 | 562 |
| Tax assets | | | | | | | | | 1 042 | 558 | 1,042 | 558 |
| Total assets | | | | | | | | | | | 40,783 | 40,402 |
| Segment liabilities | (416) | (381) | (498) | (382) | (420) | (391) | (303) | (341) | (1 070) | (1 182) | (10,502) | (9,029) |
| Tax liabilities | | | | | | | | | (29) | (64) | (29) | (64) |
| Interest-bearing liabilities | | | | | | | | | (7,303) | (6,528) | (7,303) | (6,528) |
| Total liabilities | | | | | | | | | | | (17,834) | (15,621) |
| Other net assets[6] | 31 | (4) | (1,202) | (1 410) | (581) | (586) | (869) | (1,049) | 6,604 | 7,852 | - | |
| Net assets | 994 | 984 | (696) | 120 | 682 | 649 | 531 | 485 | 2 490 | 2,358 | 22,949 | 24,781 |
| Capital expenditure[7] | 41 | 39 | 116 | 137 | 44 | 65 | 60 | 56 | 2 | 3 | 1,857 | 2,243 |
| Share of net profit or loss of associates included in EBIT | | | | | - | - | 33 | 18 | 78 | 62 | 111 | 83 |

**Capital expenditure by segment for FY2016**

| | $m | | $m |
|---|---|---|---|
| Coles | 783 | Officeworks | 41 |
| HI | 538 | Resources | 116 |
| Kmart | 165 | WIS | 44 |
| Target | 128 | WesCEF | 60 |

Other capital expenditure $2 million

**Geographical information**

The table below provides information on the geographical location of revenue and non-current assets (other than financial instruments, deferred tax assets and pension assets) Revenue from external customers is allocated to a geography based on the location of the operation in which it was derived Non-current assets are allocated based on the location of the operation to which they relate

| | REVENUE 2016 $m | REVENUE 2015 $m | NON-CURRENT ASSETS 2016 $m | NON-CURRENT ASSETS 2015 $m |
|---|---|---|---|---|
| Australia | 63,356 | 61,013 | 27,933 | 29,924 |
| New Zealand | 1,564 | 1 402 | 279 | 215 |
| United Kingdom | 1,062 | 26 | 1,133 | 4 |
| Other foreign countries | 9 | 6 | 4 | 3 |
| | 65,981 | 62,447 | 29,349 | 30,146 |

## NOTES TO THE FINANCIAL STATEMENTS KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 1 Income

| | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| Sale of goods | 65,500 | 62,089 |
| Rendering of services | 12 | 13 |
| Interest revenue | 131 | 27 |
| Other | 338 | 318 |
| **Revenue** | **65,981** | **62,447** |
| Gains on disposal of property plant and equipment | 61 | 54 |
| Gains on disposal of controlled entities | | 7 |
| Other | 174 | 269 |
| **Other income** | **235** | **330** |

### Recognition and measurement

**Revenue**

Revenue is measured at the fair value of the consideration received or receivable Revenue is recognised if it meets the criteria outlined below

*Sale of goods*

The Group generates a significant proportion of its revenue from the sale of the following finished goods

- Merchandise direct to customers through the Group's retail operations,
- Sales to other businesses of products for which the Group has distribution rights, principally related to industrial maintenance and industrial safety
- Fertilisers and specialty gases;
- Coal, both nationally and internationally and
- LPG and LNG

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and it can be measured reliably Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer Revenue from lay-by transactions is recognised on the date when the customer completes payment and takes possession of the merchandise

**Rendering of services**

With respect to services rendered *revenue is recognised depending* on the stage of completion of those services.

**Interest**

The Group generates a significant proportion of its interest revenue from finance advances and loans through the Group's financial services operation

Revenue is recognised as the interest accrues on the related financial asset. Interest is determined using the effective interest rate method which applies the interest rate that exactly discounts *estimated future cash receipts over the expected life of the financial* instrument

**Dividends**

Revenue from dividends is recognised when the Group's right to receive the payment is established

**Operating lease rental revenue**

Operating lease revenue consists of rentals from investment properties and sub-lease rentals. Rentals received under operating leases and initial direct costs are recognised on a straight-line basis over *the term of the lease*

**Key estimate loyalty program**

The Group operates a loyalty points program which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can then be redeemed for products, subject to a minimum number of *points being obtained Consideration received on* transactions where points are issued is allocated between the products sold and the points issued The fair value of the points issued is deferred and recognised as revenue when the points are redeemed At 30 June 2016 $246 million of revenue is deferred in relation to the loyalty program (2015 $212 million) Any reasonably possible change in the estimate is unlikely to have a material impact.

**Key estimate gift cards**

Revenue from the sale of gift cards is recognised when the card is redeemed and the customers purchase goods by using the card or when the customer card is no longer expected to be redeemed At 30 June 2016, $198 million of revenue is deferred in relation to gift cards *(2015 $174 million) The key assumption in measuring* the liability for gift cards and vouchers is the expected redemption rates by customers, which are reviewed annually based on historical information Any reassessment of expected redemption rates in a particular year impacts the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing) Any reasonably possible change in the estimate is unlikely to have a material impact.



## NOTES TO THE FINANCIAL STATEMENTS· KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 2. Expenses

| | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| Remuneration bonuses and on-costs | 8,120 | 7 520 |
| Superannuation expense | 624 | 584 |
| Share-based payments expense | 103 | 94 |
| **Employee benefits expense** | **8,847** | *8 198* |
| Minimum lease payments | 2,330 | 2,068 |
| Contingent rental payments | 91 | 83 |
| Other | 538 | 486 |
| **Occupancy-related expenses** | **2,959** | **2,637** |
| Depreciation | 981 | 934 |
| Amortisation of intangibles | 134 | 118 |
| Amortisation other | 181 | 167 |
| **Depreciation and amortisation** | **1,296** | **1,219** |
| Impairment of plant, equipment and other assets | 954 | 19 |
| Impairment of freehold property | 10 | 22 |
| Impairment of goodwill | 1,208 | - |
| **Impairment expenses** | **2,172** | *41* |
| Mining royalties (including Stanwell rebate) | 143 | 167 |
| Repairs and maintenance | 405 | 379 |
| Utilities and office expenses | 1,044 | 1,020 |
| Insurance expenses | 179 | 192 |
| Other | 1,336 | 1 183 |
| **Other expenses** | **3,107** | **2,941** |
| Interest expense | 261 | 268 |
| *Discount rate adjustment* | 28 | 25 |
| Amortisation of debt establishment costs | 5 | 5 |
| Other costs related to finance | 16 | 19 |
| **Finance costs** | **308** | **315** |

### Recognition and measurement

**Employee benefits expense**

The Group's accounting policy for liabilities associated with employee benefits is set out in note 9 The policy relating to *share-based payments is set out in note 28*

The majority of employees in Australia and New Zealand are party to a defined contribution scheme and receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. Contributions to defined contribution *funds are recognised as an expense as they become payable* Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available. The Group also operates a defined benefit superannuation scheme, the membership of which is now closed

**Occupancy-related expenses**

**Operating leases**

*Operating lease payments are recognised as an expense in the* income statement on a straight-line basis over the lease term Operating lease incentives are recognised as a liability when received and released to the income statement on a straight-line basis over the lease term

Fixed rate increases to lease payments excluding contingent or index based rental increases, are recognised on a straight-line basis over the lease term.

An asset or liability is recognised for the difference between the amount paid and the lease expense recognised in earnings on a straight-line basis

**Contingent rental payments**

Contingent rental payments are made as a result of either turnover based rentals or movements in relevant indices Such payments are recognised in the income statement as they are incurred.

**Depreciation and amortisation**

Refer to notes 7 and 8 for details on depreciation and amortisation

***Impairment***

Impairment expenses are recognised to the extent that the carrying amounts of assets exceed their recoverable amounts. Refer to note 17 for further details on impairment

**Finance costs**

Finance costs are recognised as an expense when they are incurred except for interest charges attributable to major projects with substantial development and construction phases.

Provisions and other payables are discounted to their present *value when the effect of the time value of money is significant.* The impact of the unwinding of these discounts and any changes to the discounting is shown as a discount rate adjustment in finance costs

**Capitalisation of borrowing costs**

To determine the amount of borrowing costs to be capitalised as part of the costs of major construction projects, the Group uses the weighted average interest rate (excluding non-interest costs) applicable to its outstanding borrowings during the year For 2016, had there been major long-term construction projects the weighted average interest rate applicable would have been 4 15 per cent *(2015 5 00 per cent)*

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 3. Tax expense

| The major components of tax expense are: | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| **Income statement** | | |
| *Current income tax expense* | | |
| Current year (paid or payable) | 984 | 996 |
| Adjustment for prior years | (7) | (20) |
| *Deferred income tax expense* | | |
| Temporary differences | (342) | 20 |
| Adjustment for prior years | (4) | 8 |
| **Income tax reported in the income statement** | 631 | 1 004 |
| **Statement of changes in equity** | | |
| Net loss on revaluing cash flow hedges | (46) | (86) |
| Other | (2) | 1 |
| **Income tax reported in equity** | (48) | (85) |
| **Tax reconciliation** | | |
| Profit before tax | 1,038 | 3,444 |
| Income tax at the statutory tax rate of 30% | 311 | 1,033 |
| Adjustments relating to prior years | (11) | (12) |
| Non-deductible items | 362 | 12 |
| Share of results of associates and joint venture | (22) | (22) |
| Other | (9) | (7) |
| **Income tax on profit before tax** | 631 | 1 004 |
| **Deferred income tax in the balance sheet relates to the following:** | | |
| Provisions | 316 | 217 |
| Employee benefits | 420 | 371 |
| Accrued and other payables | 164 | 149 |
| Borrowings | 159 | 197 |
| Derivatives | 72 | 68 |
| Trading stock | 100 | 25 |
| Fixed assets | 344 | 202 |
| Other individually insignificant balances | 79 | 87 |
| Deferred tax assets | 1,653 | 1,316 |
| Accelerated depreciation for tax purposes | 165 | 204 |
| Derivatives | 188 | 277 |
| Accrued income and other | 122 | 115 |
| Intangible assets | 108 | 93 |
| Other individually insignificant balances | 28 | 69 |
| Deferred tax liabilities | 611 | 758 |
| **Net deferred tax assets** | 1,042 | 568 |
| **Deferred income tax in the income statement relates to the following:** | | |
| Provisions | (61) | 23 |
| Depreciation, amortisation and impairment | (239) | (11) |
| Other individually insignificant balances | (42) | 8 |
| **Deferred tax expense** | (342) | 20 |

Refer to note 30 for tax transparency disclosures

#### Recognition and measurement

**Current taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted by the balance sheet date

**Deferred taxes**

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date

Deferred income tax is provided on temporary differences at balance sheet date between accounting carrying amounts and the tax bases of assets and liabilities, other than for the following:

- Where they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss.
- Where taxable temporary differences relate to investments in subsidiaries, associates and interests in joint ventures:
  1. Deferred tax liabilities are not recognised if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
  2. Deferred tax assets are not recognised if it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will not be available to utilise the temporary differences.

Deferred tax liabilities are also not recognised on recognition of goodwill.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**Offsetting deferred tax balances**

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority

**Key estimate unrecognised deferred tax assets**

Capital losses The Group has unrecognised benefits relating to carried forward capital losses, which can only be offset against eligible capital gains The Group has determined that at this stage future eligible capital gains to utilise the tax assets are not currently sufficiently probable. The unrecognised deferred tax assets of $130 million (2015 $126 million) relate wholly to capital losses in Australia.



## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 4. Cash and cash equivalents

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| Cash on hand and in transit | 411 | 392 |
| Cash at bank and on deposit | 200 | 319 |
| | 611 | 711 |
| **Reconciliation of net profit after tax to net cash flows from operations** | | |
| Net profit | 407 | 2,440 |
| *Non-cash items* | | |
| Depreciation and amortisation | 1,296 | 1,219 |
| Impairment and writedowns of assets | 2,172 | 41 |
| Gain on disposal of controlled entities | - | (7) |
| Net gain on disposal of non-current assets | (22) | (20) |
| Share of profits of associates and joint ventures | (114) | (82) |
| Dividends and distributions received from associates | 74 | 42 |
| Discount adjustment in borrowing costs | 26 | 25 |
| Other | 43 | 12 |
| *(Increase)/decrease in assets* | | |
| Receivables Trade and other | 17 | 9 |
| Receivables Finance advances and loans | (29) | 8 |
| Inventories | (444) | (128) |
| Prepayments | (39) | 30 |
| Deferred tax assets | (347) | 6 |
| Other assets | (5) | 3 |
| *Increase/(decrease) in liabilities* | | |
| Trade and other payables | 259 | 219 |
| Current tax payable | (31) | (106) |
| Provisions | 101 | 84 |
| Other liabilities | 1 | 16 |
| **Net cash flows from operating activities** | 3,365 | 3,791 |
| **Net capital expenditure** | | |
| **Capital expenditure** | | |
| Payment for property | 372 | 671 |
| Payment for plant and equipment | 1,422 | 1,339 |
| Payment for intangibles | 105 | 229 |
| | 1,899 | 2,239 |
| Less Proceeds from sale of property, plant, equipment and intangibles | 563 | 687 |
| **Net capital expenditure** | 1,336 | 1 552 |

#### Recognition and measurement

**Cash at bank and on deposit**

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short term deposits with an original maturity of three months or less and are classified as financial assets held at amortised cost

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates

### 5. Receivables

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| **Trade and other** | | |
| Trade receivables | 1,288 | 1 143 |
| Allowance for credit losses | (64) | (58) |
| Other debtors | 404 | 378 |
| | 1,628 | 1 463 |
| **Allowance for credit losses** | | |
| Movements in the allowance for credit losses were as follows: | | |
| Carrying value at the beginning of the year | 58 | 52 |
| Allowance for credit losses recognised | 18 | 24 |
| Receivables written off as uncollectable | (8) | (10) |
| Unused amounts reversed | (4) | (8) |
| **Allowance for credit losses at year end** | 64 | 58 |
| **Trade receivables past due but not impaired** | | |
| Under three months | 155 | 166 |
| Three to six months | 50 | 33 |
| Over six months | 7 | 9 |
| | 212 | 208 |
| **Finance advances and loans** | | |
| Finance advances and loans | 883 | 838 |
| Allowance for credit losses | (48) | (32) |
| | 835 | 806 |
| **Allowance for credit losses** | | |
| Movements in the allowance account for credit losses were as follows: | | |
| Carrying value at the beginning of the year | 32 | - |
| Allowance for credit losses recognised | 51 | 41 |
| Receivables written off as uncollectable | (34) | (9) |
| Unused amount reversed | (1) | |
| **Allowance for credit losses at year end** | 48 | 32 |
| **Finance advances and loans by credit quality** | | |
| Neither past due nor impaired | 784 | 763 |
| Past due but not impaired | 51 | 43 |
| Impaired | 48 | 32 |
| | 883 | 838 |
| **Finance advances and loans past due but not impaired** | | |
| Under three months | 49 | 42 |
| Three to six months | 2 | 1 |
| Over six months | - | |
| | 51 | 43 |

Finance advances and loans that are past due but not impaired are classified as such when repayment of debt is deemed probable based on portfolio analysis and risk modelling techniques

# NOTES TO THE FINANCIAL STATEMENTS KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

## 5. Receivables (continued)

### Recognition and measurement

*Trade receivables, finance advances, loans and other debtors are all classified as financial assets held at amortised cost.*

**Trade receivables**

Trade receivables generally have terms of up to 30 days. They are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less an allowance for impairment.

Customers who wish to trade on credit terms are subject to extensive credit verification procedures. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. With respect to trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

**Finance advances and loans**

Finance advances and loans consist of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost. A risk assessment process is used for new loan and credit card applications, which *ranges from conducting credit assessments* to relying on the assessments of financial risk provided by credit insurers. Ageing analysis of advances and loans past due is reviewed on an ongoing basis to measure and manage emerging credit risks to the Group. Any balances that are neither impaired nor past due are expected to be fully recoverable. Please refer to note 15(d) for further details on credit quality, credit risk assessment and management.

**Impairment of trade receivables, finance advances and loans**

*Collectability and impairment are assessed on an ongoing basis at* a divisional level. Impairment is recognised in the income statement when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. Debts that *are known to be uncollectable are written off when identified.* If an impairment allowance has been recognised for a debt that then becomes uncollectable, the debt is written off against the allowance account. If an amount is subsequently recovered, it is credited against profit or loss.

***Other debtors***

These amounts generally arise from transactions outside the usual operating activities of the Group. They do not contain impaired assets and are not past due. Based on the credit history, it is expected that these other balances will be received when due.

## 6. Inventories

| | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| Raw materials | 92 | 112 |
| Work in progress | 18 | 55 |
| Finished goods | 6,150 | 5,330 |
| | 6,260 | 5 497 |

Inventories recognised as an expense for the year ended 30 June 2016 totalled $48 182 million (2015: $45 682 million).

### Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell.

**Key estimate: net realisable value**

The key assumptions, which require the use of management judgement, are the variables affecting costs recognised in bringing the inventory to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. The total expense relating to inventory writedowns during the year was $50 million (2015: $46 million). Any reasonably possible change in the estimate is unlikely to have a material impact.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- *Raw materials*: purchase cost on a weighted average basis.
- *Manufactured finished goods and work in progress*: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Work in progress also includes run-of-mine coal stocks for Resources, consisting of production costs of drilling, blasting and overburden removal.
- *Retail and wholesale merchandise finished goods*: purchase cost on a weighted average basis, after deducting any settlement discounts, *supplier rebates and including logistics expenses incurred in bringing* the inventories to their present location and condition.

Volume-related supplier rebates, and supplier promotional rebates where they exceed spend on promotional activities, are accounted for as a reduction in the cost of inventory and recognised in the income statement *when the inventory is sold*.

**Key estimate: supplier rebates**

The recognition of supplier rebates in the income statement requires management to estimate both the volume of purchases that will be made during a period of time and the related product that was sold and remains in inventory at reporting date. Management's estimates are based on existing and forecast inventory turnover levels and sales. Reasonably possible changes in these estimates are unlikely to have a material impact.



# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

## 7 Property, plant and equipment

| CONSOLIDATED | PROPERTY: Freehold land $m | PROPERTY: Buildings $m | PLANT AND EQUIPMENT: Leasehold improvements $m | PLANT AND EQUIPMENT: Plant, vehicles and equipment $m | PLANT AND EQUIPMENT: Mineral lease and development $m | Total $m |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2016** | | | | | | |
| Cost | 1,470 | 1,082 | 1,682 | 12,860 | 996 | 18,090 |
| Accumulated depreciation and impairment | - | (156) | (757) | (7,030) | (535) | (8,478) |
| **Net carrying amount** | 1,470 | 926 | 925 | 5,830 | 461 | 9,612 |
| **Movement** | | | | | | |
| Net carrying amount at the beginning of the year | 1,547 | 928 | 940 | 6,207 | 583 | 10,205 |
| Additions | 118 | 272 | 184 | 1,108 | 56 | 1,738 |
| Disposals and write-offs | (247) | (252) | (81) | (684) | (182) | (1,446) |
| Depreciation and amortisation | - | (26) | (124) | (959) | (53) | (1,162) |
| Acquisition of controlled entities | 49 | 29 | - | 163 | - | 241 |
| Transfers between classes | - | (6) | 6 | - | - | - |
| Other including foreign exchange movements | 3 | (19) | - | (5) | 57 | 36 |
| **Net carrying amount at the end of the year** | 1,470 | 926 | 925 | 5,830 | 461 | 9,612 |
| Assets under construction included above: | - | 249 | 115 | 620 | - | 984 |
| **Year ended 30 June 2015** | | | | | | |
| Cost | 1,547 | 1,061 | 1,506 | 12,124 | 880 | 17 118 |
| Accumulated depreciation and impairment | | (133) | (566) | (5,917) | (297) | (6,913) |
| **Net carrying amount** | 1,547 | 928 | 940 | 6,207 | 583 | 10,205 |
| **Movement** | | | | | | |
| Net carrying amount at the beginning of the year | 1,580 | 839 | 920 | 6,135 | 478 | 9 952 |
| Additions | 207 | 456 | 159 | 1,091 | 98 | 2 011 |
| Disposals and write-offs | (235) | (317) | (6) | (87) | | (645) |
| Depreciation and amortisation | - | (21) | (116) | (913) | (51) | (1 101) |
| Acquisition of controlled entities | - | 1 | | 8 | | 9 |
| Transfers between classes | (2) | (26) | (17) | (22) | 67 | |
| Other including foreign currency exchange movements | (3) | (4) | - | (5) | (9) | (21) |
| **Net carrying amount at the end of the year** | 1,547 | 928 | 940 | 6,207 | 583 | 10,205 |
| Assets under construction included above: | - | 377 | 110 | 617 | | 1,104 |

### Recognition and measurement

The carrying value of property, plant and equipment is measured as the cost of the asset, minus depreciation and impairment. The cost of the asset also includes the cost of replacing parts that are eligible for capitalisation, and the cost of major inspections.

**Depreciation and amortisation**

Items of property, plant and equipment are depreciated on a straight-line basis over their useful lives. The estimated useful life of buildings is between 20 and 40 years, plant and equipment is between 3 and 40 years. Land is not depreciated.

*Expenditure on mining areas of interest in which production has* commenced is amortised over the life of the mine, based on the rate of depletion of the economically recoverable reserves. If production has not yet commenced, amortisation is not charged.

Leasehold improvements are amortised over the period of the lease *or the anticipated useful life of the improvements, whichever is* shorter.

**Derecognition**

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefits. Any gain or loss from derecognising the asset (the difference between the proceeds of disposal and the carrying amount of the asset) is included in the income statement in the period the item is derecognised.

**Impairment**

Refer to note 17 for details on impairment testing.

**Key estimates: property, plant and equipment**

The estimations of useful lives, residual value and amortisation methods require management judgement and *are reviewed annually. If they need to be modified, the change* is accounted for prospectively from the date of reassessment until the end of the revised useful life (for both the current and future years). Such revisions are generally required when there are changes in economic circumstances impacting specific assets or groups of assets, such as changes in store performance or changes in the long term coal price forecasts. These changes are limited to specific assets and as such, any reasonably possible change in the estimate is unlikely to have a material impact on the estimations of useful lives, residual value or amortisation methods.

