WESFARMERS ANNUAL REPORT 2018

Wesfarmers

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 Perth, 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 approximately 217,000 employees (including more than 5,200 Indigenous team members) and is owned by approximately 495,000 shareholders.

About this report

This annual report is a summary of Wesfarmers and its subsidiary companies' operations, activities and financial performance and position as at 30 June 2018. 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 2018 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 this 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.

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2018 YEAR IN REVIEW

DIVIDENDS PER SHARE
$2.23

GOVERNMENT TAXES AND ROYALTIES
$2.1B

PAYMENTS TO SUPPLIERS
$47.2B

LARGEST PRIVATE SECTOR EMPLOYER
217K
TEAM MEMBERS

SALARIES AND WAGES
$9.3B

COMMUNITY CONTRIBUTIONS
$148M

DEMERGER OF COLES PROPOSED

DIVESTED CURRAGH COAL MINE AND HOMEBASE

ROB SCOTT BECAME WESFARMERS' EIGHTH MANAGING DIRECTOR

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Wesfarmers

THE PRIMARY OBJECTIVE OF WESFARMERS IS TO PROVIDE A SATISFACTORY RETURN TO SHAREHOLDERS

We believe it is only possible to achieve this over the long term by:

- anticipating the needs of our customers and delivering competitive goods and services
- looking after our team members and providing a safe, fulfilling work environment
- engaging fairly with our suppliers, and sourcing ethically and sustainably
- supporting the communities in which we operate
- taking care of the environment
- acting with integrity and honesty in all of our dealings

GROUP STRUCTURE

Wesfarmers

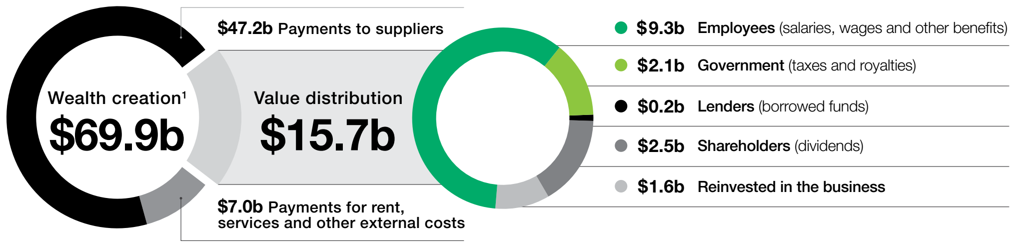
- **RETAIL**
  - **BUNNINGS**
    - Bunnings
  - **COLES**
    - Coles*
    - Coles Online
    - Coles Express
    - Vintage Cellars
    - First Choice Liquor
    - Liquorland
    - Spirit Hotels
    - Coles Financial Services
  - **DEPARTMENT STORES**
    - Kmart
      - Kmart Tyre and Auto Service*
    - Target
  - **OFFICEWORKS**
    - Officeworks
- **INDUSTRIALS**
  - Chemicals, Energy and Fertilisers
    - CSBP
    - Australian Vinyls
    - Australian Gold Reagents (75%)
    - Queensland Nitrates (50%)
    - EVOL LNG
    - Kleenheat
    - Quadrant Energy* (13.2%)
  - Industrial & Safety
    - Blackwoods
    - Workwear Group
    - Coregas
    - Greencap
    - NZ Safety Blackwoods
  - Resources
    - Curragh*
    - Bengalla* (40%)
- **OTHER BUSINESSES**
  - BWP Trust (24.8%)
  - Gresham Partners (50%)
  - Wespine Industries (50%)
- **CORPORATE**

* In March 2018, Wesfarmers announced its intention to demerge Coles and the completion of the sale of the Curragh coal mine. In August 2018, Wesfarmers announced that it had entered into agreements to sell Kmart Tyre and Auto Service, its 40 per cent interest in Bengalla, and its indirect interest in Quadrant Energy.

BACK

PERFORMANCE OVERVIEW

CREATING WEALTH AND ADDING VALUE



[1] Includes discontinued operations.

Group performance

Key financial data		2018	2017
Results from continuing operations[1]			
Revenue	$m	**66,883**	64,913
Earnings before interest, tax, depreciation and amortisation	$m	**5,259**	5,352
Earnings before interest, tax, depreciation and amortisation (excluding significant items)[2]	$m	**5,565**	5,352
Earnings before interest and tax	$m	**4,061**	4,177
Earnings before interest and tax (excluding significant items)[2]	$m	**4,367**	4,177
Net profit after tax	$m	**2,604**	2,760
Net profit after tax (excluding significant items)[2]	$m	**2,904**	2,760
Basic earnings per share	cents	**230.2**	244.7
Basic earnings per share (excluding significant items)[2]	cents	**256.8**	244.7
Results including discontinued operations[1]			
Earnings before interest and tax	$m	**2,796**	4,402
Earnings before interest and tax (excluding significant items)[3]	$m	**4,288**	4,402
Net profit after tax	$m	**1,197**	2,873
Net profit after tax (excluding significant items)[3]	$m	**2,772**	2,873
Basic earnings per share	cents	**105.8**	254.7
Basic earnings per share (excluding significant items)[3]	cents	**245.1**	254.7
Return on average shareholders' equity (R12) (excluding significant items)[3]	%	**11.7**	12.4
Cash flow and dividends (including discontinued operations)[1]			
Operating cash flows	$m	**4,080**	4,226
Net capital expenditure on property, plant and equipment and intangibles	$m	**1,209**	1,028
Free cash flows	$m	**3,422**	4,173
Equity dividends paid	$m	**2,528**	1,998
Operating cash flow per share	cents	**360.1**	374.1
Free cash flow per share	cents	**302.0**	369.5
Dividends per share (declared)	cents	**223.0**	223.0
Balance sheet and gearing			
Total assets	$m	**36,933**	40,115
Net financial debt	$m	**3,580**	4,321
Shareholders' equity	$m	**22,754**	23,941
Fixed charges cover (R12) (excluding significant items)[3]	times	**3.0**	3.1
Interest cover (R12) (cash basis) (excluding significant items)[3]	times	**30.4**	25.0

[1] Discontinued operations relate to the Curragh coal mine and Bunnings United Kingdom and Ireland (BUKI) which were disposed of during the year. 2017 balances have been restated where necessary to reflect these discontinued businesses.