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 8. Goodwill and intangible assets

| CONSOLIDATED | GOODWILL Goodwill $m | INTANGIBLE ASSETS Trade names $m | Contractual and non-contractual relationships[1] $m | Software $m | Gaming and liquor licences $m | Total $m |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2016** | | | | | | |
| Cost | 16,556 | 3,838 | 84 | 1,334 | 156 | 21,968 |
| Accumulated amortisation and impairment | (2,108) | (21) | (28) | (738) | - | (2,895) |
| **Net carrying amount** | 14,448 | 3,817 | 56 | 596 | 156 | 19,073 |
| **Movement** | | | | | | |
| Net carrying amount at the beginning of the year | 14,708 | 3,801 | 58 | 588 | 156 | 19,309 |
| Additions | - | | - | 119 | 1 | 120 |
| Acquisitions of controlled entities | 1,018 | 20 | 11 | 20 | - | 1,069 |
| Amortisation for the year | - | (2) | (11) | (121) | - | (134) |
| Impairment charge | (1,206) | - | - | (8) | (1) | (1,215) |
| Other including foreign exchange movements | (70) | (2) | (2) | (2) | - | (76) |
| **Net carrying amount at the end of the year** | 14,448 | 3,817 | 56 | 596 | 156 | 19,073 |
| **Year ended 30 June 2015** | | | | | | |
| Cost | 15,608 | 3,820 | 77 | 1 124 | 156 | 20 785 |
| Accumulated amortisation and impairment | (900) | (19) | (19) | (536) | - | (1,476) |
| **Net carrying amount** | 14 708 | 3,801 | 58 | 588 | 156 | 19,309 |
| **Movement** | | | | | | |
| Net carrying amount at the beginning of the year | 14,510 | 3,791 | 38 | 458 | 159 | 18,956 |
| Additions | | | | 232 | 2 | 234 |
| Acquisition/(disposal) of controlled entities | 198 | 13 | 35 | (4) | (5) | 237 |
| Amortisation for the year | | (3) | (15) | (100) | - | (118) |
| **Net carrying amount at the end of the year** | 14 708 | 3,801 | 58 | 588 | 156 | 19,309 |

1 Contractual and non-contractual relationships are intangible assets that have arisen through business combinations. They represent the value of pre-existing customer relationships in the acquired company.

### Recognition and measurement

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost. Cost is measured as the cost of the business combination minus the net fair value of the acquired and identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Refer to note 17 for further details on impairment.

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that they may be impaired. The amortisation period and method is reviewed at each financial year end. Intangible assets with indefinite lives are tested for impairment in the same way as goodwill.

A summary of the useful lives of intangible assets is as follows:

| Intangible asset | Useful life |
|---|---|
| Trade names | Indefinite and finite (up to 20 years) |
| Contractual and non-contractual relationships | Finite (up to 15 years) |
| Software | Finite (up to seven years) |
| Gaming and liquor licences | Indefinite |

Assets with an assumed indefinite useful life are reviewed at each reporting period to determine whether this assumption continues to be appropriate. If not, it is changed to a finite life and accounted for prospectively as a change in accounting estimate.

**Key judgement: useful lives of intangible assets**

Certain trade names have been assessed as having indefinite lives on the basis of strong brand strength, ongoing expected profitability and continuing support. The brand name incorporates complementary assets such as store formats, networks and product offerings.

Gaming and liquor licences have been assessed as having indefinite lives on the basis that the licences are expected to be renewed in line with business continuity requirements.





## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 8. Goodwill and intangible assets (continued)

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| **Allocation of indefinite life intangible assets to groups of cash-generating units** | | |
| **Carrying amount of intangibles** | | |
| Home improvement | 1 | 1 |
| Officeworks | 160 | 160 |
| Industrial and Safety | 22 | 22 |
| Coles | 2,962 | 2,965 |
| Kmart | 268 | 268 |
| Target | 532 | 533 |
| | 3,945 | 3 949 |
| **Allocation of goodwill to groups of cash-generating units** | | |
| **Carrying amount of goodwill** | | |
| Chemicals, Energy and Fertilisers | 2 | 2 |
| Home improvement | 1,733 | 866 |
| Officeworks | 799 | 799 |
| Industrial and Safety | 686 | 685 |
| Coles | 10,422 | 10,342 |
| Kmart | 759 | 759 |
| Target | 47 | 1 255 |
| | 14,448 | 14 708 |

### Impairment

Refer to note 17 for details on impairment testing

### 9 Provisions

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| **Current** | | |
| Employee benefits | 1,154 | 1,042 |
| Self-insured risks | 302 | 304 |
| Restructuring and make good | 119 | 94 |
| Lease provision | 5 | 9 |
| Off-market contracts | 72 | 25 |
| Other | 209 | 131 |
| | 1,861 | 1 605 |
| **Non-current** | | |
| Employee benefits | 180 | 169 |
| Self-insured risks | 361 | 359 |
| Mine and plant rehabilitation | 278 | 199 |
| Restructuring and make good | 179 | 13 |
| Lease provision | 216 | 198 |
| Off-market contracts | 199 | 22 |
| Other | 141 | 121 |
| | 1,554 | 1 081 |
| Total provisions | 3,415 | 2 686 |

### Recognition and measurement

Provisions are recognised when

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that resources will be expended to settle the obligation and
- a reliable estimate can be made of the amount of the obligation.

**Key estimate: discounting**

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability to the extent they are not included in the cash flows

Provisions have been calculated using discount rates of between two and four per cent (2015: between two and four per cent)

**Key estimate: employee benefits**

Employee benefit provision balances are calculated using discount rates derived from the high quality corporate bond (HQCB) market in Australia provided by Milliman Australia.

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS
FOR THE YEAR ENDED 30 JUNE 2016

### 9 Provisions (continued)

**Employee benefits**

The provision for employee benefits represents annual leave, long service leave entitlements and incentives accrued by employees.

**Wages and salaries**

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in provisions and other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

**Annual leave and long service leave**

*The liability for annual leave and long service leave is recognised in* the provision for employee benefits. It is measured as the present value of expected future payments for the services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date on HQCB with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**Key estimate: long service leave**

Long service leave is measured using the projected unit credit method. Management judgement is required in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in salaries and wages,
- future on-cost rates; and
- future probability of employee departures and period of service.

The total long service leave liability is $588 million (*2015: $540 million*). *Given the magnitude of the liability and* the nature of the key assumptions, any reasonably possible change in one or a combination of the estimates is unlikely to have a material impact.

**Lease provision**

The lease provision covers stopped lease arrangements to enable the lease expenses to be recognised on a straight-line basis over the lease term. Actual lease payments may vary from the amounts provided where alternate uses are found for these premises, *including attraction of new tenants.*

**Off-market contracts**

When undertaking business acquisitions, Wesfarmers often takes on responsibility for contracts that are in place within the acquiree. Changes in market conditions may result in the original terms of the contract becoming unfavourable in comparison to market conditions present at the date of acquisition.

The obligation for discounted future above-market payments are provided for, calculated using the discount rate determined at *acquisition date. The discounted future above-market provision is* released to earnings over the duration of the contract.

**Self-insured risks**

The Group is self-insured for workers' compensation and general liability claims. Provisions are recognised based on claims reported and an estimate of claims incurred but not reported. These provisions are determined on a discounted basis, using an actuarially determined method.

***Key estimate: self-insured risks***

The self-insured risk liability is based on a number of management estimates including, but not limited to:

- future inflation;
- investment return,
- average claim size
- claim development; and
- claim administration expenses.

These assumptions are reviewed periodically and any reassessment of these assumptions will affect workers' compensation or claims expense (either increasing or decreasing the expense).

**Mine and plant rehabilitation**

*Mining lease agreements and Group policies impose obligations* to remediate areas where mining activity has taken place. Work is ongoing at various sites and in some cases will extend for more than 20 years. *Provisions for remediation have been calculated assuming* current technologies. As part of the valuation methodology, the risks are incorporated in the cash flows rather than the discount rates.

**Restructuring and make good**

These provisions relate principally to:

- the closure of retail outlets or distribution centres,
- restructuring; and
- associated redundancies.

Provisions for restructuring are recognised where steps have been taken to implement a detailed plan, including discussions with affected personnel, with employee-related costs recognised over the period of any required further service.

| *CONSOLIDATED* | Lease provision $m | Off-market contracts $m | Self-insured risks $m | Mine and plant rehabilitation $m | Restructuring and make good $m | Other $m | Total $m |
|---|---|---|---|---|---|---|---|
| Carrying amount at 1 July 2014 | 183 | 105 | 619 | 208 | 98 | 190 | 1 403 |
| Arising during the year | 39 | 21 | 199 | 7 | 106 | 210 | 582 |
| Utilised | (16) | (78) | (155) | (13) | (97) | (143) | (502) |
| *Adjustments* | 1 | (1) | - | (3) | | (5) | (8) |
| Carrying amount at 30 June 2015 and 1 July 2015 | 207 | 47 | 663 | 199 | 107 | 252 | 1,475 |
| Arising and acquired during the year | 21 | 276 | 165 | 46 | 253 | 244 | 1,005 |
| Utilised | (7) | (32) | (165) | (3) | (50) | (144) | (401) |
| Adjustments | - | (20) | - | 36 | (12) | (2) | 2 |
| Carrying amount at 30 June 2016 | 221 | 271 | 663 | 278 | 298 | 350 | 2,081 |





## NOTES TO THE FINANCIAL STATEMENTS: *CAPITAL*
FOR THE YEAR ENDED 30 JUNE 2016

### 10 Capital management

**The Group's capital management objectives**

The primary objective of Wesfarmers is to provide a satisfactory return to its shareholders. The Group aims to achieve this objective by:

- improving returns on invested capital relative to that cost of capital; and
- ensuring a satisfactory return is made on any new capital invested.

Capital is defined as the combination of shareholders' equity, reserves and net debt. The Board is responsible for monitoring and approving the capital management framework within which management operates. The purpose of the framework is to safeguard the Group's ability to continue as a going concern whilst optimising its debt and equity structure. Wesfarmers aims to maintain a capital structure that is consistent with a stable investment grade credit rating.

| | Note | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|---|
| **Equity and reserves** | | | |
| Issued capital | 12 | 21,937 | 21,844 |
| Reserved shares | 12 | (28) | (31) |
| Retained earnings | 12 | 874 | 2 742 |
| Reserves | 12 | 166 | 226 |
| | | 22,949 | 24 781 |
| **Net financial debt** | | | |
| Total interest-bearing debt | 14 | 7,303 | 6,528 |
| Less: Cash and cash equivalents | 4 | (611) | (711) |
| | | 6,692 | 5,817 |
| Net capital | | 29,641 | 30,598 |

The Group manages its capital through various means, including:

- adjusting the amount of ordinary dividends paid to shareholders,
- maintaining a dividend investment plan,
- raising or returning capital; and
- raising or repaying debt for working capital requirements, capital expenditure and acquisitions.

Wesfarmers regularly monitors its capital requirements using various benchmarks, with the main internal measures being cash interest cover, debt cover and fixed charges cover. The principal external measures are the Group's credit ratings from Standard & Poor's and Moody's.

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| **Cash interest cover** | | |
| Profit before income tax | 1,036 | 3,444 |
| Finance costs | 308 | 315 |
| Depreciation and amortisation | 1,298 | 1,219 |
| EBITDA (A) | 2,642 | 4,978 |
| Net cash interest paid (B) | 283 | 243 |
| **Cash interest cover (times) (A/B)** | 9.3 | 20.5 |
| Adjusted EBITDA[1] (C) | 4,758 | 4,978 |
| **Cash interest cover (times) (C/B) (applying adjusted EBITDA)** | 16.8 | 20.5 |
| **Debt cover** | | |
| Total interest-bearing debt | 7,303 | 6,528 |
| *Less: cash and cash equivalents* | (611) | (711) |
| Net financial debt (D) | 6,692 | 5,817 |
| EBITDA (A) | 2,642 | 4,978 |
| **Debt cover (times) (D/A)** | 2.5 | 1.2 |
| Adjusted EBITDA[1] (C) | 4,758 | 4,978 |
| **Debt cover (times) (D/C) (applying adjusted EBITDA)** | 1.4 | 1.2 |
| **Fixed charges cover** | | |
| EBITDA | 2,642 | 4,978 |
| Minimum lease payments | 2,330 | 2,068 |
| EBITDA plus minimum lease payments (E) | 4,972 | 7,046 |
| Finance costs (net of discount adjustment), and minimum lease payments (F) | 2,612 | 2,358 |
| **Fixed charges cover (times) (E/F)** | 1.9 | 3.0 |
| Adjusted EBITDA[1] (C) | 4,758 | 4,978 |
| Minimum lease payments | 2,330 | 2,068 |
| Adjusted EBITDA plus minimum lease payments (G) | 7,088 | 7,046 |
| **Fixed charges cover (times) (G/F) (applying adjusted EBITDA)** | 2.7 | 3.0 |
| **Group credit ratings** | | |
| Standard & Poor's | A-(negative) | A-(stable) |
| Moody's | A3(stable) | A3(stable) |

1 The 2016 adjusted EBITDA excludes pre-tax non-cash impairments relating to Target ($1,266 million) and Curragh ($850 million).

**Shareholder distributions**

## NOTES TO THE FINANCIAL STATEMENTS: CAPITAL
FOR THE YEAR ENDED 30 JUNE 2016

### 11 Dividends and distributions

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| **Declared and paid during the period (fully-franked at 30 per cent)** | | |
| Interim dividend for 2016: $0.91 (2015: $0.89) | 1,025 | 999 |
| Final dividend for 2015 $1 11 (2014 $1.05) | 1,247 | 1,200 |
| Special dividend for 2015 nil (2014 $0.10) | - | 114 |
| *Capital management:* | | |
| Fully-franked dividend component: nil (2015 $0.25) | - | 287 |
| Capital return, nil (2015: $0.75) | - | 884 |
| | 2,272 | 3 484 |
| **Proposed and unrecognised as a liability (fully-franked at 30 per cent)** | | |
| Final dividend for 2016: $0.95 (2015, $1 11) | 1,070 | 1,247 |
| **Franking credit balance** | | |
| Franking credits available for future years at 30 per cent adjusted for the payment of income tax and dividends receivable or payable | 643 | 519 |
| Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period | (458) | (534) |

On 16 December 2014 Wesfarmers paid a distribution of 100 cents per fully-paid ordinary share comprising both a capital return of 75 cents ($884 million) and a fully-franked dividend component of 25 cents ($287 million) The distribution was accompanied by a proportionate share consolidation relating to the capital component at a rate of one for 0.9827

Wesfarmers' dividend policy considers free cash flow generation profit generation availability of franking credits and seeks to deliver growing dividends over time

The Group operates a dividend investment plan which allows eligible shareholders to elect to invest dividends in ordinary shares. All holders of Wesfarmers ordinary shares with addresses in Australia or New Zealand are eligible to participate in the plan The allocation price for shares is based on the average of the daily volume weighted average price of Wesfarmers ordinary shares sold on the Australian Securities Exchange calculated with reference to a period of not less than five consecutive trading days as determined by the directors.

An issue of shares under the dividend investment plan results in an increase in issued capital unless the Group elects to purchase the required number of shares on-market.

### 12. Equity and reserves

| MOVEMENT IN SHARES ON ISSUE | ORDINARY SHARES Thousands | ORDINARY SHARES $m | RESERVED SHARES Thousands | RESERVED SHARES $m |
|---|---|---|---|---|
| **At 1 July 2014** | 1 143,276 | 22,708 | (2,787) | (30) |
| Own shares acquired | - | - | (191) | (8) |
| Exercise of in-substance options | - | | 463 | 4 |
| Dividends applied | | | | 3 |
| Capital return and share consolidation | (19,522) | (884) | - | |
| **At 30 June 2015 and 1 July 2015** | 1,123,753 | 21,844 | (2,515) | (31) |
| Exercise of in-substance options | - | - | 221 | 1 |
| Dividends applied | - | - | - | 2 |
| Issue of ordinary shares under the Wesfarmers Employee Share Acquisition Plan | 2,378 | 93 | - | - |
| **At 30 June 2016** | 1,126,131 | 21,937 | (2,294) | (28) |



## NOTES TO THE FINANCIAL STATEMENTS: CAPITAL
FOR THE YEAR ENDED 30 JUNE 2016

### 12. Equity and reserves (continued)

#### The nature of the Group's contributed equity

Ordinary shares are fully-paid and have no par value They carry one vote per share and the right to dividends. They bear no special terms or conditions affecting income or capital entitlements of the shareholders and are classified as equity.

Reserved shares are ordinary shares that have been repurchased by the company and are being held for future use They include employee reserved shares, which are shares issued to employees under the share loan plan Once the share loan has been paid in full they are converted to ordinary shares and issued to the employee

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction net of tax, from the proceeds. There are no shares authorised for issue that have not been issued at reporting date

| CONSOLIDATED | Retained earnings $m | Restructure tax reserve $m | Capital reserve $m | Foreign currency translation reserve $m | Cash flow hedge reserve $m | Financial assets reserve $m | Share-based payments reserve $m |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2014** | 2,901 | 150 | 24 | 50 | 167 | 5 | 12 |
| Net profit | 2,440 | - | - | | - | | |
| Dividends | (2 600) | | | | | | - |
| Remeasurement gain on defined benefit plan | 1 | | | - | | - | |
| Net gain on financial instruments recognised in equity | | - | - | | (49) | | |
| Realised losses transferred to balance sheet/net profit | - | | | | (208) | | - |
| Share of associates and joint venture reserve | | | | - | (13) | - | |
| Tax effect of transfers and revaluations | | | | | 66 | | |
| Currency translation differences | | - | | (11) | - | - | - |
| Share-based payment transactions | | - | | | | | 11 |
| **Balance at 30 June 2015 and 1 July 2015** | 2,742 | 150 | 24 | 39 | (16) | 5 | 23 |
| Net profit | 407 | - | - | - | - | - | - |
| Dividends | (2,272) | - | - | - | - | - | - |
| Remeasurement loss on defined benefit plan | (3) | - | | - | - | - | - |
| Net loss on financial instruments recognised in equity | | - | - | - | (34) | - | - |
| Realised losses transferred to balance sheet/net profit | - | - | - | - | (110) | - | - |
| Share of associates and joint venture reserve | - | - | - | - | 6 | - | - |
| Tax effect of transfers and revaluations | - | - | - | - | 48 | - | - |
| Currency translation differences | - | - | - | 15 | - | - | - |
| Share-based payment transactions | - | - | - | - | - | - | 15 |
| **Balance at 30 June 2016** | 874 | 150 | 24 | 54 | (106) | 5 | 38 |

#### Nature and purpose of reserves

**Restructure tax reserve**

The restructure tax reserve is used to record the recognition of tax losses arising from the equity restructuring of the Group under the 2001 ownership simplification plan These tax losses were generated on adoption by the Group of the tax consolidation regime

**Capital reserve**

The capital reserve was used to accumulate capital profits The reserve can be used to pay dividends or issue bonus shares

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**Cash flow hedge reserve**

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship

**Financial assets reserve**

The financial assets reserve records fair value changes on financial assets designated at fair value through other comprehensive income

**Share-based payments reserve**

The share-based payments reserve is used to recognise the value of equity settled share-based payments provided to employees including key management personnel as part of their remuneration Refer to note 28 for further details of these plans

# NOTES TO THE FINANCIAL STATEMENTS: CAPITAL
FOR THE YEAR ENDED 30 JUNE 2016

## 13. Earnings per share

| | CONSOLIDATED 2016 | CONSOLIDATED 2015 |
|---|---|---|
| *Profit attributable to ordinary equity holders of the parent ($m)* | 407 | 2,440 |
| WANOS[1] used in the calculation of basic EPS[2] (shares, million) | 1,123 | 1 129 |
| *WANOS[1] used in the calculation of diluted EPS[2]* (shares, million) | 1,125 | 1 131 |
| Basic EPS (cents per share) | 36.2 | 216.1 |
| Diluted EPS (cents per share) | 36.2 | 215.7 |

1 Weighted average number of ordinary shares.
2 The variance in the WANOS used in the calculation of the basic EPS and the diluted EPS is attributable to in-substance options.

There have been no transactions involving ordinary shares between the reporting date and the date of completion of these financial statements, apart from the normal conversion of employee-reserved shares (treated as in-substance options) to unrestricted ordinary shares.

### Calculation of earnings per share

#### Basic earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

#### Diluted earnings per share

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus element.

## 14. Interest-bearing loans and borrowings

| | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| **Current** | | |
| Unsecured | | |
| Corporate bonds | 500 | 1,584 |
| Other bank loans | 1,132 | 329 |
| | 1,632 | 1 913 |
| **Non-current** | | |
| Unsecured | | |
| *Corporate bonds* | 4,221 | 4,615 |
| Other bank loans | 1,450 | |
| | 5,671 | 4 615 |
| **Total interest-bearing loans and borrowings** | 7,303 | 6,528 |

### Recognition and measurement

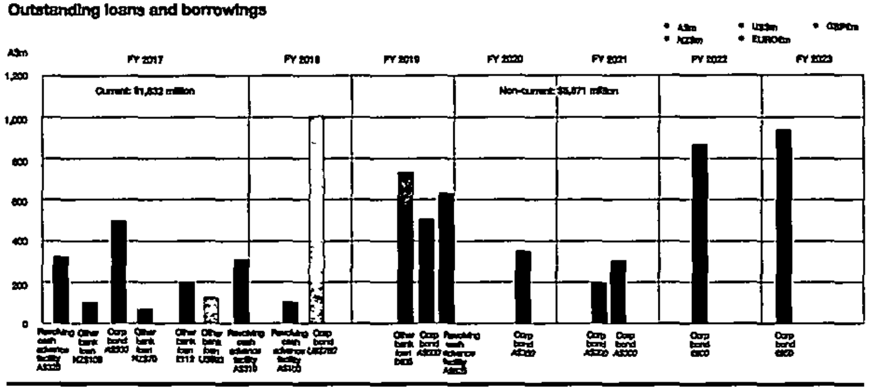
All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses are recognised in profit or loss when the liabilities are derecognised

The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged

#### *Funding activities*

The current year funding activities have been outlined on page 92 in the Significant items in the current reporting period The illustration below provides details, including the principal repayment obligations, of all loans and borrowings on issue at 30 June 2016

### Outstanding loans and borrowings






# NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

## 15. Financial risk management

The Group holds financial instruments for the following purposes.

*Financing* to raise finance for the Group's operations or in the case of short-term deposits, to invest surplus funds The principal types of instruments used include syndicated and other bank loans, bank accepted bills, commercial paper, corporate bonds and cash and short-term deposits

*Operational* the Group's activities generate financial instruments including cash trade receivables, trade payables and finance advances

*Risk management* to reduce risks arising from the financial instruments described above including forward exchange contracts and interest rate swaps

It is, and has been throughout the year the Group's policy that no speculative trading in financial instruments shall be undertaken

The Group's holding of these financial instruments exposes it to risk. The Board reviews and agrees the Group's policies for managing each of these risks, which are summarised below

- liquidity risk (note 15(b))
- market risk, including foreign currency, interest rate and commodity price risk (note 15(c)) and
- credit risk (note 15(d)).

These risks affect the fair value measurements applied by the Group This is discussed further within note 15(e)

### 15(a) Offsetting financial instruments

The Group presents its derivative assets and liabilities on a gross basis Derivative financial instruments entered into by the Group are subject to enforceable master netting arrangements such as an International Swaps and Derivatives Association (ISDA) master netting agreement In certain circumstances for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The amounts set out in note 16 represent the derivative financial assets and liabilities of the Group, that are subject to the above arrangements and are presented on a gross basis.

### 15(b) Liquidity risk

#### Nature of the risk

Wesfarmers is exposed to liquidity risk primarily due to its capital management policies which view debt as a key element of the Group's capital structure (see note 10) In addition Wesfarmers maintains a flexible financing structure to enable it to take advantage of new investment opportunities that may arise To facilitate effective use of debt as part of the capital structure the Group continues to maintain investment grade credit ratings from Standard & Poor's and Moody's

These policies expose the Group to risk including the sufficiency of available unused facilities and the maturity profile of existing financial instruments

#### Liquidity risk management

*Liquidity risk is managed centrally by Group Treasury* by considering over a period of time the operating cash flow forecasts of the underlying businesses and the degree of access to debt and equity capital markets.

The Group's objective is to maintain a balance between *continuity* of funding and flexibility through the use of bank loans, bank accepted bills, commercial paper corporate bonds and the overnight money market across a range of maturities. Although the bank debt facilities have fixed maturity dates from time to time they are reviewed and extended thus deferring the repayment of the principal. The Group aims to spread maturities to avoid excessive refinancing in any period

The Group endeavours to maintain funding flexibility by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally invested in instruments that are tradeable in highly liquid markets with highly rated counterparties

| Financing facilities available | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| **Total facilities** | | |
| *Commercial paper* | 60 | 60 |
| Other bank loans | 4,920 | 3,411 |
| | 4,980 | 3,471 |
| **Facilities used at balance date** | | |
| Other bank loans | 2,582 | 323 |
| | 2,582 | 323 |
| **Facilities unused at balance date** | | |
| Commercial paper | 60 | 60 |
| Other bank loans | 2,338 | 3,088 |
| | 2,398 | 3,148 |

#### *Assets pledged as security*

A controlled entity has issued a floating charge over assets, capped at $80 million, as security for payment obligations to a trade creditor The assets are excluded from financial covenants in all debt documentation.

#### Maturity of financial liabilities

The following tables analyse the Group's financial liabilities, including net and gross settled financial instruments into relevant *maturity periods based on the remaining period* at the reporting date to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows and hence will not necessarily reconcile with the amounts disclosed in the balance sheet

Expected future interest payments on loans and borrowings exclude accruals already recognised in trade and other payables Derivative cash flows exclude accruals recognised in trade and other payables

For foreign exchange derivatives and cross-currency interest rate swaps, the amounts disclosed are the gross contractual cash flows to be paid

For interest rate swaps the cash flows are the net amounts to be paid at each quarter, excluding accruals included in trade and other payables and have been estimated using forward interest rates applicable at the reporting date

# NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

## 15(b) Liquidity risk (continued)

| CONSOLIDATED | <3 months, or on demand $m | 3-6 months $m | 6-12 months $m | 1-2 years $m | 2-3 years $m | 3-4 years $m | 4-5 years $m | >5 years $m | Total contractual cash flows $m | Carrying amount (assets)/ liabilities $m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2016** | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables | 6,437 | 43 | 10 | 1 | - | - | - | - | 6,491 | 6,491 |
| Loans and borrowings before swaps | - | 995 | 636 | 1,130 | 1,855 | 350 | 500 | 2,111 | 7,577 | 7,303 |
| Expected future interest payments on loans and borrowings | 30 | 29 | 57 | 145 | 117 | 74 | 51 | 73 | 576 | - |
| **Total non-derivatives** | 6,467 | 1,067 | 703 | 1,276 | 1,972 | 424 | 551 | 2,184 | 14,644 | 13,794 |
| **Derivatives** | | | | | | | | | | |
| Hedge interest rate swaps (net settled) | - | (1) | (2) | (2) | (2) | (3) | (1) | - | (11) | (11) |
| Cross-currency interest rate swaps (gross settled) | | | | | | | | | | |
| - (inflow) | (7) | (3) | (10) | (1,068) | (40) | (41) | (42) | (2,165) | (3,416) | (555) |
| - outflow | 9 | 17 | 53 | 830 | 86 | 86 | 86 | 1,718 | 2,885 | - |
| Net cross-currency interest rate swaps | 2 | 14 | 43 | (258) | 46 | 45 | 44 | (487) | (531) | (555) |
| Hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| - (inflow) | (1,503) | (1,387) | (1,691) | (1,777) | (100) | - | - | - | (6,458) | 188 |
| - outflow | 1,523 | 1,416 | 1,744 | 1,851 | 102 | - | - | - | 6,636 | - |
| Net foreign exchange contracts | 20 | 29 | 53 | 74 | 2 | - | - | - | 178 | 188 |
| **Total derivatives** | 22 | 42 | 94 | (186) | 46 | 42 | 43 | (487) | (364) | (378) |
| **Year ended 30 June 2015** | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables | 5,535 | 147 | 79 | 3 | | | | | 5,764 | 5,764 |
| Loans and borrowings before swaps | 854 | 204 | 861 | 500 | 1 014 | 500 | 350 | 2,615 | 6,898 | 6,528 |
| Expected future interest payments on loans and borrowings | 21 | 30 | 69 | 137 | 124 | 107 | 78 | 125 | 691 | - |
| **Total non-derivatives** | 6,410 | 381 | 1,009 | 640 | 1 138 | 607 | 428 | 2,740 | 13,353 | 12,292 |
| **Derivatives** | | | | | | | | | | |
| Hedge interest rate swaps (net settled) | - | (1) | (1) | (2) | (1) | 1 | 2 | 1 | (1) | (1) |
| Cross-currency interest rate swaps (gross settled) | | | | | | | | | | |
| - (inflow) | (735) | (13) | (883) | (57) | (1,072) | (40) | (41) | (2,230) | (5,071) | (894) |
| - outflow | 769 | 23 | 669 | 111 | 835 | 88 | 86 | 1,804 | 4,383 | - |
| Net cross-currency interest rate swaps | 34 | 10 | (214) | 54 | (237) | 48 | 45 | (426) | (688) | (894) |
| Hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| - (inflow) | (1 401) | (959) | (1 268) | (1,423) | (316) | (96) | - | - | (5,463) | (1) |
| - outflow | 1,367 | 931 | 1 271 | 1 458 | 337 | 98 | | | 5 462 | - |
| Net foreign exchange contracts | (34) | (28) | 3 | 35 | 21 | 2 | | | (1) | (1) |
| **Total derivatives** | - | (19) | (212) | 87 | (217) | 49 | 47 | (425) | (690) | (896) |



# NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

## 15(c) Market risk

### Nature of foreign currency risk

The Group's primary currency exposure is to US dollars and arises from sales or purchases by a division in currencies other than the division's functional currency The Group is also exposed to the US dollar and Euro through its borrowing facilities

As a result of operations in New Zealand and the United Kingdom, the Group's balance sheet can also be affected by movements in the AUD/NZD and AUD/GBP exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in NZ dollars in New Zealand and in GBP in the United Kingdom

### Exposure

The Group's exposure to the US dollar and Euro (prior to hedging contracts) at the reporting date were as follows

| CONSOLIDATED | USD A$m | EUR A$m |
|---|---|---|
| **2016** | | |
| *Financial assets* | | |
| Cash and cash equivalents | 28 | 6 |
| Trade and other receivables | 87 | - |
| Cross-currency interest rate swap | 285 | 270 |
| *Financial liabilities* | | |
| Trade and other payables | 849 | 45 |
| Interest-bearing loans and borrowings | 1,009 | 1,862 |
| Cross-currency interest rate swap | - | - |
| Hedge foreign exchange derivative liabilities | 186 | 2 |
| **2015** | | |
| *Financial assets* | | |
| Cash and cash equivalents | 52 | - |
| Trade and other receivables | 119 | |
| Cross-currency interest rate swap | 505 | 224 |
| Hedge foreign exchange derivative assets | 1 | |
| *Financial liabilities* | | |
| Trade and other payables | 769 | 47 |
| Interest-bearing loans and borrowings | 1,826 | 2,535 |
| Cross-currency interest rate swap | | 35 |

### Foreign currency risk management

The hedging function of the Group to address foreign currency risk is managed centrally The Group requires all divisions to hedge foreign exchange exposures for firm commitments relating to sales or purchases or when highly probable forecast transactions have been identified Before hedging the divisions are also required to take into account their competitive position The hedging instrument must be in the same currency as the hedged item Divisions are not permitted to speculate on future currency movements.

The objective of Wesfarmers' policy on foreign exchange hedging is to protect the Group from adverse currency fluctuations. Hedging is implemented for the following reasons

- protection of competitive position, and
- greater certainty of earnings due to protection from sudden currency movements.

The Group aims to hedge approximately 45 per cent to 55 per cent (over five years) of its foreign currency sales for which firm commitments or highly probable forecast transactions existed at the balance sheet date Such foreign currency sales arise predominantly in Resources.

The Group aims to hedge approximately 70 to 100 per cent of its non-capital expenditure-related foreign currency purchases for which firm commitments or highly probable forecast transactions exist, up to 24 months forward The Group currently hedges 100 per cent of capital expenditure-related foreign currency purchases to match expected payment dates and these may extend beyond 12 months. The current hedge contracts extend out to June 2018. The Group has also hedged 100 per cent of its US dollar and Euro borrowing facilities

The Wesfarmers Audit and Risk Committee can approve temporary amendments to this policy, such as the hedging time horizon and hedge levels, with such amendments reviewed on a regular basis

### The Group's sensitivity to foreign exchange movements

The sensitivity analysis below shows the impact that a reasonably possible change in foreign exchange rates over a financial year would have on profit after tax and equity based solely on the Group's foreign exchange risk exposures existing at the balance sheet date The Group has used the observed range of actual historical rates for the preceding five-year period, with a heavier weighting placed on recently observed market data, in determining reasonably possible exchange movements to be used for the current year's sensitivity analysis Past movements are not necessarily indicative of future movements

The following exchange rates have been used in performing the sensitivity analysis

| | USD | EUR |
|---|---|---|
| **Actual 2016** | 0.75 | 0.67 |
| +10% | 0.83 | 0.74 |
| -10% | 0.68 | 0.60 |
| **Actual 2015** | 0.77 | 0.68 |
| +10% | 0.85 | 0.75 |
| -10% | 0.69 | 0.61 |

The impact on profit and equity is estimated by relating the hypothetical changes in the US dollar and Euro exchange rate to the balance of financial instruments at the reporting date Foreign currency risks, as defined by AASB 7 Financial Instruments. *Disclosures* arise on account of financial instruments being denominated in a currency that is not the functional currency in which the financial instrument is measured

Differences from the translation of financial statements into the Group's presentation currency are not taken into consideration in the sensitivity analysis and as such the NZ dollar and GBP have no material impact. The results of the foreign exchange rate sensitivity analysis are driven by three main factors as outlined below:

- the impact of applying the above foreign exchange movements to financial instruments that are not in hedge relationships will be recognised directly in profit
- to the extent that the foreign currency denominated derivatives on balance sheet form part of an effective cash flow hedge relationship any fair value movements caused by applying the above sensitivity movements will be deferred in equity and will not affect profit, and
- movements in financial instruments forming part of an effective fair value hedge relationship will be recognised in profit. However as a corresponding entry will be recognised for the hedged item, there will be no net effect on profit.

At 30 June 2016, had the Australian dollar moved against the US dollar and Euro, as illustrated in the table above, with all other variables held constant, the Group's profit after tax and other equity would have been affected by the change in value of its financial assets and financial liabilities as shown in the table on the following page

## NOTES TO THE FINANCIAL STATEMENTS. RISK
FOR THE YEAR ENDED 30 JUNE 2016

### 15(c) Market risk (continued)

| CONSOLIDATED | USD exposure A$m | AUD/USD +10% Impact on profit A$m | AUD/USD +10% Impact on equity A$m | AUD/USD -10% Impact on profit A$m | AUD/USD -10% Impact on equity A$m | EUR exposure A$m | AUD/EUR +10% Impact on profit A$m | AUD/EUR +10% Impact on equity A$m | AUD/EUR -10% Impact on profit A$m | AUD/EUR -10% Impact on equity A$m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2016** | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Cash and cash equivalents | 28 | (2) | | 2 | - | 8 | (1) | - | 1 | - |
| Trade and other receivables | 87 | (8) | - | 8 | - | - | - | - | - | - |
| Cross-currency interest rate swap | 285 | (84) | (1) | 79 | 2 | 270 | - | (135) | - | 165 |
| *Financial liabilities* | | | | | | | | | | |
| Trade and other payables | 649 | 59 | | (59) | - | 45 | 3 | - | (3) | - |
| Interest-bearing loans and borrowings | 1,009 | 64 | - | (79) | - | 1,862 | - | 170 | - | (207) |
| Hedge foreign exchange derivative liabilities | 186 | (49) | (223) | 60 | 255 | 2 | - | (4) | - | 4 |
| **Net impact** | | 2 | (224) | 9 | 257 | | 2 | 31 | (2) | (38) |
| **Year ended 30 June 2015** | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Cash and cash equivalents | 52 | (4) | - | 4 | | | | | | |
| Trade and other receivables | 119 | (8) | - | 8 | - | | | - | | - |
| Cross-currency interest rate swap | 506 | (116) | (2) | 142 | 3 | 224 | - | (70) | - | 85 |
| Hedge foreign exchange derivative assets | 1 | (49) | (80) | 60 | 73 | | - | | | |
| Financial liabilities | | | | | | | | | | |
| Trade and other payables | 789 | 54 | - | (54) | - | 47 | 3 | | (3) | |
| Interest-bearing loans and borrowings | 1,826 | 116 | | (142) | | 2,535 | 47 | - | (58) | - |
| Cross-currency interest rate swap | - | | | | | 35 | (47) | (59) | 58 | 72 |
| Hedge foreign exchange derivative liabilities | - | | | | | - | (1) | (3) | 1 | 4 |
| *Net impact* | | (7) | (82) | 18 | 78 | | 2 | (132) | (2) | 181 |

### Nature of interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations that have floating interest rates

#### *Interest rate risk management*

The policy of the Group is to limit the Group's exposure to adverse fluctuations in interest rates which could erode the Group's profitability and adversely affect shareholder value The policy requires that an interest rate risk management (IRRM) plan be developed based on cash flow forecasts. A committee comprising senior management meets periodically to review the IRRM plan and make interest rate hedging recommendations which are provided to the Finance Director for approval. The Group's interest rate hedging profile is regularly reported to the Wesfarmers Board and senior executives

To manage the interest rate exposure, the Group generally enters into interest rate swaps in which the Group agrees to exchange at specified intervals the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount These swaps are designated to hedge interest costs associated with underlying debt obligations. At 30 June 2016 after taking into account the effect of interest rate swaps economic hedging relationships and early repayment of a portion of core debt facilities approximately 54 per cent of the Group's core borrowings are exposed to movements in variable rates (2015 approximately 50 per cent)

From a Group perspective any internal contracts are eliminated as part of the consolidation process, leaving only the external contracts in the name of Wesfarmers Limited.

Although Wesfarmers has issued US and Euro bonds cross-currency swaps are in place that remove any exposure to US and Euro interest rates These cross-currency swaps ensure that the effective interest rate to Wesfarmers is referenced to Australian interest rates

#### Exposure

As at the reporting date the Group had the following financial assets and liabilities with exposure to interest rate risk. Interest on financial instruments classified as floating rate, is repriced at intervals of less than one year Interest on financial instruments, classified as fixed rate is fixed until maturity of the instrument The classification between fixed and floating interest takes into account *applicable hedge* instruments. Other financial instruments of the Group that are not included in the following table are non-interest bearing and are therefore not subject to interest rate risk.





## NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

### 15(c) Market risk (continued)

| | 2016 Balance $m | 2016 Weighted average interest rate % | 2015 Balance $m | 2015 Weighted average interest rate % |
|---|---|---|---|---|
| Financial assets | | | | |
| *Fixed rate* | | | | |
| Finance advances and loans | 978 | 12.48 | 919 | 13.40 |
| *Floating rate* | | | | |
| Cash assets | 200 | 1.09 | 319 | 1 45 |
| Total weighted average effective interest rate on financial assets at balance date | | 10.34 | | 10.32 |
| Financial liabilities | | | | |
| *Fixed rate* | | | | |
| Other bank loans | 180 | 0.98 | 120 | 2.51 |
| Corporate bonds | 3,202 | 5.65 | 3,149 | 5.65 |
| Weighted average effective interest rate on fixed rate liabilities | | 5.35 | | 5.53 |
| *Floating rate* | | | | |
| Bank overdraft | - | - | 6 | 9 45 |
| Other unsecured bank loans | 2,402 | 1.89 | 203 | 3.97 |
| Corporate bonds | 1,519 | 3.17 | 3,050 | 3.73 |
| Weighted average effective interest rate on floating rate liabilities | | 2.39 | | 3.75 |
| Total weighted average effective interest rate on financial liabilities: | | | | |
| at balance date | | 3.76 | | 4 64 |
| during the year | | 4.15 | | 5.00 |
| during the year including bank and liquidity charges | | 4.50 | | 5.45 |

### The Group's sensitivity to interest rate movements

The following sensitivity analysis shows the impact that a reasonably possible change in interest rates would have on Group profit after tax and equity The impact is determined by assessing the effect that such a reasonably possible change in interest rates would have had on the interest income/(expense) and the impact on financial instrument fair values This sensitivity is based on reasonably possible changes over a financial year determined using observed historical interest rate movements for the preceding five-year period with a heavier weighting given to more recent market data.

The results of the sensitivity analysis are driven by three main factors, as outlined below

- for unhedged floating rate financial instruments, any increase or decrease in interest rates will impact profit;
- to the extent that derivatives form part of an effective cash flow hedge relationship, there will be no impact on profit and any increase/(decrease) in the fair value of the underlying derivative instruments will be deferred in equity and
- movements in the fair value of derivatives in an effective fair value hedge relationship will be recognised directly in profit. However as a corresponding entry will be recognised for the hedged item, there will be no net impact on profit

The following sensitivity analysis is based on the Australian variable interest rate risk exposures in existence at balance sheet date

If interest rates had moved by +/−100bps (basis point(s)) and with all other variables held constant, profit after tax and equity would be *affected as follows.*

| CONSOLIDATED | Impact on profit A$m | Impact on equity A$m |
|---|---|---|
| 2016 | | |
| Australian-variable interest rate +100bps | (17) | 66 |
| Australian-variable interest rate −100bps | 17 | (70) |
| *2015* | | |
| Australian-variable interest rate +100bps | (17) | 77 |
| Australian-variable interest rate −100bps | 17 | (76) |

### Nature of commodity price risk

The Group's exposure to commodity price risk is purely operational and arises largely from coal price fluctuations, which impact on its coal mining operations, or in relation to the purchase of inventory with commodity price as a significant input such as natural gas The Group does not enter into any financial instruments that vary with movements in commodity prices Excluding the foreign exchange risk component, which is managed as part of the Group's overall foreign exchange risk management policies and procedures referred to previously these exposures are not hedged

No commodity price sensitivity analysis is provided as the Group's coal and gas own use contracts are outside the scope of AASB 139 *Financial Instruments. Recognition and Measurement* Such contracts are to buy or sell non-financial items and were entered into and continue to be held for the purpose of the receipt or *delivery of the non-financial item in accordance with the division's* expected purchase sale or usage requirements.

## NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

### 15(d) Credit risk

**Nature of the risk**

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument or customer contract that will result in a financial loss to the Group The Group is exposed to credit risk from its operating activities (primarily from customer receivables) and from its financing activities including deposits with financial institutions foreign exchange transactions and other financial instruments.

**Credit risk management: receivables**

Customer credit risk is managed by each division subject to established policies, procedures and controls relating to customer credit risk management The Group trades with recognised, creditworthy third parties. Depending on the division credit terms are generally up to 30 days from date of invoice. The Group's exposure to bad debts is not significant and default rates have historically been very low

Customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation In addition receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

An ageing of trade receivables past due is included in note 5 The credit quality of trade receivables neither past due nor impaired has been assessed as high on the basis of credit ratings (where available) or historical information about counterparty default The carrying amounts of the Group's trade and other receivables are denominated in Australian dollars US dollars NZ dollars and GBP Since the Group trades only with recognised third parties, no requests or requirement for collateral covering trade and other receivables balances have been made

**Credit risk management: finance advances and loans**

Credit risk from balances with finance advances and loans is managed by Coles Financial Services credit team subject to established policies procedures and controls relating to credit risk management A risk assessment process is used for new loans and credit applications, which ranges from conducting credit assessments to relying on the assessment of financial risk provided by credit insurers. In addition the credit quality of the outstanding finance advances and loans balances is monitored on an ongoing basis to minimise the Group's exposure to bad debts.

An ageing of advances and loans past due is provided in note 6 Based on the credit history any balances that are neither impaired nor past due are expected to be fully recoverable The maximum exposure to credit risk is equal to the carrying amount of finance advances and loans. There are no significant concentrations of credit risk within the Group

**Exposure**

The Group's maximum credit exposure to current receivables finance advances and loans are shown below

| | 2016 % | 2015 % |
|---|---|---|
| Coles | 54.4 | 51 7 |
| Home Improvement | 15.3 | 12.5 |
| Officeworks | 1.8 | 1.5 |
| Kmart | 1.4 | 1.5 |
| Target | 1 1 | 1 4 |
| Resources | 4.5 | 6.2 |
| Industrial and Safety | 13.0 | 12.6 |
| Chemicals, Energy and Fertilisers | 8.0 | 9.9 |
| Corporate | 0.7 | 2.7 |
| | 100.0 | 100 0 |

**Credit risk management: financial instruments and cash deposits**

Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with Board approved policy Investments of surplus funds are made only with approved counterparties or counterparties rated AA or higher by Standard & Poor's Surplus funds are invested within credit limits assigned to each counterparty, unless appropriate approval is provided.

The carrying amount of financial assets represents the maximum credit exposure There is also exposure to credit risk when the Group provides a guarantee to another party Details of contingent liabilities are disclosed in note 21 There are no significant concentrations of credit risk within the Group



## NOTES TO THE FINANCIAL STATEMENTS. RISK
FOR THE YEAR ENDED 30 JUNE 2016

### 15(e) Fair values

The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following

| | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| Corporate bonds, carrying amount | 4,721 | 6,199 |
| Corporate bonds, fair value | 4,967 | 6,380 |

The methods and assumptions used to estimate the fair value of financial instruments are as follows

**Cash**

The carrying amount is fair value due to the asset's liquid nature

**Receivables/payables**

Due to the short-term nature of these financial rights and obligations carrying amounts are estimated to represent fair values

**Other financial assets/liabilities**

The fair values of corporate bonds and term deposits held at fair value have been calculated by discounting the expected future cash flows at prevailing interest rates using market observable inputs The fair values of loan notes and other financial assets have been calculated using market interest rates.