[2] Significant items for continuing operations relate to Target's non-cash impairment of $306 million pre-tax ($300 million post-tax).

[3] 2018 excludes the following significant items pre-tax (post-tax) amounts: $931 million ($1,023 million) of impairments, write-offs and store closure provisions in BUKI; a $375 million ($375 million) loss on disposal of BUKI; $306 million ($300 million) of non-cash impairments in Target and a $120 million ($123 million) gain on disposal of Curragh.

The 2018 financial year was one of significant change for Wesfarmers, with decisive actions taken to reposition the Group's portfolio to deliver sustainable growth in earnings and improved shareholder returns.

Divisional performance

Bunnings		2018	2017
Revenue	$m	**12,544**	11,514
Earnings before interest and tax	$m	**1,504**	1,334
Segment assets	$m	**5,025**	4,846
Segment liabilities	$m	**1,875**	1,785
Capital employed (R12)	$m	**3,045**	3,192
Return on capital employed (R12)	%	**49.4**	41.8
Capital expenditure	$m	**497**	367

Coles		2018	2017
Revenue	$m	**39,388**	39,217
Earnings before interest and tax	$m	**1,500**	1,609
Segment assets	$m	**21,180**	21,140
Segment liabilities	$m	**4,561**	4,245
Capital employed (R12)	$m	**16,386**	16,586
Return on capital employed (R12)	%	**9.2**	9.7
Capital expenditure	$m	**762**	811

Department Stores		2018[1]	2017
Revenue	$m	**8,837**	8,528
Earnings before interest and tax	$m	**660**	543
Segment assets	$m	**3,617**	3,928
Segment liabilities	$m	**1,482**	1,423
Capital employed (R12)	$m	**2,013**	2,253
Return on capital employed (R12)	%	**32.8**	24.1
Capital expenditure	$m	**293**	222

Officeworks		2018	2017
Revenue	$m	**2,142**	1,964
Earnings before interest and tax	$m	**156**	144
Segment assets	$m	**1,452**	1,401
Segment liabilities	$m	**532**	488
Capital employed (R12)	$m	**939**	980
Return on capital employed (R12)	%	**16.6**	14.7
Capital expenditure	$m	**45**	36

Industrials (including Curragh mine)		2018	2017
Revenue	$m	**5,269**	5,161
Earnings before interest and tax	$m	**867**	915
Segment assets	$m	**3,500**	4,229
Segment liabilities	$m	**758**	1,125
Capital employed (R12)	$m	**3,295**	3,393
Return on capital employed (R12)	%	**26.3**	27.0
Capital expenditure	$m	**167**	169

[1] The 2018 earnings before interest and tax for Department Stores excludes Target's pre-tax non-cash impairment of $306 million.

CHAIRMAN'S MESSAGE

MICHAEL CHANEY AO

CHAIRMAN

The 2018 financial year was one of significant change for Wesfarmers, when we took some difficult, but important decisions to restructure the Group's portfolio of businesses in the interest of long term shareholder returns.

On a statutory basis, net profit after tax fell 58.3 per cent to $1.2 billion as a result of impairment charges and closure costs for the Bunnings United Kingdom and Ireland (BUKI) business and a further impairment of the Target business, partially offset by a profit on sale of the Curragh coal business.

Excluding significant items and discontinued operations, net profit from continuing operations rose 5.2 per cent to $2.9 billion, a pleasing result which reflected a strong performance in the Group's businesses, particularly in Bunnings Australia and New Zealand, and Department Stores.

The directors declared a fully-franked final dividend of $1.20 per share, bringing the full-year dividend to $2.23 per share, the same as in 2017.

The succession from Richard Goyder to Rob Scott as Group Managing Director in November 2017 was one of a number of changes in senior management during a year which also saw Anthony Gianotti appointed as Group Chief Financial Officer and new leaders appointed in the Industrials division and in Business Development. Wesfarmers has also announced a number of further senior leadership changes that will occur in the first half of the 2019 financial year. The Board is confident that the new team assembled by Rob is well equipped to continue the company's record of success. Our great thanks go to the retiring executives for their dedication and outstanding efforts on behalf of Wesfarmers.

These management changes have paralleled a restructuring of the conglomerate's portfolio of businesses. The BUKI operations and Curragh coal mine were sold and the proposed demerger of Coles was announced during the 2018 year. Further, the sale of Kmart Tyre and Auto Service, our 40 per cent interest in the Bengalla coal mine, and our indirect interest in Quadrant Energy were announced in the months following the close of the year. The Coles demerger is scheduled to be completed in November 2018, subject to shareholder and other approvals.

These disposals reflect the determination of the Board and management to prioritise the achievement of Wesfarmers' stated objective 'to provide a satisfactory return to shareholders'. They will result in a reduction in the size of the company but leave it with a group of strong businesses each with good growth potential and, importantly, a very strong balance sheet.

That financial strength does not mean that we feel any urgency to make new acquisitions. Apart from the fact that there are many opportunities for growth in our existing businesses, new investments will only occur if we assess them to have the potential to deliver superior returns to our shareholders over the long term. The Group Managing Director has reiterated this point on many occasions since his appointment.

External events, including the Royal Commission into financial services, gave rise during the past year to extensive commentary about corporate reputation and the role of company boards and management. These have ranged from the suggestion that company directors should be more involved in the details of management; to the contention, on the other hand, that boards are overwhelmed with information; that the establishment of board committees has blurred the lines between governing and management; or that the focus of corporate objectives on financial outcomes is incompatible with good corporate citizenship. Your company's directors have firm views on these issues.

The role of directors is to govern, not to manage. The most important aspect of the role is the appointment of the chief executive officer and ensuring that the CEO assembles a competent management team. Directors whose involvement is part time cannot possibly be across the detail of the business. They delegate the running of the company to management; but the second vital role directors play is holding management's 'feet to the fire' - ensuring that the company's policies and procedures are directed towards achieving desired outcomes, that management understands and communicates the company's values and codes of behaviour, that bad news travels upwards as fast as good news, that unacceptable behaviour is dealt with expeditiously and that employee rewards are aligned with performance.

Board committees are an important element in achieving these goals. They allow directors to gain a deeper understanding of issues, including audit and risk matters, human resources, safety practices and so on; and to give management the benefit of their own experience in such areas. But committee members and the committee chair need to be careful to ensure that they do not default to acting in a management role: employees report through the management hierarchy, not to a board committee.

As for the suggestion that focusing on financial outcomes is incompatible with good corporate citizenship, we couldn't disagree more. The reason listed companies exist is to provide their shareholders with financial returns. People buy shares in Wesfarmers because they hope it will provide them with better returns than if they buy shares in another company; but that does not give a company licence to put profit before good behaviour. The simple fact is that unless a company behaves as a good corporate citizen, it will not achieve financial success over the long term. Poor behaviour will cause many people not to buy shares or to sell their holding, customers will desert it, it will result in fines or bans for the company and the company will not be invited to join in profitable opportunities. In short, the company will lose its 'licence to operate'.

That is why at Wesfarmers we have always qualified our single financial objective with the words you see on page four of this report; words describing our commitment to take care of our employees, customers, suppliers, the environment and the communities in which we operate.

The fact that Wesfarmers has adhered to such principles explains why it continues to prosper more than a century after it was formed. It also explains why it has been so successful since its public listing in 1984. A $1,000 investment in the company at the time of listing, with dividends reinvested, is now worth $420,000, compared to $38,000 for a $1,000 investment in the ASX 50. Notwithstanding the uncertainties facing all businesses in our complex world, and the inevitability of making suboptimal decisions, hopefully as well as good ones, we are determined to continue that record of success.

Achieving that will require a competent and dedicated board and management team, and I believe shareholders have reason to be confident.

I take this opportunity, on behalf of my fellow directors, to thank our outgoing directors Paul Bassat and James Graham for their efforts on behalf of the company. Paul has provided valuable insights during his time on the Board, particularly in respect of issues around digital disruption; James' contribution to Wesfarmers over 40 years has been extraordinary. His first involvement with the Group was as principal advisor to the Wesfarmers Cooperative in 1977 in its protracted, company-making takeover of the fertiliser company CSBP and Farmers Ltd. James has provided advice on every strategic move by Wesfarmers since, initially in a professional role, but over the last 20 years in his role as a director. It is no exaggeration to say that the financial success of Wesfarmers described above has been due in no small part to James' involvement. We are delighted that the shareholders of Coles will benefit similarly through his role as Chair as it begins its journey as a re-listed company.

We welcome Sir Bill English to the Wesfarmers Board and look forward to his contribution; and we acknowledge with thanks the substantial contribution which Archie Norman has made as advisor to the Board and management since the Coles takeover in 2007. Archie will continue as advisor to the Coles board and we look forward to welcoming David Cheesewright as advisor to our board and Wesfarmers' nominee on the Coles board.

In closing, I pay tribute to our hard-working team, led by Rob Scott. We look forward to overseeing their efforts to ensure the continued success of the company.

Michael Chaney AO
Chairman

MANAGING DIRECTOR'S REPORT

ROB SCOTT
MANAGING DIRECTOR

It is my pleasure to provide the 2018 financial year update, my first as Managing Director.

This was a year of change for Wesfarmers, with good progress made to reposition the portfolio and ensure we have the right settings in place for sustained value creation. The changes we have made and those in progress have been guided by a steadfast commitment to our core objective to provide a satisfactory return to shareholders.

Through these changes, our businesses delivered a strong financial result, with earnings from continuing operations and excluding significant items growing 5.2 per cent. Reported net profit after tax reflected the trading losses and significant items associated with Bunnings United Kingdom and Ireland and the sale of Homebase in June 2018. While this was a disappointing investment, the sale has freed Wesfarmers of operating losses and future capital and lease obligations, and has strengthened the Group's financial position.

Bunnings in Australia and New Zealand had another strong year, with sustained sales momentum reflecting continued improvement in its customer offer through investment in price, range and service.

Coles' earnings were lower than the prior year due to the annualisation of last year's investment in the customer offer, one-off items in the prior year and lower convenience earnings. It was pleasing to see Coles deliver earnings growth and stronger sales momentum in the second half of the year as a result of improvements in customer service and retail execution.

Our Department Stores division delivered record earnings under Wesfarmers' ownership, with Kmart building on its position as a leading global product development company and discount retailer. Target was able to improve earnings on the prior year through better cost and inventory control, as the reset of its offer continued. Trading conditions for Target remain challenging and this was reflected in the non-cash impairment recognised during the year.

Officeworks continues to build on its strong and consistent performance with another positive result. It is investing in and improving its sophisticated omni-channel customer offer which delivers exceptional value and convenience to customers.

Finally, our Industrials Division also performed well, with strong returns from Resources and Chemicals, Energy and Fertilisers, and modest earnings growth in Industrial and Safety.

In addition to the divestment of Homebase, Wesfarmers also completed the sale of Curragh. The sale of Curragh and the announcement in August 2018 of the sale of Wesfarmers' 40 per cent interest in the Bengalla mine mark Wesfarmers' exit from coal mining following a detailed strategic review of these assets. Both have been very successful investments for Wesfarmers and I would like to sincerely thank the dedicated teams, ably led by Craig McCabe, for their efforts over the years.

The sale of Kmart Tyre and Auto Service (KTAS) was also announced in August 2018. It achieved strong earnings growth under Wesfarmers' ownership and the sale to Continental AG provides an opportunity to expand its offer to customers with the backing of a leading international company. Thanks to the KTAS team – we wish them the best for the future.

The most significant transaction announced during the year was the proposal to demerge Coles, which we expect to complete in November 2018, subject to shareholder and other approvals. Coles is an iconic Australian company which has benefited from almost $9 billion of investment and a world-class transformation under Wesfarmers' ownership. Now a mature and profitable business, Coles is well positioned for life as a separately listed company. Coles will provide shareholders with exposure to a cash-generative business which is expected to be resilient through economic cycles.