**Derivatives**

The fair values are calculated as the present value of estimated future cash flows using a market-based yield curve sourced from available market data quoted for all major currencies. Accordingly these financial instruments are classified as Level 2

The fair value of forward contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. As market rates are observable they are classified as Level 2

**Interest-bearing loans and borrowings**

Quoted market prices or dealer quotes for similar instruments are used to value long-term debt instruments except corporate bonds based on discounting expected future cash flows at market rates

**Valuation of financial instruments**

For all fair value measurements and disclosures, the Group uses the following to categorise the method used

- Level 1 the fair value is calculated using quoted prices in active markets.
- Level 2 the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

All of the Group's financial instruments were valued using market observable inputs (Level 2) with the exception of shares in unlisted companies at fair value (Level 3) that were valued at $1 million (2015 $1 million)

For financial instruments that are carried at fair value on a recurring basis the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period There were no transfers between Level 1 and Level 2 during the year There were no material Level 3 fair value movements during the year

## NOTES TO THE FINANCIAL STATEMENTS. RISK
FOR THE YEAR ENDED 30 JUNE 2016

### 16. Hedging

#### Types of hedging instruments

The Group is exposed to risk from movements in foreign exchange and interest rates. As part of the risk management strategy set out in note 15 the Group holds the following types of derivative instruments

*Forward exchange contracts:* contracts denominated in US dollar and Euro to hedge highly probable sale and purchase transactions (cash flow hedges).

*Interest rate swaps.* to optimise the Group's exposure to fixed and floating interest rates arising from borrowings These hedges incorporate cash flow hedges, which fix future interest payments and fair value hedges which reduce the Group's exposure to changes in the value of its assets and liabilities arising from interest rate movements

*Cross-currency interest rate swaps.* to either reduce the Group's exposure to exchange rate variability in its interest repayments of foreign currency denominated debt (cash flow hedges) or to hedge against movements in the fair value of those liabilities due to exchange and interest rate movements (fair value hedges) The borrowing margin on Wesfarmers cross-currency interest rate swaps has been treated as a cost of hedging and deferred into equity These costs are then amortised to the profit and loss as a finance cost over the remaining life of the borrowing

| | 2016 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional $m | Weighted Average | Asset $m | Liability $m | Notional $m | Weighted Average | Asset $m | Liability $m |
| **Foreign exchange contracts** | | | | | | | | |
| Cash flow hedge - sales (AUD) | US$734 | Asset: 0.71 Liability 0.81 | 1 | (88) | US$1 463 | Asset: nil Liability 0.84 | | (183) |
| Cash flow hedge sales (GBP) | US$35 | Asset: nil Liability 0.69 | | (3) | - | - | - | |
| Cash flow hedge purchases (AUD) | US$3,723 | Asset: 0.78 Liability 0.71 | 39 | (135) | US$2,658 | Asset: 0.80 Liability 0.75 | 178 | (9) |
| Cash flow hedge purchases (GBP) | US$139 | Asset: 0.68 Liability nil | 10 | | | | | - |
| Cash flow hedge purchases (NZD) | US$148 | Asset: 0.72 Liability 0.66 | 1 | (11) | US$112 | Asset: 0.74 Liability nil | 14 | |
| Cash flow hedge - purchases (AUD) | €40 | Asset: nil Liability 0.64 | | (2) | €42 | Asset: 0.71 Liability 0.67 | 1 | (1) |
| **Interest rate swap contracts** | | | | | | | | |
| Cash flow hedge | £100 | 1.09% fixed | | (2) | | | | - |
| Fair value hedge | A$300 | BBSW +0.82% floating | 13 | | A$300 | BBSW +0.82% floating | 2 | (1) |
| **Cross-currency interest rate swaps** | | | | | | | | |
| Fair value hedge | US$750 | BBSW +1.24% floating | 285 | - | US$1,400 | BBSW +1.25% floating | 605 | |
| Cash flow hedge | €1,250 | 5.32% fixed | 270 | - | €1,250 | 5.32% fixed | 224 | (7) |
| Fair value hedge | | | | - | €500 | BBSW +2.29% floating | | (28) |
| **Total derivative asset/(liability)** | | | 619 | (241) | | | 922 | (226) |

### Recognition and measurement

#### Recognition

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value per note 15(a) The method of recognising any remeasurement gain or loss depends on the nature of the item being hedged For hedging instruments, any hedge ineffectiveness is recognised directly in the income statement in the period in which it is incurred This was immaterial in the current year

#### Hedge accounting

At the start of a hedge relationship, the Group formally designates and documents the hedge relationship including the risk management strategy for undertaking the hedge This includes identification of the hedging instrument the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Hedge accounting is only applied where effective tests are met on a prospective basis.

For the purposes of hedge accounting hedges are classified as·

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset, liability or firm commitment that could affect profit or loss; or
- cash flow hedges when they hedge a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions. A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

Wesfarmers will discontinue hedge accounting prospectively only when the hedging relationship or part of the hedging relationship no longer qualifies for hedge accounting, which includes where there has been a change to the risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised For this purposes the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective





## NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

### 16. Hedging (continued)

Hedges that meet the criteria for hedge accounting are classified and accounted for as follows.

#### Fair value hedges

The Group uses fair value hedges to mitigate the risk of changes in the fair value of foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period Where these fair value hedges qualify for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains or losses in relation to the hedged item where those gains of losses relate to the risk intended to be hedged

For fair value hedges, the carrying value of the hedged item is adjusted for gains and losses attributable to the risk being hedged The derivative is also remeasured to fair value and gains and losses from both are taken to profit or loss. The net amount recognised in the income statement in this financial year was less than $1 million

The maturity profile of the fair value hedges is shown in note 15(b)

If the hedged item is a firm commitment (and therefore not recognised) the subsequent cumulative change in the fair value of the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The accumulated amount of fair value adjustment which is included in the carrying amount of borrowings in the balance sheet is as follows

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Foreign bonds $m | Domestic bonds $m | Foreign bonds $m | Domestic bonds $m |
| Face value at inception | 2,358 | 1,850 | 3,718 | 1,850 |
| Change arising from revaluation to spot rates at 30 June | 518 | | 653 | |
| | 2,876 | 1,850 | 4,371 | 1,850 |
| Balance of unamortised discount/premium | (12) | (6) | (16) | (9) |
| Amortised cost | 2,864 | 1,844 | 4,355 | 1,841 |
| Accumulated amount of fair value hedge adjustment attributable to hedge risk | | 13 | 2 | 1 |
| **Carrying amount** | 2,864 | 1,857 | 4,357 | 1,842 |

There was no material ineffectiveness relating to financial instruments in designated fair value hedge relationships during the year (2015 nil)

#### Cash flow hedges

The Group uses cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period associated with our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies. The Group also uses cash flow hedges to hedge variability in cash flows due to interest rate movements associated with some of our domestic borrowings.

For cash flow hedges the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity while the ineffective portion is recognised in profit or loss. The maturity profile of these hedges is shown in note 15(b) the recognition of the gain or loss is expected to be consistent with this

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Trade $m | Foreign bonds $m | Domestic bonds $m | Trade $m | Foreign bonds $m | Domestic bonds $m |
| Change in the fair value of the hedge item | (189) | 54 | (2) | (33) | 13 | |

Amounts recognised in equity are transferred to the income statement when the hedged transaction affects profit or loss such as when hedged income or expenses are recognised or when a forecast sale occurs or the asset is consumed When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability

If the forecast transaction is no longer expected to occur amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or roll over or if its designation as a hedge is revoked amounts previously recognised in equity remain in equity until the forecast transaction occurs

# NOTES TO THE FINANCIAL STATEMENTS: RISK
FOR THE YEAR ENDED 30 JUNE 2016

## 17 Impairment of non-financial assets

### Testing for impairment

The Group tests property plant and equipment intangibles and goodwill for impairment.

- at least annually for indefinite life intangibles and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date)' or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

If the asset does not generate independent cash inflows and its value in use cannot be estimated to be close to its fair value the asset is tested for impairment as part of the cash generating unit (CGU) to which it belongs

Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less costs of disposal (FVLCOD) or value in use (VIU)

### Impairment calculations

In assessing VIU the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU In determining FVLCOD a discounted cash flow model is used based on a methodology consistent with that applied by the Group in determining the value of potential acquisition targets maximising the use of market observed inputs These calculations classified as Level 3 on the fair value hierarchy are compared to valuation multiples or other fair value indicators where available, to ensure reasonableness

### Inputs to impairment calculations

For VIU calculations, cash flow projections are based on Wesfarmers' corporate plans and business forecasts prepared by management and approved by the Board The corporate plans are developed annually with a five-year outlook and for these calculations, are adjusted to exclude the costs and benefits of expansion capital and on the understanding that actual outcomes may differ from the assumptions used

In determining FVLCOD, the valuation model incorporates the cash flows projected over the balance of the current corporate plan period or in the case of CGUs within the Resources business, over their respective life-of mine (LOM). These projections are discounted using a risk-adjusted discount rate commensurate with a typical market participant's assessment of the risk associated with the projected cash flows.

For both the VIU and FVLCOD models, cash flows beyond the five-year corporate plan period are extrapolated using estimated growth rates, which are based on Group estimates taking into consideration historical performance as well as expected long-term operating conditions Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates.

Discount rates used in both calculations are based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary Other assumptions are determined with reference to external sources of information and use consistent, conservative estimates for variables such as terminal cash flow multiples. Increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the recoverable amounts to fall below carrying values.

### Recognised impairment

During the year the carrying values of the Target and Curragh CGUs exceeded their recoverable amounts.

**Target CGU**

A $1 266 million impairment was recognised in respect of its goodwill ($1,208 million) and plant and equipment ($58 million) in 'impairment expenses The decrease in the recoverable amount largely reflects Target's current trading performance short-term outlook and changes in its strategic plan Details of the assumptions used in determining the recoverable amount of Target are provided on the following page

**Curragh CGU**

An $850 million impairment was recognised in respect of its non-current assets, predominantly plant, vehicles and equipment ($607 million) and mineral lease and development assets ($182 million) in 'impairment expenses The reduction in the recoverable value of Curragh was the result of the continued deterioration in export coal price forecasts and long-term exchange rate assumptions Details of the assumptions used in determining the recoverable amount of Curragh are provided on the following page

### Reversal of impairment

Where there is an indication that previously recognised impairment losses may no longer exist or have decreased, the asset is tested if there has been a change to the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised, the carrying value of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying value that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying value less any residual value on a systematic basis over its remaining useful life. Impairments recognised against goodwill are not reversed

There were no reversals of impairment during the period



# NOTES TO THE FINANCIAL STATEMENTS. RISK
FOR THE YEAR ENDED 30 JUNE 2016

## 17 Impairment of non-financial assets (continued)

### Key assumptions fair value less costs of disposal calculations

**Coles and Target CGUs**

The key assumptions used for assessing the recoverable amounts of the Coles CGU (which accounts for over 72 per cent of the Group's goodwill and intangible assets with indefinite useful lives at 30 June 2016) and Target CGU are set out below Both CGUs adopt the FVLCOD methodology to determine the recoverable amount

EBIT growth over the forecast period is based on past experience expectations of general market conditions and in the case of Target, a program of business improvement strategies The post-tax discount rates incorporate a risk-adjustment relative to the risks associated with the net post-tax cash flows being achieved whilst the growth rates beyond the corporate plan are based on market estimates of the long term average industry growth rate

| | Coles | | Target | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate (post-tax) | 8.9% | 8.9% | 11% | 12.4% |
| Growth rate beyond corporate plan | 3.0% | 3.0% | 2.5% | 2.9% |
| Headroom as a percentage of the CGU's net carrying value | 82.4% | 83.3% | 0% | 2.2% |
| Terminal value as a percentage of the CGU's recoverable value | | | 83.8% | 75.6% |

As Target's recoverable amount approximates its carrying value any adverse movements in key assumptions may lead to a further impairment. Consistent with 30 June 2015 the recoverable amount of Target has been based on assumed improvements in its operating and financial performance notwithstanding that the timing of cash flows arising from these improvements will be influenced by general market conditions The recoverable value of Target is sensitive to changes in its discount rate and its forecast long term EBIT that drives terminal value A one per cent change in discount rate or a 13 per cent change in its forecast long-term EBIT approximates a $150 million change in recoverable value

**Curragh CGU**

The recoverable value of Curragh was determined using the LOM FVLCOD valuation methodology and considers both JORC reserves and JORC resources. The key assumptions used for assessing the recoverable amount of the Curragh CGU are set out below

- remaining mine life of approximately 20 years.
- long-term export coal price estimates sourced from Wood Mackenzie a global provider of market intelligence to the energy, metals and mining industries
- AUD/USD exchange rates based on the June 2016 forward curve off the spot rate of 0 72
- mine cash cost escalations of approximately 2.2 per cent per annum, and
- post tax discount rate of 10 per cent (2015 11 per cent)

The recoverable value of Curragh is sensitive to changes in its discount rate and forecast post-tax cash flows over the LOM A 1 9 per cent change in discount rate or a 24 per cent change in forecast pre-tax cash flows over the LOM approximates a $150 million change in recoverable value As Curragh's recoverable amount equals its carrying value any adverse movements in key assumptions may lead to a further impairment

**Other CGUs**

Based on current economic conditions and CGU performances, no reasonably possible change in a key assumption used in the determination of the recoverable value of Coles or CGUs other than Curragh or Target would result in a material impairment to the Group

## NOTES TO THE FINANCIAL STATEMENTS: *GROUP STRUCTURE*
FOR THE YEAR ENDED 30 JUNE 2016

### 18. Associates and joint arrangements

| | CONSOLIDATED 2016 $m | 2015 $m |
|---|---|---|
| Investments in associates | 588 | 545 |
| Interests in joint ventures | 17 | 17 |
| | 605 | 562 |
| *Net profits from operations of associates* | 111 | 83 |
| Other comprehensive income of associates | 15 | - |
| Profit/(loss) from operations of joint venture | 3 | (1) |
| Other comprehensive income of joint venture | (7) | (13) |
| Total comprehensive income | 122 | 69 |

#### Investments in associates

##### Recognition and measurement

The Group's investments in its associates, being entities in which the Group has significant influence and are neither subsidiaries nor *jointly controlled* assets, are accounted for using the equity method Under this method the investment in associates is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of the associates net assets. Goodwill relating to associates is included in the carrying amount of the investment and is not amortised. After application of the equity method the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's investment. The Group's income statement reflects the Group's share of the associate's result.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of comprehensive income

Where the reporting dates of the associates and the Group vary management accounts of the associate for the period to the Group's balance date are used for equity accounting The associates' accounting policies are consistent with those used by the Group for like transactions and events in similar circumstances.

Investment properties owned by associates are initially measured at cost, including transaction costs Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date *Gains or losses arising from* changes in the fair values of investment properties are recognised in profit or loss of the associate in the year in which they arise. This is consistent with the Group's policy

#### Interests in joint arrangements

##### Recognition and measurement

The Group recognises its share of the assets liabilities expenses and income from the use and output of its joint operations. The Group's investment in joint ventures is accounted for using the equity method of accounting

**Key judgement: control and significant influence**

The Group has a number of management agreements with associates and joint ventures it considers when determining whether it has control, joint control or significant influence The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds to appoint or remove key management and the decision-making rights and scope of powers specified in the contract.

Where the Group has the unilateral power to direct the relevant activities of an investee the Group then assesses whether the power it holds is for its own benefit (acting as principal) or for the benefit of others (acting as agent) This *determination is based on a number of factors including an* assessment of the magnitude and variability of the Group's exposure to variable returns associated with its involvement with the investee In an agency capacity the Group is considered to be acting on behalf of other parties and therefore does not control the investee when it exercises its *decision-making powers*

**Interests in associates and joint arrangements**

| *Associates* | *Principal activity* | *Reporting date* | *Country of incorporation* | 2016 % | 2015 % |
|---|---|---|---|---|---|
| Australian Energy Consortium Pty Ltd[1] | Oil and gas | 31 December | Australia | 27.4 | 27.4 |
| Bengalla Agricultural Company Pty Limited | Agriculture | 31 December | Australia | - | 40.0 |
| Bengalla Coal Sales Company Pty Limited | Sales agent | 31 December | Australia | 40.0 | 40.0 |
| Bengalla Mining Company Pty Limited | Management company | 31 December | Australia | 40.0 | 40.0 |
| BWP Trust | Property investment | 30 June | Australia | 24.8 | 24.8 |
| Gresham Partners Group Limited | Investment banking | 30 September | Australia | 50.0 | 50.0 |
| Gresham Private Equity Funds | Private equity fund | 30 June | Australia | (a) | (a) |
| ICIX International Inc. | Information technology | 31 December | USA | 20.0 | 20.0 |
| Queensland Nitrates Management Pty Ltd | Chemical manufacture | 30 June | Australia | 50.0 | 50.0 |
| *Queensland Nitrates Pty Ltd* | *Chemical manufacture* | 30 June | Australia | 50.0 | 50.0 |
| Wespine Industries Pty Ltd | Pine sawmillers | 30 June | Australia | 50.0 | 50.0 |
| *Joint operations* | *Principal activity* | *Reporting date* | *Country of incorporation* | % | % |
| Sodium Cyanide | Sodium cyanide manufacture | 30 June | Australia | 75.0 | 75.0 |
| Bengalla | Coal mining | 31 December | Australia | 40.0 | 40.0 |
| *ISPT* | *Property ownership* | 30 June | Australia | 25.0 | 25.0 |
| *Joint ventures* | *Principal activity* | *Reporting date* | *Country of incorporation* | % | % |
| BPI NO 1 Pty Ltd | Property management | 30 June | Australia | (b) | (b) |

[1] Australian Energy Consortium Pty Ltd has a 50.0 per cent interest in Quadrant Energy Holdings Pty Ltd.

(a) Gresham Private Equity Funds: Whilst the Group's interest in the unit holders funds of Gresham Private Equity Fund No. 2 amounts to greater than 50.0 per cent, it is not a controlled entity as the Group does not have the practical ability to direct their relevant activities. Such control requires a unit holders resolution of 75.0 per cent of votes pursuant to the Funds trust deeds.

(b) BPI NO 1 Pty Ltd: Whilst the Group owns the only equity share in BPI NO 1 Pty Ltd, the Group's effective interest approximates 50.0 per cent and joint control is effected through contractual arrangements with the joint venture partner.



## NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE
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### 19 Subsidiaries

The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table. Refer to page 124 for the respective legend

| ENTITY | 2016 % | 2015 % |
|---|---|---|
| A.C.N 003 921 873 Pty Limited | 100 | 100 |
| A.C.N. 004 191 646 Pty Ltd | 100 | 100 |
| A.C.N. 007 870 484 Pty Ltd | 100 | 100 |
| *A.C.N. 008 648 799 Pty Ltd* | 100 | 100 |
| A.C.N. 008 734 567 Pty Ltd | 100 | 100 |
| A.C.N. 082 931 486 Pty Ltd | 100 | 100 |
| A.C.N. 092 194 904 Pty Ltd | 100 | 100 |
| A.C.N. 112 719 918 Pty Ltd | 100 | 100 |
| AEC Environmental Pty Ltd | 100 | 100 |
| ALW Newco Pty Limited – | - | 100 |
| Andearp Pty Ltd | 100 | 100 |
| Arana Hills Properties Pty Limited – | | 100 |
| Auridiam Botswana (Proprietary) Ltd ◢ | 100 | 100 |
| Australian Gold Reagents Pty Ltd | 75 | 75 |
| Australian Graphics Pty Ltd | 100 | 100 |
| Australian Grocery Holdings Pty Ltd – | - | 100 |
| Australian International Insurance Limited + | 100 | 100 |
| Australian Liquor Group Ltd + | 100 | 100 |
| Australian Underwriting Holdings Limited + | 100 | 100 |
| Australian Underwriting Services Pty Ltd | 100 | 100 |
| Australian Vinyls Corporation Pty Ltd + | 100 | 100 |
| AVC Holdings Pty Ltd + | 100 | 100 |
| AVC Trading Pty Ltd + | 100 | 100 |
| Barrier Investments Pty Ltd – | - | 100 |
| BBC Hardware Limited + | 100 | 100 |
| BBC Hardware Properties (NSW) Pty Ltd | 100 | 100 |
| BBC Hardware Properties (Vic) Pty Ltd | 100 | 100 |
| Beddington House (No.4) Limited ✪ ▲ | 100 | |
| Beddington House Holdings Limited ✪ ▲ | 100 | |
| Bi-Lo Pty Limited + | 100 | 100 |
| Blacksmith Jacks Pty Ltd | 100 | 100 |
| BPI Management Pty Ltd | 100 | 100 |
| Brian Pty Ltd | 100 | 100 |
| Broking Agency Pty Ltd – | - | 100 |
| BUKI (Australia) Pty Ltd ✪ + | 100 | - |
| Bullivants International Pty Ltd | 100 | 100 |
| Bullivants Pty Limited + | 100 | 100 |
| Bunnings (NZ) Limited ■ | 100 | 100 |
| Bunnings (UK & I) Holdings Limited ✪ ▲ | 100 | |
| Bunnings Group Limited + | 100 | 100 |
| Bunnings Joondalup Pty Ltd | 100 | 100 |
| Bunnings Limited ♦ ■ | 100 | 100 |
| *Bunnings Management Services Pty Ltd* | 100 | 100 |
| Bunnings Manufacturing Pty Ltd | 100 | 100 |
| Bunnings Properties Pty Ltd | 100 | 100 |
| Bunnings Pulp Mill Pty Ltd | 100 | 100 |
| Bunnings Services Limited ✪ ▲ | 100 | |
| *BWP Management Limited* < | 100 | 100 |
| C S Holdings Pty Limited + | 100 | 100 |
| Campbells Hardware & Timber Pty Limited | 100 | 100 |
| Car Rental Risk Management Services Pty Ltd – | - | 100 |
| CGNZ Finance Limited ■ | 100 | 100 |
| Charlie Carter (Norwest) Pty Ltd + | 100 | 100 |
| Chef Fresh Pty Ltd | 100 | 100 |

| ENTITY | 2016 % | 2015 % |
|---|---|---|
| Chemical Holdings Kwinana Pty Ltd + | 100 | 100 |
| Clarkson Shopping Centre Pty Ltd – | - | 100 |
| CMFL Services Ltd + | 100 | 100 |
| *CMNZ Investments Pty Ltd* | 100 | 100 |
| CMPQ (CML) Pty Ltd | 100 | 100 |
| CMPQ (PEN) Pty Ltd – | - | 100 |
| CMTI Pty Ltd – | | 100 |
| Coles Ansett Travel Pty Ltd | 97.5 | 97.5 |
| Coles Financial Services Pty Ltd + | 100 | 100 |
| Coles Group Asia Pty Ltd + | 100 | 100 |
| Coles Group Deposit Services Pty Ltd | 100 | 100 |
| Coles Group Employee Share Plan Pty Ltd – | - | 100 |
| Coles Group Finance (USA) Pty Ltd | 100 | 100 |
| *Coles Group Finance Limited +* | 100 | 100 |
| Coles Group International Pty Ltd | 100 | 100 |
| Coles Group Limited + | 100 | 100 |
| Coles Group New Zealand Holdings Limited ■ | 100 | 100 |
| Coles Group Properties Holdings Ltd + | 100 | 100 |
| Coles Group Properties Pty Ltd – | - | 100 |
| Coles Group Property Developments Ltd + | 100 | 100 |
| Coles Group Superannuation Fund Pty Ltd | 100 | 100 |
| Coles Group Supply Chain Pty Ltd + | 100 | 100 |
| Coles LD Australia Pty Ltd – | - | 100 |
| Coles Melbourne Ltd + | 100 | 100 |
| Coles Online Pty Ltd | 100 | 100 |
| Coles Properties WA Ltd + | 100 | 100 |
| Coles Property Management Pty Ltd | 100 | 100 |
| Coles Retail Group Pty Ltd – | - | 100 |
| Coles Retail Services Pty Ltd | 100 | 100 |
| Coles Stores (New Zealand) Limited ■ | 100 | 100 |
| Coles Supermarkets Australia Pty Ltd + | 100 | 100 |
| Coles Surry Hills Unitholder Pty Ltd – | - | 100 |
| Comnet Pty Ltd – | - | 100 |
| Comprehensive Holiday Insurance (Underwriting Agents) Pty Ltd – | - | 100 |
| ConsortiumCo Pty Ltd | 100 | 100 |
| Coo-ee Investments Pty Limited | 100 | 100 |
| Coregas Pty Ltd + | 100 | 100 |
| CSA Retail (Finance) Pty Ltd | 100 | 100 |
| CSBP Ammonia Terminal Pty Ltd | 100 | 100 |
| CSBP Limited + | 100 | 100 |
| CTE Pty Ltd | 100 | 100 |
| Cuming Smith and Company Limited + | 100 | 100 |
| Curragh Coal Sales Co Pty Ltd | 100 | 100 |
| Curragh Queensland Mining Pty Ltd | 100 | 100 |
| Dairy Properties Pty Ltd | 100 | 100 |
| Direct Fulfilment Group Pty Ltd – | - | 100 |
| Ditchburn Property Investments (UK) Ltd ✪ ▲ | 100 | |
| Dowd Corporation Pty Ltd | 100 | 100 |
| e.colesgroup Pty Ltd | 100 | 100 |
| e.tailing (Coles Group) Pty Ltd | 100 | 100 |
| Eastfarmers Pty Ltd | 100 | 100 |
| ECC Pty Ltd | 100 | 100 |
| ENVAustralia Pty Ltd | 100 | 100 |