The changes over the past year are evidence of the strength of the Wesfarmers model. Notably our capacity to move swiftly to manage our portfolio and the flexibility this provides for renewal. Further, our model of divisional autonomy provides our operating businesses with the ability to retain a laser-like focus on their customers and operations and deliver strong performance outcomes during times of change.

At Wesfarmers, we have always recognised that we can only provide a satisfactory return to our shareholders by creating long-term value for all our stakeholders – team members, customers, suppliers and the communities in which we operate. During the year, we paid our team members over $9 billion in salaries and wages. We are also delivering improvements in workplace safety, reductions in emissions intensity and strengthening our processes around ethical sourcing. Our businesses made community contributions, both directly and through customers and team members, of $148 million.

People

Wesfarmers is the largest private sector employer in Australia with some 217,000 team members across our businesses. The strong performance of our continuing operations reflects the dedication of our hard-working teams.

Within the Leadership Team it has been a year of renewal with the retirement of some key executives across the Group. The Managing Director of Coles, John Durkan, will hand over to Steven Cain in September 2018. John has been instrumental in the turnaround of Coles, first as Merchandise Director and more recently as Managing Director. John leaves Coles in great shape and we thank him for his significant contribution.

Our long-time retail advisor, Archie Norman, will step down as an advisor to Wesfarmers upon the demerger of Coles. Archie was a driving force in the successful turnaround of Coles and I am delighted that he will continue to advise the Coles Board, post-demerger.

Guy Russo will be retiring after 10 years at Wesfarmers, during which he led the remarkable turnaround in the fortunes of Kmart, and more recently oversaw the reset and return to profitability of Target. From 1 November 2018, Ian Bailey will assume the role of Managing Director, Department Stores in addition to his current role as Managing Director of Kmart. Marina Joanou was promoted to Managing Director of Target in August 2018. Ian and Marina are exceptional executives who have worked closely with Guy through the successful turnaround of Kmart and recent reset of Target.

Mark Ward is also retiring as Managing Director of Officeworks after 11 years of outstanding service, but will remain with the Group working on a number of projects including the Advanced Analytics Centre Advisory Board, leading a Group-wide safety project, and on the board of Bunnings.

Alan Carpenter is retiring as Executive General Manager of Corporate Affairs, a position he has held since he joined Wesfarmers in 2009. Alan's advice and counsel have been invaluable to many of us during that period, and we wish him well in retirement. Naomi Flutter has joined our Leadership Team to succeed Alan, and brings a wealth of experience to this important role.

Earlier in the year, Anthony Gianotti was promoted to Chief Financial Officer and we welcomed David Baxby to the Group as Managing Director, Wesfarmers Industrials, and Ed Bostock as Managing Director, Business Development.

Outlook

When reflecting on the strength of our balance sheet, our businesses and our teams, I am confident that Wesfarmers' best days lie ahead.

We expect our retail businesses to deliver continued earnings growth through further investment and improvement in their customer offers, expanding their addressable markets and offering even better products and service. The focus of our Industrials business will remain on improving safety and operational efficiency while evaluating new opportunities to leverage our capabilities and capital.

With the establishment of the Advanced Analytics Centre, we will further develop our digital and data capabilities. Across the Group, we are focused on building great talent and teams, and encouraging an entrepreneurial spirit. These areas will define the competitive advantage of Wesfarmers in the decades to come.

Subject to shareholder approval, the demerger of Coles will enable Wesfarmers to reaffirm its position as a diversified conglomerate and reallocate capital towards higher growth opportunities.

Wesfarmers will retain a 15 per cent shareholding in Coles, and will support investments in flybuys, our joint venture with Coles, that will provide opportunities to better leverage data and digital capabilities for the benefit of customers.

We will continue to take a long-term view, retaining a strong balance sheet and capital discipline to enable us to take advantage of opportunities to create shareholder value if and when they arise.

In conclusion, I extend my thanks to our dedicated team members across the Group during this period of change.

Rob Scott
Managing Director

LEADERSHIP TEAM

ROB SCOTT
MANAGING DIRECTOR, WESFARMERS

Rob was appointed Managing Director of Wesfarmers in November 2017 following his appointment as Deputy Chief Executive Officer in February 2017. Rob joined Wesfarmers in 1993, before moving into investment banking, where he held various roles in Australia and Asia. He rejoined Wesfarmers in Business Development in 2004, was appointed Managing Director of Wesfarmers Insurance in 2007 and then Finance Director of Coles in 2013. Rob was appointed Managing Director, Financial Services in 2014 and then Managing Director of the Wesfarmers Industrials division from August 2015 until August 2017.

ANTHONY GIANOTTI
CHIEF FINANCIAL OFFICER, WESFARMERS

Anthony was appointed Chief Financial Officer of Wesfarmers in November 2017 following his appointment as Deputy Chief Financial Officer in July 2017. Anthony joined Wesfarmers in 2004 in Business Development and in 2005 became Manager, Investor Relations and Business Projects. In 2006, he was appointed Head of Business Development and Strategy of Wesfarmers Insurance, then Finance Director in 2009 and Managing Director in 2013. In August 2015, he was appointed Finance Director of the Wesfarmers Industrials division and its Deputy Managing Director in February 2017.

MAYA VANDEN DRIESEN
GROUP GENERAL COUNSEL, WESFARMERS

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.

MICHAEL SCHNEIDER
MANAGING DIRECTOR, BUNNINGS GROUP

Michael was appointed Managing Director, Bunnings Australia and New Zealand in March 2016 and Managing Director, Bunnings Group in May 2017. Michael joined Bunnings in 2005, and prior to that he held a range of senior operational, commercial and human resource roles across regional and national markets, both in retail and financial services. Michael holds a Bachelor of Arts degree from the University of NSW and has completed the Advanced Management Program at INSEAD, and the Advanced Strategic Management Program at IMD.

JOHN DURKAN
MANAGING DIRECTOR, COLES*

John was appointed Managing Director of Coles in July 2014 and he will transition to a senior advisor role with the Group in September 2018. 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 United Kingdom.

* John will retire as Managing Director, Coles in mid-September 2018, and transition to the role of Senior Advisor.

GUY RUSSO
CHIEF EXECUTIVE OFFICER, DEPARTMENT STORES AND MANAGING DIRECTOR, TARGET*

Guy joined Wesfarmers in 2008 as Managing Director of Kmart, and was appointed Chief Executive Officer of the Department Stores division in February 2016 and Managing Director, Target in April 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 global non-profit, OneSky, for orphaned and at-risk children.

*Guy retired as Managing Director, Target on 14 August 2018 and will retire as Chief Executive Officer, Department Stores on 1 November 2018, when he will transition to the role of Senior Advisor.

IAN BAILEY
MANAGING DIRECTOR, KMART*

Ian was appointed Managing Director, Kmart in February 2016 following the creation of the Department Stores division. Prior to this, Ian was Chief Operating Officer, Kmart where he was instrumental in Kmart's turnaround. Ian's experience covers a number of industries including retail, professional services, consulting, technology and healthcare in positions that include general management, sales, business development and project management. Ian holds a Bachelor of Science degree in Civil Engineering and has completed the Advanced Management Program at Harvard Business School.

*Ian will assume the additional responsibility for leading the Department Stores division from 1 November 2018.

DAVID BAXBY
MANAGING DIRECTOR, WESFARMERS INDUSTRIALS

David commenced as Managing Director, Wesfarmers Industrials in August 2017. Prior to this, he was President and Chief Executive Officer of international shopping transaction processing business, Global Blue. From 2004, David held a number of commercial and leadership roles within the Virgin Group, and was Co-Chief Executive Officer from 2011 to 2014. Earlier in his career, David was a Partner and Executive Director of Goldman Sachs in both London and Sydney. David was formerly Chairman of Frontier Digital Ventures, and a director of Virgin Australia, Velocity Frequent Flyer, Unlockd and Workpac Limited.

ED BOSTOCK
MANAGING DIRECTOR, BUSINESS DEVELOPMENT, WESFARMERS

Ed joined Wesfarmers in October 2017 as Managing Director, Business Development. Prior to joining Wesfarmers, he was a Director in the Private Equity team at the global investment firm Kohlberg, Kravis & Roberts from July 2007 where his focus was on private equity investment in Australia and New Zealand. From August 2004, Ed worked at Pacific Equity Partners as an Associate Director. He has a Bachelor of Science from the University of Melbourne.

LINDA KENYON
COMPANY SECRETARY, WESFARMERS

Linda was appointed Company Secretary of Wesfarmers in April 2002 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). She holds Bachelor of Jurisprudence and Bachelor of Laws degrees from The University of Western Australia and is a Fellow of the Governance Institute of Australia.

ALAN CARPENTER
EXECUTIVE GENERAL MANAGER, CORPORATE AFFAIRS, WESFARMERS*

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.

*Alan transitioned to the role of Senior Advisor in August 2018 and will retire in December 2018.

NAOMI FLUTTER
EXECUTIVE GENERAL MANAGER, CORPORATE AFFAIRS, WESFARMERS

Naomi joined Wesfarmers as Executive General Manager, Corporate Affairs in August 2018. Prior to that she worked for Deutsche Bank for 20 years, most recently as the head of the Global Transaction Banking division for Australia and New Zealand. Naomi has honours degrees in Economics and Law from the Australian National University and a Masters of Public Policy from Harvard University's John F Kennedy School of Government.

JENNY BRYANT
CHIEF HUMAN RESOURCES OFFICER, WESFARMERS

Jenny was appointed as Chief Human Resources Officer in October 2016 and leads the Wesfarmers Advanced Analytics team in addition to her human resources responsibilities. She joined Wesfarmers in 2011 as the Human Resources Director for Coles and held this role until 2015 when she took on the role of Business Development Director, Coles. Her previous work experience encompasses Mars, Vodafone and EMI Music in a number of global roles in operations, sales and marketing and human resources.

OPERATING AND FINANCIAL REVIEW

ANTHONY GIANOTTI
CHIEF FINANCIAL OFFICER

On behalf of the Board, I'm 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 steering committee that includes the Wesfarmers Managing Director and Chief Financial Officer, 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 2018 financial year, as well as summarising the Group's risks and prospects. The 2018 financial performance is 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 97 to 144 of this annual report.

Anthony Gianotti
Chief Financial Officer

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 217,000 employees and 495,000 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 predominantly operate in Australia and New Zealand with the portfolio including some of the leading brands in these countries.

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.

THE WESFARMERS WAY

OBJECTIVE

To deliver a satisfactory return to shareholders

VALUE CREATING STRATEGIES

Strengthen existing businesses through operating excellence and satisfying customer needs	Secure growth opportunities through entrepreneurial initiatives	Renew the portfolio through value-adding transactions	Ensure sustainability through responsible long-term management

GROWTH ENABLERS

Outstanding people	Commercial excellence	Empowering culture	Innovation	Social responsibility	Robust financial capacity

CORE VALUES

Integrity	Openness	Accountability	Entrepreneurial spirit

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 broader Australian market 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 the 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 divisional performance. ROC focuses divisional businesses on increasing earnings and/or increasing capital productivity by managing existing assets efficiently, 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 target, which is reviewed annually with reference to the performance of the broader market.

[1] ROC = EBIT/(capital employed).

APPROACH TO DELIVERING SATISFACTORY RETURNS TO SHAREHOLDERS

The Group seeks to:

- continue to invest in Group businesses where capital investment opportunities exceed return requirements;
- acquire or divest businesses where doing so is expected to increase long-term shareholder wealth; and
- manage the Group's balance sheet to achieve an appropriate risk profile, an optimised cost of capital and flexibility to take advantage of opportunities as they arise.

CASH FLOW GENERATION

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

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 its businesses. In addition, the Group ensures strong discipline in relation to capital expenditure and investment decisions.

BALANCE SHEET STRENGTH

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

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 strong investment grade credit ratings, 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
- Efficient distribution of franking credits to shareholders
- Effective capital management

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 invested capital. Recognising the value of franking credits, Wesfarmers also seeks to distribute these to shareholders. Capital management decisions may also be taken from time to time where this activity is in shareholders' interests.