## NOTES TO THE FINANCIAL STATEMENTS. GROUP STRUCTURE
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### 19 Subsidiaries (continued)

| ENTITY | 2016 % | 2015 % |
|---|---|---|
| Environmental and Licensing Professionals Pty Ltd | 100 | 100 |
| Eureka Operations Pty Ltd + | 100 | 100 |
| FBP Awards Fund Pty Ltd | 100 | 100 |
| FF Investments Pty Limited | 100 | 100 |
| Fitgrange Limited ⊙ ▲ | 100 | |
| Financial Network Card Services Pty Ltd – | - | 100 |
| Fitzgibbons Hotel Pty Ltd | 100 | 100 |
| Fitzinn Pty Ltd | 100 | 100 |
| Focal Point (Lighting) Limited ⊙ ▲ | 100 | |
| Fosseys (Australia) Pty Ltd + | 100 | 100 |
| Fulthom Pty Limited – | - | 100 |
| G J Coles & Coy Pty Limited – | - | 100 |
| GBPL Pty Ltd | 100 | 100 |
| General Merchandise & Apparel Group Pty Ltd – | - | 100 |
| GotStock Pty Ltd | 100 | 100 |
| GPML Pty Ltd | 100 | 100 |
| Greencap - NAA Pty Ltd | 100 | 100 |
| Greencap Holdings Limited | 100 | 100 |
| Greencap Pte Ltd — – | | 100 |
| Grocery Holdings Pty Ltd + | 100 | 100 |
| Guildol Pty Ltd – | | 100 |
| Hampden Group Limited ⊙ ▲ | 100 | - |
| Hadz No 2 Pty Ltd – | - | 100 |
| Hadz No 3 Pty Ltd – | - | 100 |
| Hadz No 4 Pty Ltd – | - | 100 |
| Hadz No 5 Pty Ltd – | - | 100 |
| Hadz No 6 Pty Ltd – | - | 100 |
| Hadz No 7 Pty Ltd – | - | 100 |
| Homebase (NI) Limited ⊙ ▲ | 100 | |
| Homebase Card Handling Services Limited ⊙ ▲ | 100 | |
| Homebase Direct Limited ⊙ ▲ | 100 | |
| Homebase Group (2000) Limited ⊙ ▲ | 100 | - |
| Homebase Group Limited ⊙ ▲ | 100 | - |
| Homebase Holdings Limited ⊙ ▲ | 100 | |
| Homebase House and Garden Centre Limited ⊙ ☐ | 100 | |
| Homebase Limited ⊙ ▲ | 100 | |
| Homebase Spend & Save Limited ⊙ ▲ | 100 | - |
| Home Charm Group Limited ⊙ ▲ | 100 | - |
| Home Charm Group Trustees Limited ⊙ ▲ | 100 | |
| Hotel Wickham Investments Pty Ltd | 100 | 100 |
| HouseWorks Co Pty Ltd | 100 | 100 |
| Howard Smith Limited + | 100 | 100 |
| Howard Smith Nominees Pty Limited | 100 | 100 |
| HT (Colesgroup) Pty Ltd – | - | 100 |
| Hunter Property Investments Pty Ltd ⊙ ▽ | 100 | |
| Iconford Limited ⊙ ▲ | 100 | |
| Incorporatewear Limited ▲ | 100 | 100 |
| Index Limited ⊙ ▲ | 100 | - |
| Integrated Safety Training Pty Ltd | 100 | 100 |
| J Blackwood & Son Pty Ltd + | 100 | 100 |
| KAS Direct Sourcing Private Limited (formerly Coles Direct Sourcing Private Limited) # ■ | 100 | 100 |
| KAS Global Trading Pty Ltd ⊙ ◆ | 100 | - |
| KAS International Trading (Shanghai) Company Limited ♠ | 100 | 100 |

| ENTITY | 2016 % | 2015 % |
|---|---|---|
| KAS Pty Limited ◆ | 100 | 100 |
| Kettles Fashions (Aust) Pty Limited | 100 | 100 |
| Kleenheat Gas House Franchising Pty Ltd | 100 | 100 |
| Kleenheat Pty Ltd (formerly Wesfarmers Bioenergy Pty Ltd) | 100 | 100 |
| Kmart Australia Limited + | 100 | 100 |
| Kmart Australia Sourcing Pty Ltd + | 100 | 100 |
| Knox Liquor Australia Pty Ltd – | - | 100 |
| Kwinana Nitrogen Company Proprietary Limited | 100 | 100 |
| Lawvale Pty Ltd | 100 | 100 |
| LHG Pty Ltd + | 100 | 100 |
| LHG2 Pty Ltd + | 100 | 100 |
| LHG3 Pty Ltd | 100 | 100 |
| Liftco Pty Limited + | 100 | 100 |
| Liquorland (Australia) Pty Ltd + | 100 | 100 |
| Liquorland (Qld) Pty Ltd + | 100 | 100 |
| Loggia Pty Ltd + | 100 | 100 |
| Loyalty Pacific Pty Ltd + | 100 | 100 |
| Manacol Pty Limited + | 100 | 100 |
| Masters Hardware Limited ■ | 100 | 100 |
| Masters Home Improvement Limited ■ | 100 | 100 |
| MC2 Pacific Pty Ltd | 100 | 100 |
| Meredith Distribution (NSW) Pty Ltd | 100 | 100 |
| Meredith Distribution Pty Ltd | 100 | 100 |
| MI Home Limited ⊙ ▲ | 100 | - |
| Millars (WA) Pty Ltd | 100 | 100 |
| Modern Interiors Limited ⊙ ▲ | 100 | |
| Modwood Technologies Pty Ltd | 100 | 100 |
| Morley Shopping Centre Pty Limited – | - | 100 |
| Multimedia Services Pty Ltd | 100 | 100 |
| Mycar Automotive Pty Ltd | 100 | 100 |
| Neat N' Trim Uniforms Pty Ltd | 100 | 100 |
| Newmart Pty Ltd + | 100 | 100 |
| now.com.au Pty Ltd | 100 | 100 |
| NZ Finance Holdings Pty Limited ■ | 100 | 100 |
| Officeworks Businessdirect Pty Ltd | 100 | 100 |
| Officeworks Ltd + | 100 | 100 |
| Officeworks Property Pty Ltd | 100 | 100 |
| Officeworks Superstores NZ Limited ■ | 100 | 100 |
| ORZO Pty Limited – | - | 100 |
| Osmond Hotel Pty Ltd – | | 100 |
| Outfront Liquor Services Pty Ltd – | - | 100 |
| Pacific Liquor Wholesalers Pty Ltd – | - | 100 |
| Pailou Pty Ltd + | 100 | 100 |
| Patrick Operations Pty Ltd | 100 | 100 |
| Penneys Pty Limited – | - | 100 |
| Petersen Bros Pty Ltd | 100 | 100 |
| Philip Murphy Melbourne Pty Ltd – | - | 100 |
| Philip Murphy Niddrie Pty Ltd – | - | 100 |
| Philip Murphy Toorak Pty Ltd – | - | 100 |
| Philip Murphy Wine & Spirits Pty Ltd – | | 100 |
| Powertrain Pty Limited | 100 | 100 |
| Premier Power Sales Pty Ltd | 100 | 100 |
| Price Point Pty Ltd – | - | 100 |
| Procurement Online Pty Ltd | 100 | 100 |
| Protector Alsafe Pty Ltd + | 100 | 100 |



## NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE
FOR THE YEAR ENDED 30 JUNE 2016

### 19 Subsidiaries (continued)

| ENTITY | 2016 % | 2015 % |
|---|---|---|
| Protex Healthcare (Aus) Pty Ltd | 100 | 100 |
| PT Blackwoods Indonesia ♥ | 100 | 100 |
| PT Greencap NAA Indonesia ♥ – | - | 100 |
| Quickinstant Limited ⊙ ▲ | 100 | - |
| R & N Palmer Pty Ltd | 100 | 100 |
| Rapid Evacuation Training Services Pty Ltd | 100 | 100 |
| Relationship Services Pty Ltd | 100 | 100 |
| Retail Australia Consortium Pty Ltd | 100 | 100 |
| Retail Investments Pty Ltd | 100 | 100 |
| Retail Ready Operations Australia Pty Ltd + | 100 | 100 |
| Richardson & Richardson, Unipessoal, LDA ⊙ ◇ | 100 | |
| Richmond Plaza Shopping Centre Pty Ltd | 100 | 100 |
| Russellement Limited ▲ | 25 | 25 |
| Sandfords Limited ⊙ ▲ | 100 | |
| SBS Rural IAMA Pty Limited | 100 | 100 |
| Scones Jam n Cream Pty Ltd | 100 | 100 |
| Sellers (SA) Pty Ltd | 100 | 100 |
| Share Nominees Limited | 100 | 100 |
| Sorcha Pty Ltd – | - | 100 |
| Sotico Pty Ltd | 100 | 100 |
| Surry Hills Project Pty Ltd – | - | 100 |
| Target Australia Pty Ltd + | 100 | 100 |
| Target Australia Sourcing (Shanghai) Co Ltd (formerly TGT Business Consulting Services (Shanghai) Co Ltd) # ♠ | 100 | 100 |
| Target Australia Sourcing Limited (formerly TGT Sourcing Asia Limited) # ◆ | 100 | 100 |
| Texas (NI) Limited ⊙ ▲ | 100 | |
| Texas Homecare (Northern Ireland) Limited ⊙ ▲ | 100 | - |
| Texas Homecare Installation Services Limited ⊙ ▲ | 100 | - |
| Texas Homecare Limited ⊙ ▲ | 100 | |
| Texas Installations Limited ⊙ ▲ | 100 | |
| Texas Services Limited ⊙ ▲ | 100 | |
| TGT Procurement Asia Limited # ◆ | 100 | 100 |
| TGT Sourcing India Private Limited # ◆ | 100 | 100 |
| The Builders Warehouse Group Pty Limited | 100 | 100 |
| The Franked Income Fund | 100 | 100 |
| The Grape Management Pty Ltd + | 100 | 100 |
| The Westralian Farmers Limited + | 100 | 100 |
| The Workwear Group Holding Pty Ltd + | 100 | 100 |
| The Workwear Group Pty Ltd + | 100 | 100 |
| Theo's Liquor Pty Ltd – | - | 100 |
| Tickoth Pty Ltd | 100 | 100 |
| Tooronga Holdings Pty Ltd | 100 | 100 |
| Tooronga Shopping Centre Pty Ltd – | - | 100 |
| TotalGuard Pty Limited – | - | 100 |
| Trend Décor Limited ⊙ ▲ | 100 | |
| Trimevac Pty Ltd | 100 | 100 |
| Tyre and Auto Pty Ltd + | 100 | 100 |
| Tyremaster (Wholesale) Pty Ltd | 100 | 100 |
| Tyremaster Pty Ltd | 100 | 100 |
| Ucone Pty Ltd + | 100 | 100 |
| Universal Underwriting Services Pty Limited – | - | 100 |
| Validus Group Pty Ltd | 100 | 100 |
| Valley Investments Pty Ltd + | 100 | 100 |
| Vigil Underwriting Agencies Pty Ltd – | - | 100 |
| Viking Direct Pty Limited | 100 | 100 |

| ENTITY | 2016 % | 2015 % |
|---|---|---|
| W4K.World 4 Kids Pty Ltd | 100 | 100 |
| Waratah Cove Pty Ltd | 100 | 100 |
| Wesfarmers Agribusiness Limited + | 100 | 100 |
| Wesfarmers Bengalla Limited + | 100 | 100 |
| Wesfarmers Bengalla Management Pty Ltd ⊙ | 100 | |
| Wesfarmers Bunnings Limited + | 100 | 100 |
| Wesfarmers Chemical US Holdings Corp ◤ | 100 | 100 |
| Wesfarmers Chemicals, Energy & Fertilisers Limited + | 100 | 100 |
| Wesfarmers Coal Resources Pty Ltd + | 100 | 100 |
| Wesfarmers Curragh Pty Ltd + | 100 | 100 |
| Wesfarmers Emerging Ventures Pty Ltd | 100 | 100 |
| Wesfarmers Energy (Gas Sales) Limited + | 100 | 100 |
| Wesfarmers Energy (Industrial Gas) Pty Ltd | 100 | 100 |
| Wesfarmers Fertilizers Pty Ltd + | 100 | 100 |
| Wesfarmers Finance Holding Company Pty Ltd + | 100 | 100 |
| Wesfarmers Finance Pty Ltd + | 100 | 100 |
| Wesfarmers Gas Limited + | 100 | 100 |
| Wesfarmers Holdings Pty Ltd | 100 | 100 |
| Wesfarmers Industrial & Safety Holdings NZ Ltd # ■ | 100 | 100 |
| Wesfarmers Industrial & Safety NZ Limited # ■ | 100 | 100 |
| Wesfarmers Industrial and Safety Pty Ltd + | 100 | 100 |
| Wesfarmers Insurance Investments Pty Ltd + | 100 | 100 |
| Wesfarmers Investments Pty Ltd | 100 | 100 |
| Wesfarmers Kleenheat Gas Pty Ltd + | 100 | 100 |
| Wesfarmers LNG Pty Ltd + | 100 | 100 |
| Wesfarmers Loyalty Management Pty Ltd + | 100 | 100 |
| Wesfarmers LPG Pty Ltd + | 100 | 100 |
| Wesfarmers Oil & Gas Pty Ltd | 100 | 100 |
| Wesfarmers Private Equity Pty Ltd | 100 | 100 |
| Wesfarmers Provident Fund Pty Ltd | 100 | 100 |
| Wesfarmers Railroad Holdings Pty Ltd | 100 | 100 |
| Wesfarmers Resources Limited + | 100 | 100 |
| Wesfarmers Retail Holdings Pty Ltd + | 100 | 100 |
| Wesfarmers Retail Pty Ltd + | 100 | 100 |
| Wesfarmers Risk Management (Singapore) Pte Ltd — | 100 | 100 |
| Wesfarmers Risk Management Limited # ♠ | 100 | 100 |
| Wesfarmers Securities Management Pty Ltd | 100 | 100 |
| Wesfarmers Sugar Company Pty Ltd | 100 | 100 |
| Wesfarmers Superannuation Pty Ltd | 100 | 100 |
| Wesfarmers Transport Indonesia Pty Ltd | 100 | 100 |
| Wesfarmers Transport Limited + | 100 | 100 |
| Weskem Pty Ltd | 100 | 100 |
| Westralian Farmers Superphosphates Limited + | 100 | 100 |
| WEV Capital Investments Pty Ltd | 100 | 100 |
| WFCL Investments Pty Ltd | 100 | 100 |
| WFPL Funding Co Pty Ltd + | 100 | 100 |
| WFPL No 2 Pty Ltd ⊙ | 100 | |
| WFPL Security SPV Pty Ltd | 100 | 100 |
| WFPL SPV Pty Ltd | 100 | 100 |
| WIS Australia Pty Ltd | 100 | 100 |
| WIS International Pty Ltd | 100 | 100 |
| WIS Solutions Pty Ltd | 100 | 100 |
| WIS Supply Chain Management (Shanghai) Co Ltd ♠ | 100 | 100 |
| WPP Holdings Pty Ltd | 100 | 100 |
| WWG Middle East Apparel Trading LLC ▼ | 49 | 49 |
| XCC (Retail) Pty Ltd | 100 | 100 |
| Yalko Pty Limited | 100 | 100 |

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE
FOR THE YEAR ENDED 30 JUNE 2016

## 19 Subsidiaries (continued)

| | |
|---|---|
| Entity acquired/incorporated during the year | ⊙ |
| Entity dissolved/deregistered during the year. | - |
| Audited by firms of Ernst & Young International. | # |
| Audited by other firms of accountants. | < |
| An ASIC-approved Deed of Cross Guarantee has been entered into by Wesfarmers Limited and these entities. | + |
| Refer note 24 for further details | |
| All subsidiaries are incorporated in Australia unless identified with one of the following symbols: | |
| Bermuda | ♠ |
| Botswana | ◢ |
| Cayman Islands | ▽ |
| China | ♣ |
| Hong Kong | ◆ |
| India | ● |
| Indonesia | ♥ |
| New Zealand | ■ |
| Portugal | ◈ |
| Republic of Ireland | ◘ |
| Singapore | — |
| United Arab Emirates | ▼ |
| United Kingdom | ▲ |
| United States of America | ◤ |

All entities utilise the functional currency of the country of incorporation with the exception of Wesfarmers Risk Management Limited which utilises the Australian dollar and KAS International Trading (Shanghai) Company Limited, PT Blackwoods Indonesia and Wesfarmers Oil & Gas Pty Ltd, which utilise the US dollar

## 20. Business combinations

On 27 February 2016, Wesfarmers Limited acquired 100 per cent of Home Retail Group plc's holding in Homebase for £340 million (A$665 million). Homebase is based in the United Kingdom (UK) and operates a home improvement and garden retail business in the UK and Republic of Ireland. The acquisition of Homebase delivers an established and scalable platform with stores that are the right size for the UK market and supports warehouse merchandising and a low-cost operating model, providing an opportunity for Wesfarmers to expand its Bunnings business into the UK market.

At 30 June 2016, the acquisition accounting balances recognised are provisional due to ongoing work finalising valuations and tax related matters which may impact acquisition accounting entries. The provisional fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition are

| | £m | $m |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 25 | 48 |
| Trade and other receivables | 52 | 102 |
| Inventories | 171 | 332 |
| Prepayments | 25 | 49 |
| Property, plant and equipment | 124 | 241 |
| Intangible assets | 28 | 54 |
| Deferred tax assets | 47 | 92 |
| Total assets | 472 | 918 |
| **Liabilities** | | |
| Trade and other payables | 322 | 625 |
| Provisions | 236 | 459 |
| Other liabilities | 30 | 56 |
| Total liabilities | 588 | 1,140 |
| Provisional fair value of identifiable net liabilities | (116) | (222) |
| Goodwill arising on acquisition | 481 | 935 |
| **Purchase consideration paid** | 365 | 713 |
| **Cash flow on acquisition** | | |
| Purchase consideration paid | 365 | 713 |
| Less: net cash acquired | (25) | (48) |
| **Net cash outflow** | 340 | 665 |

From the date of acquisition, the contribution from Homebase to the net profit after-tax of the Group was insignificant.

If the combination had taken place at the beginning of the period the revenue from continuing operations for the Group would have been approximately $1,865 million higher. It is not practicable to determine the profit of the Group had the combination taken place at 1 July 2015, as the fair value of the identifiable assets and liabilities is not known at that date. Assuming that the same fair values detailed above applied at 1 July 2015, the profit for the Group would not have been materially different from that reported.

Direct costs relating to the acquisition totalling $19 million have been recognised in other expenses in the income statement for the year ended 30 June 2016.

The provisional goodwill of $935 million is attributable to various factors including value of growth and synergy opportunities, store network and inseparable intangible assets.





# NOTES TO THE FINANCIAL STATEMENTS: UNRECOGNISED ITEMS
FOR THE YEAR ENDED 30 JUNE 2016

## 21 Commitments and contingencies

| | CONSOLIDATED 2016 $m | CONSOLIDATED 2015 $m |
|---|---|---|
| **Operating lease commitments** | | |
| *Group as lessee (i)* | | |
| Within one year | 2,456 | 2,120 |
| Greater than one year but not more than five years | 8,097 | 7,129 |
| More than five years | 9,519 | 9,331 |
| | 20,072 | 18,580 |
| *Group as lessor (ii)* | | |
| Within one year | 21 | 24 |
| Greater than one year but not more than five years | 46 | 72 |
| More than five years | 6 | 107 |
| | 73 | 203 |
| **Capital commitments (iii)** | | |
| Within one year | 199 | 293 |
| Arising from agreements to invest in Gresham Private Equity Funds | 2 | 2 |
| | 201 | 295 |
| ***Other expenditure commitments (iv)*** | | |
| Within one year | 112 | 122 |
| Greater than one year but not more than five years | 114 | 179 |
| More than five years | 167 | 185 |
| | 393 | 486 |
| **Contingencies (v)** | | |
| Trading guarantees | 983 | 960 |

At 30 June 2016, the Group did not have any commitments relating to its joint ventures.

i. The Group has entered into commercial leases on office, retail and distribution properties, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the lease of buildings, the lease terms range from one year to 25 years and have various renewal or purchase options, escalation clauses, termination rights and residual liability clauses. Operating lease commitments refer to future undiscounted minimum rentals payable under non-cancellable operating leases not included within this financial report. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to earnings on a straight-line basis over the lease term. Fixed rate increases to lease payments, excluding contingent or index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term.
ii. Contracted non-cancellable future minimum lease payments expected to be received in relation to non-cancellable sub-leases are not included in this financial report.
iii. Commitments arising from contracts for capital expenditure contracted for at balance date are not included in this financial report.
iv. Contracted other expenditure commitments are not included in this financial report.
v. Contingent liabilities at balance date are not included in this financial report.