APPROACH TO CAPITAL ALLOCATION

The Group evaluates a broad range of investment opportunities, including:

EXISTING PORTFOLIO	• Deploying capital in its existing portfolio to drive continued growth in businesses with leading positions in growing markets
ADJACENT OPPORTUNITIES	• Leveraging existing assets and capabilities to take advantage of adjacent opportunities
VALUE-ACCRETIVE TRANSACTIONS	• Disciplined investments in opportunistic and value-accretive transactions through various ownership models (e.g., minority interest, full control, partnerships)

Importantly, in assessing these opportunities 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.

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 below, 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 26.

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 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 entrepreneurial initiative 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.

CORE VALUES

INTEGRITY	OPENNESS	ACCOUNTABILITY	ENTREPRENEURIAL SPIRIT
Acting honestly and ethically in all dealings	Openness and honesty in reporting, feedback and ideas	Significant delegation of authority and decision-making to divisions	Adopt an owner mindset encouraging teams to identify opportunities and apply commercial and financial acumen to support calculated risk-taking
Reinforcing a culture of doing what is right	Accepting that people make mistakes and seeking to learn from them	Accountability for performance	Encourage our team to take the initiative and pursue new and innovative ways of delivering value
		Protecting and enhancing our reputation	

OPERATING EXCELLENCE

Our strategies	Our achievements	Our focus for the coming years
Strengthen existing businesses through operating excellence and satisfying customer needs	• Continued improvements in our customer offers, including reinvesting in value to drive business growth and improving merchandise ranges. • Further optimised and invested in our retail store networks and digital channels. • Focused on production plant efficiency and maintaining and growing customer relationships in our Industrials division. • Further operational productivity improvements and reduced costs across our businesses.	• **Bunnings** will maintain its focus on driving long-term value creation by delivering more customer value, creating better experiences for customers and the wider community, investing in new and existing stores, delivering greater digital reach and strengthening the core of the business. The business will also deepen its engagement with commercial customers and continue its merchandise innovation. • **Coles** remains committed to its customer-led strategy to provide better value, quality and service. Continued investment in value will be supported by simplifying the business through greater use of technology. The division has plans to further increase the quality of its fresh food offer and providing even more convenient shopping alternatives for customers. Coles will also maintain a disciplined and returns-focused approach to capital investment both in-store and throughout the business. • **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 stores and supply chain. • **Target** will continue to focus on delivering quality fashion at the best everyday price, creating easier customer experiences and optimising the store network. These initiatives will be supported by higher levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification. • **Officeworks** will continue to deliver a unique 'one-stop shop' via its 'every channel' strategy. It will extend its reach across all channels through new categories and services, and drive further productivity improvements. • **Chemicals, Energy and Fertilisers (WesCEF)** will continue to focus on maintaining strong operational performance while delivering new and innovative products to its customers. • **Industrial and Safety** continue to improve business performance through lowering the cost of doing business, improving the offer to customers and investing in core systems and digital.

SECURE GROWTH OPPORTUNITIES

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. • Continued to innovate our product ranges and categories across all businesses, providing value and quality to customers. • Further improved and extended channel and brand reach in the retail portfolio, focusing on store format innovation and the expansion of online offers. • Expanded customer programs, particularly the flybuys loyalty program and the PowerPass offer at Bunnings. • Improved use of data, supported by the establishment of the Advanced Analytics Centre.	• Continue to build and leverage the Group's digital and data capabilities. • Continue to reinforce innovation as a growth enabler. • Continue to rigorously apply financial disciplines and financial evaluation methodologies. • 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	• Announced the intention to demerge Coles, subject to shareholder and other approvals. A successful demerger will set Coles up for success and facilitate greater focus by Wesfarmers on growth opportunities within its remaining businesses as well as the pursuit of value-accretive transactions. • Divested the Curragh coal mine, realising a very successful investment for shareholders over the 16 years of Wesfarmers ownership. • Divested BUKI, exiting a disappointing investment on terms that represent a compelling financial outcome relative to the alternative of retained ownership. • Subsequent to year-end, announced the divestment of Kmart Tyre and Auto as well as the Group's interest in Bengalla and indirect interest in Quadrant Energy, in all cases crystallising the significant value created under the period of Wesfarmers ownership.	• Maintain a strong focus and capability to evaluate growth opportunities where long-term shareholder value can be created. • Consider innovative investment approaches to complement traditional growth models and provide future optionality. • Ensure a patient and disciplined approach to investment opportunities is maintained. • Apply rigorous due diligence and post-acquisition integration processes. • Maintain a strong balance sheet to enable the Group to act opportunistically. • 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	• Further strengthened the Group's balance sheet. • Achieved good improvements in our safety performance. • Maintained a very strong focus on the development and management of our teams. • Continued to promote diversity in our workplaces, with 24 per cent more self-identified Indigenous employees this year, including more than 700 new Indigenous employees at Coles. • Advanced our executive development, retention and succession programs. • Continued to actively contribute to the communities in which we operate. In the 2018 financial year, we made community contributions, both direct and indirect, of $148 million.	• Continue to foster a more inclusive work environment, with particular focus on diversity (gender, age and ethnicity). • Increase the number of women in leadership positions across the Group. • Continue to look after the health, safety and development of our people. • Minimise our environmental footprint. • Contribute positively to the communities in which we operate. • Provide appropriate governance structures to safeguard future value creation. • Continue to strive to source products in a responsible manner and work with suppliers to ensure they meet our ethical, social and environmental standards. • Invest in the local communities in which we operate.

BACK

YEAR IN REVIEW

Overview

The Group reported a net profit after tax (NPAT) of $1,197 million for the year ended 30 June 2018. The reported profit includes a loss from discontinued operations of $1,407 million, which reflects the trading results and significant items for BUKI and Curragh, which were divested during the financial year. NPAT from continuing operations, excluding a $300 million non-cash impairment in Target, increased 5.2 per cent to $2,904 million.

The 2018 financial year was one of significant change for Wesfarmers, with decisive actions taken to reposition the Group's portfolio to deliver sustainable growth in earnings and improved shareholder returns. These actions, including the proposed demerger of Coles, and the divestments of Curragh and BUKI, demonstrate a disciplined approach to capital allocation and portfolio management.

Retail earnings (from continuing operations and excluding significant items) increased 5.2 per cent during the year, with Bunnings Australia and New Zealand (BANZ), Department Stores and Officeworks achieving very strong results. Industrial earnings from continuing operations were also higher, supported by strong contributions from WesCEF and Bengalla.

Divisional financial performances are outlined in pages 26 to 57.

Operating cash flow

Operating cash flows of $4,080 million were 3.5 per cent below the prior year, primarily due to higher tax payments during the financial year, relating to tax payable for earnings from Resources in the prior year.

The Group maintained a strong focus on working capital management resulting in a cash realisation ratio of 100.6 per cent. In aggregate, the Group achieved a neutral working capital result, reflecting increased net working capital investment in BANZ to support the growth in the store network, offset by improved working capital management in Target as well as inventory clearance in BUKI prior to divestment.

Capital expenditure

Strict capital disciplines were maintained while investment in organic growth opportunities continued. Gross capital expenditure of $1,815 million was $134 million higher than last year, reflecting an increase in BANZ store openings relative to the prior year and the acquisition of the Kmart brand name in Australia and New Zealand for $100 million, partially offset by lower capital expenditure in Coles.

Proceeds from disposals of $606 million were $47 million below last year which included the divestment of Coles' interest in a number of joint venture properties to ISPT, and the sale of land by WesCEF. The resulting net capital expenditure of $1,209 million was $181 million or 17.6 per cent higher than the prior year.

Free cash flow

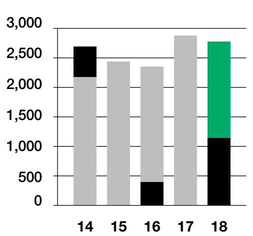
Stable operating cash flows, higher net capital expenditure and lower other investing cash flows resulted in free cash flows of $3,422 million.

Other investing cash flows were $551 million which included proceeds from the disposal of Curragh, partially offset by cash within BUKI that was retained by the business on divestment to support working capital requirements and other financial obligations. This result was $424 million lower than last year which included the proceeds on disposal of Coles' credit card receivables of $947 million.

Net profit after tax

$2,772m

(excluding significant items)

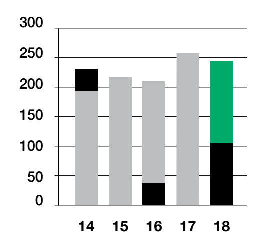


FY18	**2,772**
FY17	2,873
FY16	2,353
FY15	2,440
FY14	2,253

Earnings per share

245.1 cents

(excluding significant items)

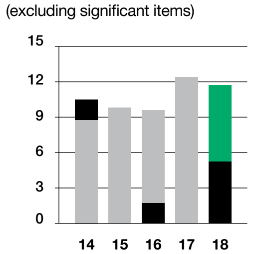


FY18	**245.1**
FY17	254.7
FY16	209.5
FY15	216.1
FY14	196.6

Return on equity

11.7%

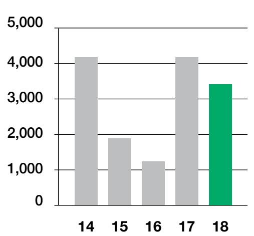
(excluding significant items)



FY18	**11.7**
FY17	12.4
FY16	9.6
FY15	9.8
FY14	8.8

Free cash flow

$3,422m



FY18	**3,422**
FY17	4,173
FY16	1,233
FY15	1,893
FY14	4,178

- FY18 EXCLUDING SIGNIFICANT ITEMS
- EXCLUDING SIGNIFICANT ITEMS
- REPORTED

- 2017 and 2018 includes the operational results of discontinued operations (Curragh and BUKI which were disposed of during the financial year).
- 2018 excludes the following post-tax amounts: $1,023 million of BUKI impairments, write-offs and store closure provisions; a $375 million loss on disposal of BUKI and $300 million of Target impairments, partially offset by a $123 million gain on sale of Curragh.
- 2016 excludes the following post-tax significant items: $1,249 million non-cash impairment of Target; $595 million non-cash impairment of Curragh; and $102 million of restructuring costs and provisions to reset Target.
- 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.

Balance sheet

The Group further strengthened its balance sheet during the year. Net financial debt at the end of the period, comprising interest-bearing liabilities net of cross-currency interest rate swaps and cash at bank and on deposit, was $3,580 million, $741 million below the net financial debt position at 30 June 2017. In addition to a reduction in net financial debt, the Group's balance sheet was also significantly strengthened by a reduction in off-balance sheet lease liabilities as a result of the disposal of BUKI.

Capital employed at year-end was $25,941 million. This was $1,641 million lower than last year mainly due to the divestments of BUKI and Curragh and impairments in Target. These divestments resulted in lower working capital balances, lower property, plant and equipment balances as well as a reduction in provisions and other liabilities primarily due to the de-recognition of employee and other provisions in BUKI and mine site rehabilitation provisions in Curragh. The proceeds from the divestment of Curragh also contributed to the improvement in net financial debt.

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 March 2018, US$750 million ($728 million, including associated cross-currency interest rate swaps) of bonds were repaid using existing cash balances and bank facilities. In addition, more than £705 million ($1,240 million) of bank facilities were cancelled as part of the divestment of BUKI in June 2018.

Finance costs, including discontinued operations, decreased 16.3 per cent to $221 million as a result of a lower average net debt balance. The Group's 'all-in' effective borrowing cost increased 14 basis points to 4.18 per cent due to the repayment of lower cost bank debt as the Group's net debt balance declined throughout the year. Lower finance costs contributed to strong liquidity metrics, with cash interest cover (R12) increasing to 30.4 times and fixed charges cover (R12) relatively stable at 3.0 times.

The Group maintained strong and stable credit ratings during the year. Moody's Investors Services' rating remained unchanged at A3 (stable) and Standard and Poor's revised its outlook for Wesfarmers' A- rating from negative to stable.