**Key judgement: leases**

The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset's life, the present value of future lease payments in relation to the asset's fair value and the nature of the asset.

**Group operating lease commitments as lessee ($m)**


### Guarantees

The Group has issued a number of bank guarantees to third parties for various operational and legal purposes. It is not expected that these guarantees will be called on.

On acquisition of the Coles group, Wesfarmers assumed responsibility for the guarantees entered into by the Coles group relating to the sale of its Myer business in June 2006, under which Coles group had guaranteed the performance of certain lease agreements held by Myer Ltd. The guarantees amount to $4 million (2015: $6 million). The fair value of these guarantees is not considered to be material and has not been recognised in this financial report.

### Other

Certain companies within the Group are party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal action would not have a material effect on the Group's financial performance.

A claim has been lodged with the Supreme Court of Queensland by Stanwell Corporation Limited (Stanwell) for additional sums due in respect of the price rebate payable by Wesfarmers Curragh Pty Ltd (Curragh) to Stanwell, a subsidiary of the Queensland Government. The claim relates to the interpretation of the reference coal price under a Coal Supply Agreement in determining the price rebate payable on export coal produced and sold. Curragh is defending the claim and has issued a counterclaim for overpayment of price rebates under the implied terms of the Coal Supply Agreement. The amount claimed by Stanwell and the costs of defence are not expected to be material to the Group.

## 22. Events after the reporting period

### Dividends

A fully-franked final ordinary dividend of 95 cents per share resulting in a dividend of $1 070 million was declared for a payment date of 5 October 2016. The dividend has not been provided for in the 30 June 2016 full-year financial statements.

# NOTES TO THE FINANCIAL STATEMENTS: OTHER
FOR THE YEAR ENDED 30 JUNE 2016

## 23. Parent disclosures

| | PARENT 2016 $m | PARENT 2015 $m |
|---|---|---|
| **Assets** | | |
| Current assets | 9,255 | 9,212 |
| Non-current assets | 23,002 | 22 942 |
| Total assets | 32,257 | 32,154 |
| **Liabilities** | | |
| Current liabilities | 1,718 | 2,545 |
| Non-current liabilities | 5,871 | 5,141 |
| Total liabilities | 7,589 | 7,686 |
| **Net assets** | 24,668 | 24 468 |
| **Equity** | | |
| Equity attributable to equity holders of the parent | | |
| Issued capital | 21,908 | 21,812 |
| Employee reserved shares | (2) | (5) |
| Retained earnings | 6 | 2,500 |
| Dividends reserve | 2,549 | |
| Restructure tax reserve | 150 | 150 |
| Hedging reserve | 19 | (13) |
| Share-based payments reserve | 38 | 24 |
| Total equity | 24,668 | 24 468 |
| Profit attributable to members of the parent | 2,330 | 2,191 |
| Total comprehensive income for the year net of tax, attributable to members of the parent | 2,328 | 2,074 |
| **Contingencies** | | |
| Contingent liabilities at balance date, not included in this financial report, were as follows: | | |
| Trading guarantees | 866 | 917 |

Wesfarmers is party to various legal actions that have arisen in the normal course of business It is expected that any liabilities arising from such legal action would not have a material adverse effect on the Group's financial report

### Dividends reserve

The dividends reserve has been created in the current year by the parent entity for the purposes of segregating profits from which dividends to shareholders can be paid

### Guarantees

Wesfarmers Limited and certain Australian controlled entities are parties to a Deed of Cross Guarantee (the Deed) as disclosed in note 24

### Parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below

### Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established

## 24. Deed of Cross Guarantee

The subsidiaries identified with a + in note 19 are parties to a deed of cross guarantee under which each company guarantees the debts of the others By entering into the Deed the wholly owned entities have been relieved from the requirement to prepare a financial report and directors report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission

These subsidiaries and Wesfarmers Limited together referred to as the 'Closed Group' either originally entered into the Deed on 27 June 2008 or have subsequently joined the Deed by way of an Assumption Deed The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group The entities joining the Closed Group by way of an Assumption Deed dated 28 June 2016 are

- AVC Trading Pty Ltd
- BUKI (Australia) Pty Ltd
- Kmart Australia Sourcing Pty Ltd
- Retail Ready Operations Australia Pty Ltd
- WFPL Funding Co Pty Ltd

The entities leaving the Closed Group by way of a Revocation Deed dated 28 June 2016 are

- A.C.N 007 870 484 Pty Ltd
- e colesgroup Pty Ltd
- Officeworks Businessdirect Pty Ltd
- Premier Power Sales Pty Ltd

No entities left the Closed Group by way of a disposal throughout the period

The consolidated income statement and retained earnings of the entities that are members of the Closed Group is as follows

| Consolidated income statement and retained earnings | DEED 2016 $m | DEED 2015 $m |
|---|---|---|
| Profit from continuing operations before income tax | 1,329 | 3,961 |
| Profit from discontinued operations before income tax | - | 7 |
| Income tax expense | (617) | (959) |
| **Net profit for the year** | 712 | 3,009 |
| Retained earnings at beginning of year | 4,154 | 3 728 |
| Remeasurement gain on defined benefit plan net of tax | (3) | 1 |
| Adjustment for companies transferred into/out of the Closed Group | 1,458 | 16 |
| Total available for appropriation | 6,321 | 6,754 |
| Dividends provided for or paid | (2,272) | (2,600) |
| **Retained earnings at end of year** | 4,049 | 4 154 |



# NOTES TO THE FINANCIAL STATEMENTS: OTHER
FOR THE YEAR ENDED 30 JUNE 2016

## 24. Deed of Cross Guarantee (continued)

The consolidated balance sheet of the entities that are members of the Closed Group is as follows

| Consolidated balance sheet | DEED 2016 $m | DEED 2015 $m |
|---|---|---|
| **Assets** | | |
| *Current assets* | | |
| Cash and cash equivalents | 510 | 674 |
| Receivables - Trade and other | 1,457 | 1,290 |
| Receivables - Finance advances and loans | 835 | 806 |
| Inventories | 5,407 | 5,227 |
| Derivatives | 38 | 428 |
| Other | 264 | 225 |
| Total current assets | 8,511 | 8,650 |
| *Non-current assets* | | |
| Receivables | 204 | 194 |
| Investment in controlled entities | 4,342 | 3,369 |
| Investments in associates and joint ventures | 188 | 185 |
| Deferred tax assets | 1,058 | 801 |
| Property | 2,150 | 2,321 |
| Plant and equipment | 6,913 | 7 600 |
| Goodwill | 13,770 | 14 660 |
| Intangible assets | 4,553 | 4 600 |
| Derivatives | 565 | 494 |
| Other | 28 | 30 |
| Total non-current assets | 33,769 | 34 054 |
| **Total assets** | 42,280 | 42,704 |
| **Liabilities** | | |
| *Current liabilities* | | |
| Trade and other payables | 5,743 | 6 532 |
| Interest-bearing loans and borrowings | 439 | 1 900 |
| Income tax payable | 13 | 50 |
| Provisions | 1,768 | 1 584 |
| Derivatives | 157 | 142 |
| Other | 303 | 294 |
| Total current liabilities | 8,423 | 9,502 |
| *Non-current liabilities* | | |
| Payables | 961 | 1,250 |
| Interest-bearing loans and borrowings | 5,402 | 4 615 |
| Provisions | 1,356 | 1,072 |
| Derivatives | 81 | 84 |
| Other | 61 | 111 |
| Total non-current liabilities | 7,841 | 7 132 |
| **Total liabilities** | 16,264 | 16,634 |
| **Net assets** | 26,016 | 26,070 |
| **Equity** | | |
| Issued capital | 21,937 | 21,844 |
| Reserved shares | (28) | (31) |
| Retained earnings | 4,049 | 4,154 |
| Reserves | 58 | 103 |
| **Total equity** | 26,016 | 26,070 |

## 25. Auditors' remuneration

| Fees of the auditors of the company for | CONSOLIDATED 2016 $'000 | CONSOLIDATED 2015 $'000 |
|---|---|---|
| **Audit and review of financial reports** | | |
| Ernst & Young (Australia) | 5,780 | 5,162 |
| Ernst & Young (Overseas network firms) | 577 | 248 |
| | 6,357 | 5 410 |
| **Assurance related services** | | |
| Ernst & Young (Australian & overseas network firms) | 2,215 | 1,062 |
| Non-Ernst & Young audit firms | 112 | 32 |
| | 2,327 | 1,094 |
| **Non-assurance related services** | | |
| Ernst & Young (Australian & overseas network firms): | | |
| tax compliance | 1,096 | 660 |
| other | 882 | 360 |
| | 1,978 | 1,020 |
| **Total paid to auditors** | 10,662 | 7,524 |

The total non-audit services fees of $4 193 thousand represents 39 7 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2016 During the year Ernst & Young were engaged to provide forensic accounting services at Target and due diligence and tax services in relation to the Homebase acquisition Excluding these engagements the non-audit services fees represented 31 1 per cent of the total fees paid or payable to Ernst & Young and related practices.

## 26. Related party transactions

| | CONSOLIDATED 2016 $'000 | CONSOLIDATED 2015 $'000 |
|---|---|---|
| **Associates** | | |
| Management fees received | 11,881 | 11,248 |
| Operating lease rent paid | 141,096 | 138,201 |
| Financial advisory fees paid | 1,699 | 2,255 |
| Amounts receivable from associates | 14,030 | 13,358 |
| Amounts owing to associates | 23 | - |
| Other | 475 | 614 |
| **Joint arrangements** | | |
| Operating lease rent paid | 96,746 | 94,554 |
| Amounts receivable from joint ventures | 5,097 | 5,591 |
| Other | 298 | |

Management fees have been paid by associated entity, BWP Trust, to the Group on normal commercial terms and conditions for staff and other services provided to the associates. Rent for retail stores and warehouses has been paid by the Group to an associated entity the BWP Trust, and to the ISPT and BPI No 1 Pty Ltd joint arrangements. During the year BWP Trust paid the Group $9,200 thousand (2015 $137,200 thousand) for the acquisition and development of rental properties. Gains and losses were made on disposal a portion of which was eliminated in the consolidated accounts under equity accounting

J P Graham, a director of Wesfarmers, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers Partly owned subsidiaries of Gresham Partners Group Limited have provided office accommodation and financial advisory services to Wesfarmers and were paid fees of $1 698,838 in 2016 (2015 $2 264 746)

## NOTES TO THE FINANCIAL STATEMENTS: OTHER
FOR THE YEAR ENDED 30 JUNE 2016

### 27 Other accounting policies

#### (a) New and amended accounting standards and interpretations adopted from 1 July 2015

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2015 to the Group have been adopted, including:

| Reference | Description |
|---|---|
| AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception* | This makes amendments to AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities* and AASB 128 *Investments in Associates and Joint Ventures* arising from the IASB's narrow scope amendments associated with Investment Entities. |

#### (b) New and amended standards and interpretations issued but not yet effective

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this financial report.

| Reference | Description | Application of Standard | Application by Group |
|---|---|---|---|
| ***The effects of the following Standards are not expected to be material:*** | | | |
| AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* | AASB 2014-3 amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. | 1 January 2016 | 1 July 2016 |
| AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation* | The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of an intangible asset. | 1 January 2016 | 1 July 2016 |
| AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* | This Standard makes amendments to a number of Australian Accounting Standards as a result of AASB 9 *Financial Instruments* (December 2014). | 1 January 2018 | 1 July 2018 |
| AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | The amendments require:<br>– a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and<br>– a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. | 1 January 2016 | 1 July 2016 |
| AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle* | The amendment makes changes to a number of accounting policies including the methods of disposal in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, disclosure requirements in AASB 7 *Financial Instruments: Disclosures* and AASB 134 *Interim Financial Reporting* and clarification of discount rates utilised in AASB 119 *Employee Benefits* | 1 January 2016 | 1 July 2016 |
| AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* | The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. | 1 January 2016 | 1 July 2016 |
| AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses* | This Standard amends AASB 112 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. | 1 January 2017 | 1 July 2017 |
| AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* | This Standard amends AASB 107 *Statement of Cash Flows* (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. | 1 January 2017 | 1 July 2017 |
| *IFRS 2 (Amendments)* | This Standard amends IFRS 2 *Share-based Payment* to clarify accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions that changes the classification of the transaction from cash-settled to equity-settled share-based payments. | 1 January 2018 | 1 July 2018 |



## NOTES TO THE FINANCIAL STATEMENTS: OTHER
FOR THE YEAR ENDED 30 JUNE 2016

### 27 Other accounting policies (continued)

| Reference | Description | Application of Standard | Application by Group |
|---|---|---|---|
| ***The effects of the following Standard is still being determined:*** | | | |
| AASB 15 *Revenue from Contracts with Customers* | This Standard establishes new principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers and supersedes a number of current Revenue Standards. The core principle of the Standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. | 1 January 2018 | 1 July 2018 |
| AASB 16 *Leases* | This Standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. | 1 January 2019 | 1 July 2019 |

The Group is currently evaluating the implications of AASB 16. Information on the undiscounted amount of the Group's operating lease commitments at 30 June 2016 under AASB 117, the current leases standard, is disclosed in note 21. Under AASB 16, the present value of these commitments would be shown as a liability on the balance sheet together with an asset representing the right-of-use. The ongoing income statement classification of what is currently predominantly presented as occupancy-related expenses will be split between amortisation and interest expense.

#### (c) Tax consolidation

Wesfarmers and its 100 per cent-owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002. Wesfarmers is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. The tax sharing arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The possibility of such a default is considered remote at the date of this report.

Members of the tax consolidated group have entered into a tax funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The tax funding agreement provides for each member of the tax consolidated group to pay a tax equivalent amount to or from the parent in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after lodgement of the consolidated return and payment of the tax liability.

# NOTES TO THE FINANCIAL STATEMENTS: OTHER
FOR THE YEAR ENDED 30 JUNE 2016

## 28. Share-based payments

The Group provides benefits to employees (including executive directors) of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance in part through shares or rights over shares. The expense arising from these transactions is shown in note 2 The total number of ordinary Wesfarmers shares acquired on market during the financial year to satisfy employee incentive schemes was 602,433 (2015 2 903,058) at an average price of $40 54 (2015 $42.27) per share.

### Recognition and measurement

Share-based payments can either be equity-settled or cash-settled If the employee is provided a choice of settlement options then the scheme is considered to be cash settled

### Equity-settled transactions

The cost of equity-settled transactions with employees is measured using their fair value at the date at which they are granted In determining the fair value no account is taken of any performance conditions other than those linked to the price of the shares of Wesfarmers Limited (market conditions)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance conditions (excluding market conditions) are met, ending on the date on which the employees become fully entitled to the award (vesting date) The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the proportion of the awards that are expected to ultimately vest No expense is recognised for awards that do not ultimately vest due to a performance condition not being met The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Where the terms of an equity-settled award are modified as a minimum, an expense is recognised as if the terms had not been modified In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification as measured at the date of modification

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately However if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award as described above

### Cash-settled transactions

The ultimate expense recognised in relation to cash-settled transactions will be equal to the actual cash paid to the employees, which will be the fair value at settlement date. The expected cash payment is estimated at each reporting date and a liability recognised to the extent that the vesting period has expired and in proportion to the amount of the awards that are expected to ultimately vest

### Additional information on award schemes

**Wesfarmers Employee Share Plan (WESP)**

The last issue under the WESP was made in December 2004 Under the plan employees were invited to apply for ordinary shares in the company funded by an interest-free loan from the Group The employee's obligation for repayment of the loans is limited to the dividends declared and capital returns by the company and in the event the employee ceases employment, the market price achieved on the sale of the shares.

The plan is accounted for as an in-substance equity-settled award, with the contractual life of each option equivalent to the estimated loan life and no maximum term.

**Wesfarmers Long-Term Incentive Plan (WLTIP)**

**Long-Term Incentive**

Under the WLTIP in 2016 eligible executives were invited to receive performance rights in the company There are two performance hurdles, Wesfarmers CAGR in ROE (with a 50 per cent weighting) and Wesfarmers' TSR (with a 50 per cent weighting), relative to the CAGR in ROE and TSR of the ASX 50 Index. Further details of the WLTIP and of the terms of the grants during the year are in the remuneration report The fair value of the performance rights are determined using an option pricing model with the following inputs

| Grant date | 12 Nov 2015 | 11 Sep 2015 |
|---|---|---|
| Grant da'e share price ($) | 38.70 | 39.19 |
| Volatility (per cent) | 16.34 | 15.93 |
| Dividend yield (per cent) | 4.74 | 4.74 |
| Risk-free rate (per cent) | 2.25 | 2.00 |
| Fair value ($) | 28.85 | 27.97 |

**Annual Incentive**

Eligible executives also received a restricted (mandatorily deferred) share award under the WLTIP However, if an executive resigns or is terminated for cause within one year of the share allocation the Board may decide to cancel that share allocation The fair value of the share at grant date is expensed over the one-year forfeiture period.

### Equity-settled awards outstanding

Weighted average share price in 2016 was $40 58 (2015 $43 03) The following table includes shares subject to trading restrictions.

| | WESP (options) | WLTIP (shares) | WLTIP (rights) | WESAP (shares) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 1,465,271 | 1,265,896 | 1,485,787 | 6,763,829 |
| Granted during the year | - | 175,526 | 595,131 | 3,144,728 |
| Exercised during the year | (691,828) | (738,480) | - | (2,282,781) |
| Lapsed during the year | - | (150,506) | (104,935) | (437,920) |
| Other adjustments | - | - | - | (27,638) |
| Outstanding at the end of the year | 793,443 | 552,236 | 1,975,983 | 7,160,218 |
| Exercisable at the end of the year | 954,628 | 2,637,816 | - | 3,396,557 |



# NOTES TO THE FINANCIAL STATEMENTS: OTHER
FOR THE YEAR ENDED 30 JUNE 2016

## 28. Share-based payments (continued)

**Wesfarmers Employee Share Acquisition Plan (WESAP)**

The WESAP was introduced in October 2009 Under the plan, all eligible employees are invited to acquire fully-paid ordinary shares in the company The shares are either acquired under a salary sacrifice arrangement or are granted as an award subject to the Group achieving a net profit after tax performance hurdle Eligibility for an award of shares is dependent upon an in-service period with a participating division and being a permanent employee

The Plan qualifies as a non-discriminatory employee share scheme complying with the requirements of Division 83A of the *Income Tax Assessment Act 1997* (as amended) for Australian resident employees. The fair value of the equity instruments granted (2016 average $40 29 (2015 average $42.85)) is determined with reference to the share price on the date of grant.

## 29. Director and executive disclosures

### Compensation of key management personnel

The remuneration disclosures are provided in sections one to six of the remuneration report on pages 71 to 84 of this annual report designated as audited and forming part of the directors report.

| | CONSOLIDATED 2016 $'000 | CONSOLIDATED 2015 $'000 |
|---|---|---|
| Short term benefits | 22,129 | 23,639 |
| Long-term benefits | 221 | 226 |
| Post-employment benefits | 943 | 686 |
| Share-based payments | 4,769 | 13,791 |
| | 28,062 | 38,342 |

### Other transactions and balances with key management personnel

Refer to note 26 in relation to transactions with Gresham Partners Group Limited, of which J P Graham is a director

From time to time, directors of Wesfarmers or its controlled entities, or their director-related entities, may purchase goods or services from the Group These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

## 30 Tax transparency disclosures

In February 2016, the Board of Taxation provided its final report to the Australian Government on a voluntary tax transparency code (TTC) The report contained recommendations for additional disclosure of tax information by companies split between Part A and Part B disclosures. The Part B disclosures are publishable in a separate Taxes Paid report. The Part A disclosures are

- a reconciliation of accounting profit to tax expense and to income tax paid or income tax payable;
- the identification of material temporary and non-temporary differences; and
- the effective company tax rates for Australian and global operations.

A reconciliation of Wesfarmers accounting profit to its tax expense and material temporary and non-temporary differences are disclosed in note 3 A reconciliation of accounting profit to income tax paid or payable and the effective company tax rates for the Group's Australian and global operations are tabled below

| | 2016 $m | 2015 $m |
|---|---|---|
| **Tax paid or payable reconciliation** | | |
| Accounting profit | 1,038 | 3,444 |
| Income tax at the statutory tax rate of 30% | 311 | 1,033 |
| Non-deductible items | 362 | 12 |
| Temporary differences: deferred tax | 342 | (20) |
| Associates and other | (31) | (29) |
| **Current year tax paid or payable** | 984 | 996 |
| **Effective tax rate** | | |
| Effective tax rate for Australian operations | 67.8% | 29.3% |
| Effective tax rate for Australian operations (excluding Target goodwill impairment[1]) | 28.9% | 29.3% |
| Effective tax rate for global operations | 60.8% | 29.2% |
| Effective tax rate for global operations (excluding Target goodwill impairment[1]) | 28.1% | 29.2% |

[1] The $1,208 million impairment of Target's goodwill recognised during FY2016 was a non-deductible item.

## DIRECTORS' DECLARATION
WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

In accordance with a resolution of the directors of Wesfarmers Limited we state that

1 In the opinion of the directors

1.1 the financial statements, notes and the additional disclosures included in the directors report designated as audited, of the consolidated entity for the full year ended 30 June 2016 are in accordance with the *Corporations Act 2001* including

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and

1.2 the financial statements and notes comply with International Financial Reporting Standards as disclosed in the notes to the financial statements on page 91 of the 2016 Annual Report, and

1.3 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2016

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group comprising the company and the controlled entities marked + as identified in note 19 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee referred to in note 24

On behalf of the Board

**M A Chaney AO**
Chairman

**R J B Goyder AO**
Managing Director

Sydney
21 September 2016



## INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WESFARMERS LIMITED

EY
Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box 2930 Perth WA 6843

Tel 61 8 9429 2222
Fax +61 8 9429 2436
ey.com/au

**Report on the financial report**

We have audited the accompanying financial report of Wesfarmers Limited which comprises the consolidated balance sheet as at 30 June 2016 the consolidated income statement the consolidated statement of comprehensive income the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended notes comprising a summary of significant accounting policies and other explanatory information and the directors declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year

**Directors' responsibility for the financial report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error In the Notes to the financial statements the directors also state in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements* that the financial statements comply with *International Financial Reporting Standards*

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit We conducted our audit in accordance with Australian Auditing Standards Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial report whether due to fraud or error In making those risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

**Independence**

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001* We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the directors report

**Opinion**

In our opinion

a. the financial report of Wesfarmers Limited is in accordance with the *Corporations Act 2001* including

i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date and

ii complying with Australian Accounting Standards and the *Corporations Regulations 2001* and

b the financial report also complies with *International Financial Reporting Standards* as disclosed in the Notes to the financial statements.

**Report on the remuneration report**

We have audited the remuneration report included in the directors report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* Our responsibility is to express an opinion on the remuneration report based on our audit conducted in accordance with Australian Auditing Standards

**Opinion**

In our opinion the remuneration report of Wesfarmers Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*

Ernst & Young

**Ernst & Young**

**D S Lewsen**
Partner
Perth
21 September 2016

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

## ANNUAL STATEMENT OF COAL RESOURCES AND RESERVES
AS AT 30 JUNE 2016

### Coal resources

The table below details the coal resources for Wesfarmers, as at 30 June 2016

| | | | | | | 2016 COAL RESOURCES TONNES (MILLIONS) | | | | RESOURCES QUALITY (IN SITU) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mine | Ownership | Beneficial interest | Location of tenements | Likely mining method | Coal type | Measured | Indicated | Inferred | Total | Ash (%) | CV (MJ/kg) | Sulphur (%) | VM (%) |
| Curragh | Wesfarmers Curragh Pty Ltd | 100% equity (Note 3) | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 323 | 243 | 145 | 711 | 19 | 28 | 0.6 | 19 |
| Bengalla | Wesfarmers Bengalla Limited | 40% equity (Note 3) | Hunter Valley, New South Wales | Open cut and underground | Metallurgical and steaming | 57 | 49 | 81 | 187 | 20 | 28 | 0.6 | - |

Comparative resources as at 30 June 2015

| | | | | | | 2015 COAL RESOURCES TONNES (MILLIONS) | | | | RESOURCES QUALITY (IN SITU) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mine | Ownership | Beneficial interest | Location of tenements | Likely mining method | Coal type | Measured | Indicated | Inferred | Total | Ash (%) | CV (MJ/kg) | Sulphur (%) | VM (%) |
| Curragh | Wesfarmers Curragh Pty Ltd | 100% equity (Note 3) | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 323 | 243 | 145 | 711 | 19 | 28 | 0.6 | 19 |
| Bengalla | Wesfarmers Bengalla Limited | 40% equity (Note 3) | Hunter Valley, New South Wales | Open cut and underground | Metallurgical and steaming | 57 | 49 | 81 | 187 | 20 | 28 | 0.6 | |

Resource notes:

1 **Inclusion/exclusion of reserves**
  a. Curragh's coal resources are reported as being in addition to coal reserves.
  b. Bengalla's coal resources are reported as being in addition to coal reserves.

2 **Quality**
  a. Curragh's in situ resource quality parameters are quoted on an air-dried basis.
  b. Bengalla's in situ resource quality parameters are quoted on an air-dried basis
  c. All tonnes and grade information have been rounded and therefore small differences may be present in the totals.

3. **Resources reported on a 100 per cent project basis**

***Curragh***

a. Curragh's resources, as stated, are 100 per cent of the site resources, including all resources in the Curragh Project mining leases.

Wesfarmers Curragh Pty Ltd (WCPL) and Stanwell Corporation (Stanwell) share in value generated from certain parts of the Curragh Project (being the Curragh and Curragh North mining areas, but excluding the MDL 162 area) pursuant to the terms of a Coal Supply Agreement between them (Stanwell CSA)

Resources are reported above on a project basis before any division of economic value under the Stanwell CSA. It is not possible to express the economic entitlements of Stanwell with respect to the Curragh Project as a simple numerical percentage. The reason such a statement is not possible is that the entitlements of Stanwell pursuant to the Stanwell CSA are variable with, and dependent upon, contingent events which include all of the actual export volumes, prices, and the duration of the Stanwell CSA relative to the timing and mine sequencing of production from the various areas of the Curragh Project. It is not necessary for the Competent Person to analyse the Stanwell CSA and respective entitlements of WCPL and Stanwell thereunder given that resources are stated on a total Curragh Project basis before application of the Stanwell CSA.

b. In addition to the requirements of the Stanwell CSA, an estimated 344 million tonnes of the resources reported, while within the Curragh North Mining Lease, require further agreement with Stanwell in order for WCPL to access (Stanwell Reserved Area).

c. Since 30 June 2015, no other activity has taken place which would constitute a material change to the resources for the Curragh Project.

***Bengalla***

a. Bengalla's resources, as stated, are 100 per cent of the site resources, with Wesfarmers Bengalla Limited's beneficial interest in the Bengalla unincorporated joint venture being 40 per cent.

b. Since 30 June 2015, no other activity has taken place which would constitute a material change to the resources for Bengalla.



## ANNUAL STATEMENT OF COAL RESOURCES AND RESERVES
AS AT 30 JUNE 2016

### Coal reserves

The table below details the coal reserves for Wesfarmers, as at 30 June 2016

| | | | | | | 2016 COAL RESERVES TONNES (MILLIONS) | | | RESERVES QUALITY (INCLUSIVE OF LOSS AND DILUTION) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mine | Ownership | Beneficial interest | Location of tenements | Likely mining method | Coal type | Proved | Probable | Total | Ash (%) | CV (MJ/kg) | Sulphur (%) | VM (%) |
| Curragh | Wesfarmers Curragh Pty Ltd | 100% equity (Note 2) | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 244 | 24 | 268 | 24 | 26 | 0.6 | 19 |
| Bengalla | Wesfarmers Bengalla Limited | 40% equity (Note 2) | Hunter Valley, New South Wales | Open cut | Steaming | 147 | 106 | 253 | 29 | 22 | 0.6 | |

Comparative reserves as at 30 June 2015

| | | | | | | 2015 COAL RESERVES TONNES (MILLIONS) | | | RESERVES QUALITY (INCLUSIVE OF LOSS AND DILUTION) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mine | Ownership | Beneficial interest | Location of tenements | Likely mining method | Coal type | Proved | Probable | Total | Ash (%) | CV (MJ/kg) | Sulphur (%) | VM (%) |
| Curragh | Wesfarmers Curragh Pty Ltd | 100% equity (Note 2) | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 257 | 24 | 281 | 24 | 26 | 0.6 | 19 |
| Bengalla | Wesfarmers Bengalla Limited | 40% equity (Note 2) | Hunter Valley, New South Wales | Open cut | Steaming | 158 | 106 | 264 | 29 | 22 | 0.6 | |

Reserve notes:

1 **Quality and quantity**
  a. Curragh's reserves quality parameters are quoted on an air-dried basis.
  b. Bengalla's reserves quality parameters are quoted on an air-dried basis
  c. Reserve qualities and quantities are inclusive of mining loss and out-of-seam dilution.
  d. All tonnes and grade information have been rounded and therefore small differences may be present in the totals.

2. **Reserves reported on a 100 per cent project basis**

***Curragh***

a. Curragh's reserves, as stated, are 100 per cent of the site reserves, including all reserves in the Curragh Project.

Wesfarmers Curragh Pty Ltd (WCPL) and Stanwell Corporation (Stanwell) share in value generated from certain parts of the Curragh Project (being the Curragh and Curragh North mining areas, but excluding the MDL 162 area) pursuant to the terms of a Coal Supply Agreement between them (Stanwell CSA).

Reserves are reported above on a project basis before any division of economic value under the Stanwell CSA. It is not possible to express the economic entitlements of Stanwell from the Curragh Project as a simple numerical percentage. The reason such a statement is not possible is that the entitlements of Stanwell pursuant to the Stanwell CSA are variable with, and dependent upon, contingent events which include all of the actual future export volumes, prices, and the duration of the Stanwell CSA relative to the timing and mine sequencing of production from the various areas of the Curragh Project. It is not necessary for the Competent Person to analyse the Stanwell CSA and respective entitlements of WCPL and Stanwell thereunder given that reserves are stated on a total Curragh Project basis before application of the Stanwell CSA.

b. No reserves have been declared with respect to the Stanwell Reserved Area.

c. Since 30 June 2015, the coal reserves have been reduced by a quantity equal to the mining depletion for the 12 months to 30 June 2016. No other activity has taken place which would constitute a material change to the reserves.

***Bengalla***

a. Bengalla's reserves, as stated, are 100 per cent of the site reserves, with Wesfarmers Bengalla Limited's beneficial interest in the Bengalla unincorporated joint venture being 40 per cent.

b. Since 30 June 2015 the coal reserves have been reduced by a quantity equal to the mining depletion for the 12 months to 30 June 2016. No other activity has taken place which would constitute a material change to the reserves for Bengalla.

# ANNUAL STATEMENT OF COAL RESOURCES AND RESERVES
AS AT 30 JUNE 2016

### Characteristics of coal reserves and resources

**Curragh**

The coal is bituminous and is used for power generation (principally domestic) and metallurgical processes (primarily steel production overseas) The resource is contained in five seams of varying thickness and quality characteristics. Coal is produced from all of these seams Coal is extracted by open cut methods and processed through a wash plant using dense medium cyclones and froth flotation.

**Bengalla**

The coal is bituminous and used in export markets for power generation. Coal is extracted from eight seams of varying thickness and quality characteristics. The seams occur at relatively shallow depths and dip gently to the west. Coal is extracted by open cut methods.

### JORC Code compliance

The statement of coal resources and coal reserves presented in this report has been produced in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) Additional information in relation to the estimates of Reserves and Resources for the Curragh project (including Table 1 of the JORC Code) were released to ASX on 20 August 2015 and are available at www.wesfarmers.com.au

### Governance arrangements and internal controls

Wesfarmers has put in place governance arrangements and internal controls with respect to its estimates of reserves and resources and the estimation process, including

- Oversight and approval of each annual statement by responsible senior officers,
- Establishment of internal procedures and controls to meet JORC Code compliance in all external reporting
- Independent external review of new and materially changed estimates;
- Annual reconciliation with internal planning to validate reserves estimates for operating mines
- Internal technical audits of resources and reserves estimates for each asset conducted every two years.

For Bengalla, where the Wesfarmers Group is not the managing entity the Wesfarmers Group relies on the estimates of resources and reserves as reported by the Bengalla Mining Company

### General

Preparation of this statement requires the Competent Person to adopt certain forward-looking assumptions including export coal price and cost assumptions. These assumptions are commercially confidential Long-term export price assumptions are considered reasonable but differ from actual prices prevailing as at the balance date These types of forward-looking assumptions are necessarily subject to risks uncertainties and other factors many of which are outside the control of the Wesfarmers Limited Group For the avoidance of doubt, neither the Competent Persons nor the Wesfarmers Limited Group makes any undertaking to subsequently update any forward-looking statements in this release to reflect events after the date of this release.

The information in this report relating to coal resources and reserves is based on, and fairly represents, information compiled by Competent Persons (as defined in the JORC Code and listed below). All Competent Persons have at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears

### Competent Persons

**Curragh**

Mr Barry Saunders, Director of OGESS Pty Ltd
Member AusIMM (CP) Member AIG

Mr Johan Ballot, a full-time employee of Wesfarmers Resources Limited a wholly owned subsidiary of Wesfarmers Limited
Member AusIMM

**Bengalla**

Mr Patrick Tyrrell a full-time employee of New Hope Corporation Limited
Member AusIMM (CP)

Mr Tony O Connell, a Director of Optimal Mining Solutions Pty Limited
Member AusIMM



# SHAREHOLDER INFORMATION

### Substantial shareholders

As at the date of this report there were no persons with a substantial shareholding in the company for the purposes of Part 6C 1 of the *Corporations Act 2001*

### Voting rights

Wesfarmers fully-paid ordinary shares carry voting rights of one vote per share

### Distribution of members and their holdings

| Size of holdings | Number of shareholdings |
|---|---|
| 1 - 1,000 | 414 731 |
| 1 001 - 5 000 | 96,530 |
| 5 001 - 10 000 | 10,567 |
| 10 001 - 100 000 | 5,294 |
| 100 001 and over | 170 |

There were 12 204 shareholders that held less than a marketable parcel of Wesfarmers ordinary shares

There were 1 25 per cent of shareholders with registered addresses outside Australia.

### Twenty largest shareholders

The 20 largest shareholders of ordinary shares on the company's register as at 21 September 2016 were

| Name | Number of shares | % of issued capital |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 191 511 707 | 17 01 |
| J P Morgan Nominees Australia Limited | 145,171,671 | 12 89 |
| National Nominees Limited | 71 446 729 | 6 34 |
| Citicorp Nominees Pty Limited | 56 729 321 | 5 04 |
| BNP Paribas Noms Pty Ltd (DRP) | 21 647 926 | 1 92 |
| Citicorp Nominees Pty Limited (Colonial First State Inv A/C) | 13 726 561 | 1 22 |
| BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C) | 13 180 944 | 1 17 |
| HSBC Custody Nominees (Australia) Limited (Nt-Comnwlth Super Corp A/C) | 7,481,118 | 0 66 |
| Australian Foundation Investment Company Limited | 6 722 500 | 0 60 |
| CPU Share Plans Pty Limited (WESAP DFE Control A/C) | 5,547 657 | 0 49 |
| Argo Investments Limited | 5 440 027 | 0 48 |
| AMP Life Limited | 5,244,874 | 0 47 |
| Milton Corporation Limited | 2,835,533 | 0 25 |
| CPU Share Plans Pty Limited (WES WLTIP Control A/C) | 2,803 273 | 0 25 |
| IOOF Investment Management Limited (IPS Super A/C) | 2 605 133 | 0 23 |
| CPU Share Plans Pty Limited (WES Exu Control A/C) | 2 581 060 | 0.23 |
| RBC Investor Services Australia Nominees Pty Limited (BKCUST A/C) | 2 517,617 | 0 22 |
| Navigator Australia Ltd (MLC Investment Sett A/C) | 2 249 880 | 0 20 |
| Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett A/C) | 1 884 833 | 0 17 |
| Mr Peter Alexander Brown | 1 552 825 | 0 14 |

The percentage holding of the 20 largest shareholders of Wesfarmers ordinary shares was 49 98.

# FIVE-YEAR FINANCIAL HISTORY

| All figures in $m unless shown otherwise | 2016 | 2015 | 2014[1] Restated | 2013[2] Restated | 2012 |
|---|---|---|---|---|---|
| **SUMMARISED INCOME STATEMENT[3]** | | | | | |
| Sales revenue | 65,643 | 62,129 | 59 903 | 57 488 | 57,685 |
| Other operating revenue | 338 | 318 | 278 | 283 | 395 |
| Operating revenue | 65,981 | 62,447 | 60 181 | 57 749 | 58,080 |
| Operating profit before depreciation and amortisation, finance costs and income tax | 2,642 | 4,978 | 3,877 | 4 486 | 4,544 |
| Depreciation and amortisation | (1,296) | (1,219) | (1 082) | (1,033) | (995) |
| EBIT | 1,346 | 3,759 | 2 795 | 3,453 | 3,549 |
| Finance costs | (308) | (315) | (346) | (417) | (505) |
| Income tax expense | (631) | (1,004) | (939) | (906) | (918) |
| Profit after tax from discontinued operations | | | 1,179 | 133 | n/a |
| Operating profit after income tax attributable to members of Wesfarmers Limited | 407 | 2,440 | 2,689 | 2,261 | 2,126 |
| **CAPITAL AND DIVIDENDS** | | | | | |
| Ordinary shares on issue (number) 000's as at 30 June | 1,126,131 | 1 123,753 | 1 143,275 | 1 157 194 | 1 167,072 |
| Paid up ordinary capital as at 30 June | 21,937 | 21,844 | 22,708 | 23,290 | 23,286 |
| Fully-franked dividend per ordinary share declared (cents) | 186 | 200 | 200 | 180 | 165 |
| Capital management: capital return and fully-franked dividend components | - | 100 | 50 | | |
| **FINANCIAL PERFORMANCE** | | | | | |
| Earnings per share (weighted average) (cents) | 36.2 | 218.1 | 234.6 | 195.9 | 184.2 |
| Earnings per share growth | (83.2%) | (7.9%) | 19.8% | 6.4% | 10.5% |
| Return on average ordinary shareholders equity (R12) (excluding significant items[4]) | 9.6% | 9.8% | 10.5% | 8.9% | 8.4% |
| Fixed charges cover (R12, times) (excluding significant items[4]) | 2.7 | 3.0 | 3.2 | 3.0 | 2.9 |
| Interest cover (cash basis) (R12, times) (excluding significant items[4]) | 16.8 | 20.5 | 15.9 | 12.2 | 10.8 |
| **FINANCIAL POSITION AS AT 30 JUNE** | | | | | |
| Total assets | 40,783 | 40 402 | 39,727 | 43 155 | 42,312 |
| Total liabilities | 17,834 | 15,621 | 13,740 | 17,133 | 16,685 |
| Net assets | 22,949 | 24 781 | 25,987 | 26,022 | 25,627 |
| Net tangible asset backing per ordinary share | $3.45 | $4.65 | $8.14 | $4.69 | $4.45 |
| Net debt to equity | 31.0% | 25.1% | 13.1% | 20.2% | 19 1% |
| Total liabilities/total assets | 43.7% | 38.7% | 34.6% | 39 7% | 39 4% |
| **STOCK MARKET CAPITALISATION AS AT 30 JUNE** | 46,158 | 43,860 | 47,835 | 45,938 | 34,848 |

[1] The 2014 numbers have been restated to reflect the disposal of WesCEF's interest in Air Liquide WA Pty Ltd as a discontinued operation.

[2] The 2013 numbers have been restated to reflect the classification of the Insurance division as a discontinued operation.

[3] The summarised income statement for 2016 includes significant items relating to the following pre-tax (post-tax) items: $1,266 million ($1,249 million) non-cash impairment of Target; $850 million ($595 million) non-cash impairment of Curragh, and $145 million ($102 million) of restructuring costs and provisions to reset Target.

[4] The 2016 number excludes the significant items outlined in footnote 3 above.



# INVESTOR INFORMATION

## Managing your shareholding

The company's share registry is managed by Computershare Investor Services Pty Limited (Computershare)

The Investor Centre website is the fastest, easiest and most convenient way to view and manage your shareholding Investor Centre enables a shareholder to

- view the company share price,
- change your banking details
- change your address (for non-CHESS sponsored holdings)
- update your dividend instructions
- update your Tax File Number (TFN) Australian Business Number (ABN) or exemption,
- select your email and communication preferences and
- view your transaction history

Visit **www wesdirect.com.au** and click on 'Create Login for portfolio membership or click on Access a Single Holding for holding information.

When communicating with Computershare or accessing your holding online you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also contact Computershare by:

**Post:** GPO Box 2975 Melbourne Victoria 3001 Australia

**Telephone**
**Australia.** 1300 558 062
**International** (+61 3) 9415 4631

**Facsimile**
**Australia** (03) 9473 2500
**International:** (+61 3) 9473 2500

**Website.** **www.investorcentre.com/contact**

### Tax File Numbers

While it is not compulsory to provide a TFN If shareholders have not provided a TFN and Wesfarmers pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate plus the Medicare Levy Shareholders can go online to update their TFN by visiting **www wesdirect.com.au**

## Change of name or consolidation of holdings

Name changes or consolidation of multiple holdings into one single holding must be made in writing by using the required forms, which can be downloaded from **www wesdirect.com.au** and clicking on Need a Printable Form?'

Uncertificated Share Register The Wesfarmers share register is uncertificated Two forms of uncertificated holdings are available to shareholders.

- *Issuer sponsored holdings* – these holdings are sponsored by Wesfarmers and there is no need for shareholders to be sponsored by a stockbroker and
- *Broker sponsored holdings* – shareholders may arrange to be sponsored by a stockbroker who will require a signed sponsorship agreement.

Holding statements are issued to shareholders within five business days after the end of any month in which transactions occur that alter the balance of their holding Shareholders can also access details of their shareholdings and dividends paid on their holdings by visiting **www wesdirect.com.au**

## Information on Wesfarmers

### Wesfarmers website

Up-to-date information on the company can be obtained from the company's website **www wesfarmers.com.au**

### Securities Exchange listing

Wesfarmers shares are listed on the Australian Securities Exchange under the code WES.

Share prices can be accessed from major Australian newspapers, on the Wesfarmers website or at **www.asx.com.au**

### Dividend investment plan

The company's dividend investment plan was reinstated with effect from 27 February 2007 Details of the plan can be obtained from the share registry or the Wesfarmers website

### Privacy

A copy of the Wesfarmers Privacy Policy is available on the Wesfarmers website

### Wesfarmers Corporate Affairs department

Further information and publications about the company's operations are available from the Corporate Affairs department on (08) 9327 4428 (within Australia) or (+61 8) 9327 4428 (international) or from the Wesfarmers website

## CORPORATE DIRECTORY

WESFARMERS LIMITED ABN 28 008 984 049

### Registered office

Level 11 Wesfarmers House
40 The Esplanade Perth Western Australia 6000

| | |
|---|---|
| Telephone: | (+61 8) 9327 4211 |
| Facsimile: | (+61 8) 9327 4216 |
| Website: | www.wesfarmers.com.au |
| Email: | info@wesfarmers.com.au |

### Executive directors

Richard Goyder AO
*Group Managing Director and Chief Executive Officer*

Terry Bowen
*Finance Director*

### Non-executive directors

Michael Chaney AO Chairman
Paul Bassat
James Graham AM
Tony Howarth AO
Wayne Osborn
Diane Smith-Gander
Vanessa Wallace
Jennifer Westacott

### Company Secretary

Linda Kenyon

### Share registry

Computershare Investor Services Pty Limited
Yarra Falls 452 Johnston Street,
Abbotsford Victoria 3067

**Telephone**

| | |
|---|---|
| Australia | 1300 558 062 |
| International | (+61 3) 9415 4631 |

**Facsimile**

| | |
|---|---|
| Australia | (03) 9473 2500 |
| International | (+61 3) 9473 2500 |

**Website** www.investorcentre.com/wes

### Financial calendar*

| | |
|---|---|
| Record date for final dividend | 30 August 2016 |
| Final dividend paid | 5 October 2016 |
| Annual general meeting | 10 November 2016 |
| Half year end | 31 December 2016 |
| Half year profit announcement | February 2017 |
| Record date for interim dividend | February 2017 |
| Interim dividend payable | March 2017 |
| Year end | 30 June 2017 |

*Timing of events is subject to change

### Annual general meeting

The 35th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road Perth Western Australia on Thursday 10 November 2016 at 1.00pm (Perth time)

### Website

To view the 2016 annual report shareholder and company information news announcements background information on Wesfarmers businesses and historical information visit the Wesfarmers website at www.wesfarmers.com.au



## WESFARMERS BRANDS

Wesfarmers brands

**COLES**

coles coles.com.au coles express Vintage Cellars
BI-LO Liquorland spirit coles Financial Services

**HOME IMPROVEMENT**

Bunnings Bunnings Trade Homebase

**DEPARTMENT STORES**

Target

**OFFICEWORKS**

Officeworks

**INDUSTRIALS**

Wesfarmers Chemicals, Energy & Fertilisers · CSBP · ABA · QNP · Kleenheat · Modwood
Wesfarmers Industrial and Safety · Blackwoods · Workwear · Coregas · Greencap
Wesfarmers Resources · Curragh · Bengalla

**OTHER BUSINESSES**

bwp TRUST · Gresham · Wespine

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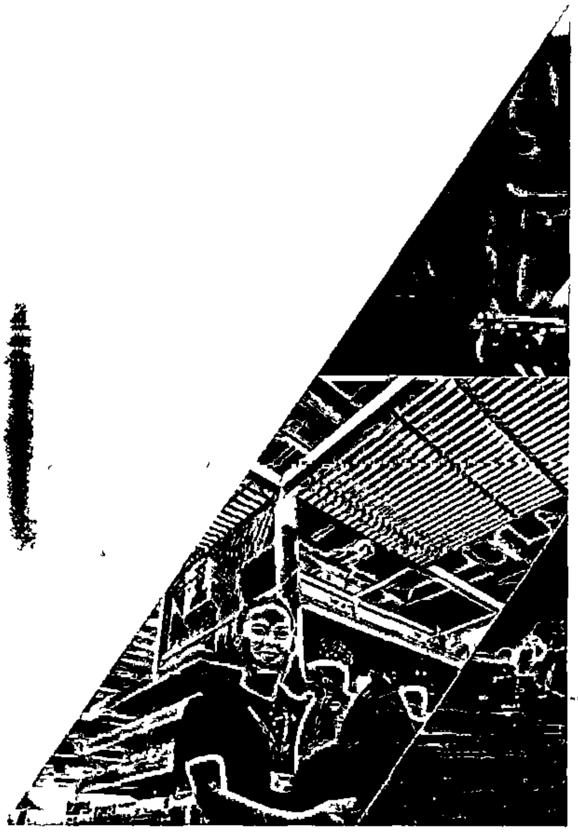

Wesfarmers

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**BUKI (Australia) Pty Ltd**
**AND ITS CONTROLLED ENTITIES**
**ABN 48 610 588 586**

**SPECIAL PURPOSE FINANCIAL REPORT**
**FOR THE PERIOD ENDED**
**27 FEBRUARY 2016**

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**

## CONTENTS

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 568 586**

## DIRECTORS' REPORT

The directors of BUKI (Australia) Pty Ltd and its controlled entities ("the Company") present the financial report for the 22 days ("period") ended 27 February 2016

### Directors

The names of the directors in office during the financial reporting period end to the date of this report are as follows

John Charles Gillam

Justin Graham Williams

The above named directors held office during the whole of the financial reporting period and since the end of the financial reporting period unless otherwise stated.

### Company secretary

Hunter, Kimalee Elizabeth

### Principal activities

BUKI (Australia) Pty Limited (the 'entity') was incorporated on 5 February 2016 The Company acquired 100 per cent of Home Retail Group plc's holdings in Homebase on 27 February 2016. The principal activities of the acquired business were the provision of home improvement and garden retail business in the United Kingdom and Ireland

### Review of operations

For the period ended February 2016, the Company did not generate any revenue or profit.

### Changes in state of affairs

The entity was Incorporated on 5 February 2016 The Company subsequently acquired 100 per cent of Home Retail Group plc's holdings in Homebase on 27 February 2016

### Subsequent events

No other matters or circumstances have arisen since the end of the financial reporting period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial reporting periods

### Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this combined financial information

### Environmental regulations

There have been no known significant breaches of any of the environmental conditions or regulations attached to the Company's businesses.

### Dividends

During the period, no dividend was declared or paid

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**

**DIRECTORS' REPORT**

***Indemnification of directors and officers***

During or since the end of the financial year, the company has paid premiums in respect of a contract insuring all directors and officers of Wesfarmers Limited and its related entities against certain liabilities incurred in that capacity Disclosure of the nature of the liability covered by the insurance and premiums paid is subject to confidentiality requirements under the contract of insurance

In accordance with the company's constitution, the company has entered into Deeds of Indemnity, Insurance and Access with each of the directors of the company These Deeds

Indemnify a director to the full extent permitted by law against any liability incurred by the director
- o as an officer of the company or of a related body corporate, and
- o to a person other than the company or a related body corporate, unless the liability arises out of conduct on the part of the director which involves a lack of good faith,
- o provide for insurance against certain liabilities incurred as a director; and
- o provide a director with continuing access, while in office and for a specific period after the director ceases to be a director, to certain company documents which relate to the director's period in office

In addition, the company's constitution provides for the indemnity of officers of the company or its related bodies corporate from liability incurred by a person in that capacity

No indemnity payment has been made under any of the documents referred to above during or since the end of the period

**Indemnification of auditors**

The company's auditor is Ernst & Young

The company has agreed with Ernst & Young, as part of its terms of engagement, to indemnify Ernst & Young against certain liabilities to third parties arising from the audit engagement. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young

During the period·
- the company has not paid any premium in respect to any insurance for Ernst & Young or a body corporate related to Ernst & Young, and
- there were no officers of the company who were former partners or directors of Ernst & Young, whilst Ernst & Young conducted audits of the company

**Rounding off of amounts**

The Group is of the kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, and in accordance with that Class Order amounts in the directors' report and the combined financial information are rounded off to the nearest thousand pounds, unless otherwise indicated

On behalf of the Directors

**John Charles Gillam**

Melbourne 25/9/2016

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE PERIOD ENDED 27 FEBRUARY 2016**

| | Note | 27-Feb 2016 £'000 |
|---|---|---|
| **Revenue** | | - |
| **Expenses** | | - |
| **Profit before income tax** | | - |
| Income tax expense | | - |
| **Profit after income tax** | | - |
| Other comprehensive income for the period | | - |
| **Total comprehensive income for the period** | | - |

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**
**BALANCE SHEET**
**AS AT 27 FEBRUARY 2016**

| | Note | 27-Feb 2016 £'000 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 3 | 24,829 |
| Trade and other receivables | 4 | 52,619 |
| Inventories | 5 | 170,763 |
| Prepayments | 6 | 25,311 |
| **Total current assets** | | 273,522 |
| **Non-current assets** | | |
| *Deferred tax assets* | 8 | 47,159 |
| Property, plant and equipment | 7 | 123,935 |
| Goodwill | 9 | 480,801 |
| Intangible assets | 9 | 27,640 |
| **Total non-current assets** | | 679,535 |
| **Total assets** | | 953,057 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | 10 | 320,951 |
| Payables to HRG | 11 | 4,820 |
| Borrowings | 12 | 362,113 |
| Provisions | 13 | 48,329 |
| Other | 14 | 29,380 |
| **Total current liabilities** | | 765,593 |
| **Non-current liabilities** | | |
| Provisions | 13 | 184,853 |
| Other | 14 | 2,611 |
| **Total non-current liabilities** | | 187,464 |
| **Total liabilities** | | 953,057 |
| **Net assets** | | |
| **EQUITY** | | |
| **Equity attributable to equity holders of the parent** | | |
| Issued capital | | |
| Retained earnings | | |
| **Total equity** | | |

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**

## STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD ENDED 27 FEBRUARY 2016

| | | Attributable to equity holders of the parent entity | | |
|---|---|---|---|---|
| | | Issued capital | Retained earnings | Total equity |
| | Note | £'000 | £'000 | £'000 |
| **Balance at 5 February 2016** | | [illegible] | [illegible] | [illegible] |
| Net profit for the year | | [illegible] | [illegible] | [illegible] |
| Other comprehensive income for the year | | [illegible] | [illegible] | [illegible] |
| **Total comprehensive income for the year** | | [illegible] | [illegible] | [illegible] |
| Issue of shares | | [illegible] | [illegible] | [illegible] |
| **Balance at 27 February 2016** | | [illegible] | [illegible] | [illegible] |

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**
**STATEMENT OF CASH FLOWS**
**FOR THE PERIOD ENDED 27 FEBRUARY 2016**

| | Note | 27-Feb 2016 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| *Receipts from customers* | | - |
| Payments to suppliers and employees | | - |
| **Net cash flows from operating activities** | | - |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiaries, net of cash acquired | 16 | (337,284) |
| **Net cash flows used in investing activities** | | (337,284) |
| ***Cash flows from financing activities*** | | |
| Net proceeds from borrowings | 12 | 362,113 |
| Issue of shares | | - |
| **Net cash flows used in financing activities** | | 362,113 |
| Net increase/(decrease) in cash and cash equivalents | 2 | 24,829 |
| Cash and cash equivalents at beginning of period | | - |
| **Cash and cash equivalents at end of period** | | 24,829 |

**1 Corporate Information**

BUKI (Australia) Pty Ltd is a private company incorporated and domiciled in Australia The intermediate parent entity of the Group is Bunnings Group Ltd Its ultimate holding company is Wesfarmers Limited The addresses of its registered office and principal place of business are as follows

| Registered office, | Principal place of business |
|---|---|
| Wesfarmers House<br>11th floor<br>40 the Esplanade<br>Perth, WA 6000 | 16-18 Cato street<br>Hawthorn East, VIC 3123 |

**2 Summary of significant accounting policies**

**Financial reporting framework:**

The Group is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs, accordingly, these reflect special purpose financial statements This special purpose financial report has been prepared for the purposes enabling BUKI's subsidiaries to rely on the exemption in section 401 of the Companies Act 2006

For the purposes of preparing the financial statements, the Group is a for-profit entity

**Basis of preparation**

The financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below Historical cost is generally based on the fair values of the consideration given in exchange for goods and services All amounts are presented in British pounds, unless otherwise noted

**Statement of compliance**

The financial statements have been prepared in accordance with the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'

**Going Concern**

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities, realisation of assets and settlement of liabilities in the ordinary course of business

As at 27 February 2016, the Company had a net working capital deficit, inclusive of loan payable to related entities and provisions, of £492,071 thousand

This deficit was primarily driven by the loan of £340,000 thousand from the ultimate parent to fund the acquisition of Homebase on 27 February 2016 The ultimate parent, Wesfarmers Limited has confirmed that, at the date of this report, the loan will not be called upon for repayment within twelve months

During the period and subsequent to the period end, the Company successfully secured three-year bank facilities totaling £220,000 thousand to fund working capital to the newly acquired business The Company has performed a detailed budget analysis for the forthcoming financial year and are confident that, in the event that budgeted sales and profits are achieved, the Company will generate sufficient net cash flows to meet all financial obligations in the coming period

**Business combinations**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions)

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity

**2 Summary of significant accounting policies (continued)**

Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date

Acquisition costs incurred are expensed

**Leases**

Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are recognised as an expense in profit or loss Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash on hand and cash at bank with an original maturity of three months or less For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

**Trade and other receivables**

Trade receivables, which generally have 30 – 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts An allowance for doubtful debts is made when there is objective evidence that the consolidated entity will not be able to collect the debts Bad debts are written-off when identified

**Foreign currency translation**

Both the functional and presentation currency of BUKI (Australia) Pty Ltd and its British subsidiaries are British pounds (GBP)

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

The functional currency of Homebase House and Garden Centre Limited is EURO As at 27 February 2016, the assets and liabilities of these subsidiaries have been translated into GBP at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates The exchange differences arising on the translation during the financial year have been recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position

**Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred income tax liabilities are recognised for all taxable temporary differences

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

**2. Summary of significant accounting policies (continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

Unrecognised deferred income tax assets are reassessed at each balance sheet date and reduced to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority

**Other taxes**

Revenues, expenses, assets, commitments and contingencies are recognised net of the amount of VAT except

- where the VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

The Statement of Cash Flow is prepared on a gross basis. The VAT component of cash flows arising from investing and financing activities are included within the relevant categories

**Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided, on either a straight line or diminishing value basis, as follows

- Buildings — 20 to 40 years
- Plant and equipment — 3 to 40 years

The assets' residual values, useful lives and depreciation methods are review and adjusted, if appropriate, at each financial year end

**Impairment**

The carrying values of plant and equipment, goodwill, intangibles and non-financial assets are reviewed for impairment

- at each reporting date,
- where there is an indication that the asset may be impaired (carrying value is greater than recoverable amount), or
- where there is an indication that previously recognised impairment.

The recoverable amount is the greater of fair value less costs to dispose (FVLCTD) and value in use (VIU). In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

**2 Summary of significant accounting policies (continued)**

If an asset does not generate independent cash inflows and its VIU cannot be estimated to be close to its fair value, the asset is tested for impairment as part of the cash generating unit (CGU) to which it belongs

Impairment exists when the carrying value of an asset or CGU exceeds its estimated recoverable amount The asset or CGU is then written down to its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income

An assessment is also made at each reporting date as to whether there is an indication that previously recognised impairment losses should be reversed If an indication exists, the recoverable amount is estimated An impairment loss shall only be reversed as a result of a change in estimates used in determining the recoverable amount. In this instance, the carrying amount of the asset shall be increased to the determined recoverable amount which shall not exceed the recoverable value prior to the impairment charge, adjusted for depreciation or amortization The reversal shall be recognized in profit or loss

No impairment loss shall be reversed for goodwill

**Sale of non-current assets**

***Plant and equipment***

An item of plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset Any gain or loss arising on derecognition of the asset is included in profit or loss in the period the item is derecognised

***Intangibles***

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised

**Financial Instruments**

***Recognition and Initial Measurement***

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified as "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately

***Classification and subsequent measurement***

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method

Fair value is determined based on current bid prices for all quoted investments Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability

Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss

**2 Summary of significant accounting policies (continued)**

The Company does not designate any interests in subsidiaries as being subject to the requirements of Accounting Standards specifically applicable to financial instruments

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Company of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised

(iii) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised

***Impairment***

At the end of each reporting period, the Company assesses whether a financial asset is impaired A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that they will enter bankruptcy or other financial reorganisation, and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered

***Derecognition***

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss

**Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses are recognised in profit or loss when the liabilities are derecognised and as well as through the amortisation process

**Goodwill**

Goodwill is carried at cost less accumulated impairment losses and is calculated as the excess of the sum of

(i) the consideration transferred;
(ii) any non-controlling interest, and
(iii) the acquisition date fair value of any previously held equity interest,

over the acquisition date fair value of net identifiable assets acquired

**2 Summary of significant accounting policies (continued)**

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of CGUs expected to benefit from the combination's synergies

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation

Impairment losses recognised for goodwill are not subsequently reversed

**Intangibles**

Intangible assets acquired separately are measured on initial recognition at cost The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition

Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses Intangible assets with finite lives are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that they may be impaired The amortisation period and method is reviewed at each financial year end Intangible assets with indefinite lives are tested for impairment in the same way as goodwill A summary of the useful lives of intangible assets is as follows

| | |
|---|---|
| • Trade names finite | up to 20 years |
| • Contractual and non-contractual relationships | up to 15 years |
| • Software finite (up to seven years) | up to 7 years |

**Trade and other payables**

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services

**Provisions**

Provisions are recognised when

- the consolidated entity has a present obligation (legal or constructive) as a result of a past event,
- it is probable that resources will be expenses to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation

Where some or all of a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre- tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost

**Off-market contracts**

When undertaking business acquisitions, the Company often takes on responsibility for contracts that are in place within the acquiree Changes in market conditions may result in the original terms of the contract becoming unfavourable in comparison to market conditions present at the date of acquisition

The obligation for discounted future above-market payments are provided for, calculated using the discount rate determined at acquisition date The discounted future above-market provision is released to earnings over the duration of the contract

**2. Summary of significant accounting policies (continued)**

**Employee leave benefits**

***Wages, salaries, annual leave, and sick leave***

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date They are measured at the amounts expected to be paid when the liabilities are settled Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable

**Contributed equity**

Ordinary shares are classified as equity Incremental costs arising on the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds received

**Critical accounting estimates and judgements**

In the process of applying the Company's accounting policies, management has made a number of judgements and applied estimates for future events The key estimates and judgements which are material to the financial report are

***Impairment of goodwill and intangibles***

The key assumptions used in the estimation of the recoverable amount and the carrying amount of goodwill and intangibles are:

- Discount rate, and
- Growth rate

***Useful Economic Life of Plant and Equipment***

The Company's management determines the estimate of useful lives and related depreciation charges for its plant and equipment This estimate is based on the historical experience of the Company

BUKI (AUSTRALIA) PTY LTD

ABN 48 610 568 586

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 27 FEBRUARY 2016

| | Consolidated 2016 £'000 |
|---|---|
| **3. Cash and Cash equivalents** | |
| **Reconciliation to cash flow statement** | |
| For the purposes of the cash flow statement, cash and cash equivalents comprise the following | |
| Cash on hand and in transit | |
| Cash at bank and on deposit | 24,829 |
| | 24,829 |
| **Reconciliation of net profit after tax to net cash flows from operations** | |
| Net profit | |
| Net cash from operating activities | |
| **4 Trade and other receivables** | |
| **Current** | |
| Trade receivables | 2,486 |
| Other debtors | 50,133 |
| | 52,619 |
| **5. Inventories** | |
| Finished goods | 170,763 |
| Total inventories at cost | 170,763 |
| **6 Other current assets** | |
| Prepayments | 25,311 |

BUKI (AUSTRALIA) PTY LTD
ABN 48 610 588 586

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 27 FEBRUARY 2016

| | Consolidated 2016 £'000 |
|---|---|
| **7. Property, plant and equipment** | |
| **Freehold land** | |
| Cost | 25,532 |
| Net carrying amount | 25,532 |
| **Buildings** | |
| Cost | 14,899 |
| Net carrying amount | 14,899 |
| **Equipment** | |
| Cost | 83,504 |
| Net carrying amount | 83,504 |
| **Total property, plant and equipment** | 123,935 |
| **8. Tax** | |
| Deferred tax assets | 47,159 |

**9. Goodwill and intangible assets**

| | Goodwill £'000 | Intangibles £'000 | Total £'000 |
|---|---|---|---|
| **Balance at 5 February 2016, net of accumulated amortisation and impairment** | | | |
| Additions and acquisitions | 480,801 | 27,640 | 508,441 |
| Impairment | | | |
| **Balance at 27 February 2016, net of accumulated amortisation and impairment** | 480,801 | 27,640 | 508,441 |

**10. Trade and other payables**

| | |
|---|---|
| **Current** | |
| Trade payables | 172,748 |
| Other payables | 148,203 |
| | 320,951 |

**11 Payables to HRG**

| | |
|---|---|
| Payables to HRG | 4,620 |

| | Consolidated 2016 £'000 |
|---|---|
| **12. Borrowings** | |
| **Current** | |
| Unsecured | |
| *Interest-bearing bank loan* | 22,113 |
| Borrowings from the ultimate parent | 340,000 |
| | 362,113 |
| **13. Provisions** | |
| **Current** | |
| Off-market contracts | 48,329 |
| Make good provision | - |
| | 48,329 |
| **Non-current** | |
| Off-market contracts | 96,166 |
| Make good provision | 88,687 |
| | 184,853 |
| **Total provisions** | 233,182 |
| **14. Other liabilities** | |
| **Current** | |
| HRG liability | 612 |
| VAT & Other tax payable | 28,768 |
| | 29,380 |
| **Non-current** | |
| Deferred Income | 2,611 |
| | 2,611 |
| **Total other liabilities** | 31,990 |
| **15. Remuneration of Auditors** | |
| **Amounts paid or due and payable for** | |
| An audit or review of the financial report of the entity and any other entity in the consolidated entity | 57 |
| | 57 |

**16. Business combination**

On 27 February 2016, the entity acquired 100 per cent of Home Retail Group plc's holding in Homebase for £340,000 thousand Homebase is based in the United Kingdom (UK) and operates a home improvement and garden retail business in the UK and Republic of Ireland The acquisition of Homebase delivers an established and scalable platform with stores that are the right size for the UK market and supports warehouse merchandising and a low cost operating model

At 27 February 2016, the acquisition accounting balances recognised are provisional due to ongoing work finalising valuations and tax related matters which may impact acquisition accounting entries The provisional fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition are

| | £'000 |
|---|---|
| Assets | |
| Cash and cash equivalents | 24,829 |
| Trade and other receivables | 52,619 |
| Inventories | 170,763 |
| Prepayments | 25,311 |
| Property, plant and equipment | 123,935 |
| Intangible assets | 27,640 |
| Deferred tax assets | 47,159 |
| Total assets | 472,256 |
| | |
| Liabilities | |
| Trade and other payables | 320,951 |
| Provisions | 233,182 |
| Other liabilities | 31,991 |
| Total liabilities | 586,124 |
| | |
| Provisional fair value of identifiable net liabilities | (113,868) |
| Goodwill arising on acquisition | 480,801 |
| Purchase consideration paid and payable | 366,933 |
| | |
| Cashflow on acquisition | |
| Purchase consideration paid | 362,113 |
| Less net cash acquired | (24,829) |
| Net cash outflow at 27 February 2016 | 337,284 |

If the combination had taken place at the beginning of the period, the revenue from continuing operations for the Company would have been approximately £72,275 thousand higher It is not practicable to determine the profit of the Company had the combination taken place at 5 February 2016, as the fair value of the identifiable assets and liabilities is not known at that date Assuming that the same fair values detailed above applied at 5 February 2016, the profit for the Company would not have been materially different from that reported

**BUKI (AUSTRALIA) PTY LTD**
**ABN 48 610 588 586**

## DIRECTORS' DECLARATION

In the opinion of the directors, the special purpose financial report gives a true and fair view of the Company's financial position as at 27 February 2016 and performance for the period then ended based on the accounting policies described in Note 2 Subject to Note 2, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable

On behalf of the Board

John Charles Gillam

Melbourne, 25/10/2016

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# Independent auditor's report to the members of BUKI (Australia) Pty Ltd

We have audited the accompanying special purpose financial report of BUKI (Australia) Pty Ltd and its controlled entities (the consolidated entity), which comprises the balance sheet as at 27 February 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 22 days from the date of incorporation on 5 February 2016 to 27 February 2016, a summary of significant accounting policies, other explanatory notes and the directors' declaration

## Directors' responsibility for the financial report

The directors of the consolidated entity are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the needs of the members The directors are also responsible for such controls as they determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit We conducted our audit in accordance with Australian Auditing Standards Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

## Independence

In conducting our audit we have complied with the independence requirements of the Australian professional accounting bodies

## Opinion

In our opinion the financial report presents fairly, in all material respects, the financial position of BUKI (Australia) Pty Ltd and its controlled entities as at 27 February 2016 and the consolidated entity's financial performance and cash flows for the 22 days from the date of incorporation on 5 February 2016 to 27 February 2016 in accordance with the accounting policies described in Note 2 to the financial statements

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## Basis of accounting and restriction on distribution

Without modifying our opinion, we draw attention to Note 2 to the financial report which describes the basis of accounting The financial report is prepared to assist BUKI (Australia) Pty Ltd on the basis set out in Note 2 to the financial report As a result the financial report may not be suitable for another purpose Our report is intended solely for BUKI (Australia) Pty Ltd and should not be distributed to parties other than BUKI (Australia) Pty Ltd.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
25 October 2016