Group capital employed

Year ended 30 June[1]	2018 $m	2017 $m
Inventory	**6,011**	6,530
Receivables and prepayment	**1,939**	1,936
Payables	**(6,552)**	(6,616)
Other	**492**	410
Net working capital	**1,890**	2,260
Property, plant and equipment	**8,408**	9,440
Goodwill and intangibles	**17,860**	18,936
Other assets	**970**	622
Provisions and other liabilities	**(3,187)**	(3,676)
Total capital employed	**25,941**	27,582
Net financial debt excluding financial services debt[2]	**(3,580)**	(4,321)
Net tax balances	**393**	680
Total net assets	**22,754**	23,941

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 is net of cross-currency interest swaps, interest rate swap contracts and cash at bank and on deposit.

Cash capital expenditure

Year ended 30 June	2018 $m	2017 $m
Coles	**715**	805
BANZ	**497**	367
Department Stores	**293**	225
Officeworks	**45**	36
WesCEF	**60**	44
Industrial and Safety	**50**	34
Resources	**14**	14
Other & Discontinued	**141**	156
Total cash capital expenditure	**1,815**	1,681
Sale of property, plant and equipment	**(606)**	(653)
Net cash capital expenditure	**1,209**	1,028

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YEAR IN REVIEW

Dividends

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

The Group's dividend policy considers available franking credits, current earnings and cash flows, future cash flow requirements and targeted credit metrics.

The Board has declared a fully-franked final ordinary dividend of 120 cents per share. This takes the full-year ordinary dividend to 223 cents per share, in line with the prior year. The final dividend will be paid on 27 September 2018 to shareholders on the company's register on 21 August 2018, 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 24 August 2018 to 13 September 2018.

The last date for receipt of applications to participate in, or to cease or vary participation in the Plan, is 22 August 2018. 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 27 September 2018. Given the Group's strong credit metrics and stable cash flow performance for the year, any shares to be issued under the Plan will be acquired on-market and transferred to participants.

Net financial debt reduced $741 million to $3,580 million.

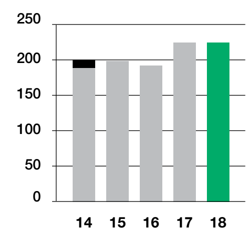
Debt sources[1]

Bank Bilaterals	21.4%
Euro Bonds	43.0%
Domestic Bonds	35.6%

[1] As at 30 June 2018.

Dividends per share

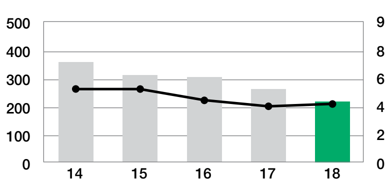
223 cents



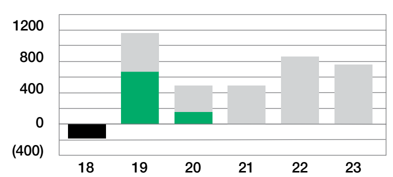
FY18	223
FY17	223
FY16	186
FY15	200
FY14[1]	200

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

Finance costs ($m) and weighted average cost of debt (%)

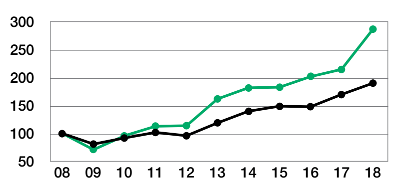


Debt maturity profile ($m)[1]



[1] As at 30 June 2018.

TSR: Wesfarmers and ASX 200



[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.

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 or the political or security situation affecting business and households in Australia, which would effect all companies with a large domestic presence and which could have a material effect on the future performance of the Group.

Further information on risk management can be found on page 71 and in the 2018 Corporate Governance Statement available 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
- Geopolitical uncertainty

Operational

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

Regulatory

- Non-compliance with applicable laws, regulations and standards
- Adverse regulatory or legislative change or implications of policy instability

Financial

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

Emerging

- Climate change

PROSPECTS

Following decisive actions taken to address areas of underperformance and reposition the Group's portfolio in the 2018 financial year, Wesfarmers is well placed to deliver sustainable growth in earnings and improved shareholder returns.

Significant progress has been made on the demerger of Coles, which is expected to be completed in November 2018, subject to shareholder and other approvals. The post-demerger capital structure, announced in July 2018, is expected to set Coles up for success and provide the business with significant operational and strategic flexibility. Coles' balance sheet will have headroom and allow it to make additional investments in new stores, the next evolution of store renewals, online capability, supply chain and deliver on its 'Fresh Tomorrow' strategic initiatives.

Following the demerger, Wesfarmers will have a portfolio of cash-generative businesses with good momentum and leading positions in growing markets. Continued earnings growth is expected across the Group's retail businesses. Growing addressable markets will remain a focus, along with ongoing improvements in merchandising and service, further enhancements to the customer experience both in-store and online, and investments in value supported by operational efficiencies.

The Group's Industrial businesses will continue to focus on operational efficiencies, cost control and capital discipline. Industrial earnings will continue to be influenced by international commodity prices, exchange rates, competitive factors and seasonal outcomes. Earnings for the Chemicals business in the 2019 financial year are expected to be affected by an oversupply of explosive-grade ammonium nitrate in the Western Australian market, subject to competitive factors.

In the coming year, Wesfarmers will continue to focus on leveraging its data and digital capabilities, developing great talent and teams, and driving entrepreneurial initiative. The Group remains generally optimistic and its strong balance sheet position, cash flow generation and capital discipline will continue to be prioritised to take advantage of growth opportunities, if and when they arise, to create value for shareholders over the long term.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Wesfarmers supports the transition to a low carbon economy. This presents both risks and opportunities for our businesses. To facilitate this transition, Wesfarmers is committed to implementing the recommendations of the Financial Standards Board Taskforce on Climate-Related Financial Disclosures (TCFD). This will be a multi-year project as we continue to build our capabilities, capitalise on opportunities and improve disclosures in this area. We recognise that while we have made substantial in-roads this year, we still have further work to do.

Wesfarmers recognises the importance of climate-related financial disclosures to enable efficient allocation of capital within markets and to drive the transition to a sustainable global economy for all. Wesfarmers is working towards embedding our climate change strategy in all aspects of our business, in an effort to reduce our environmental footprint while also achieving long term sustainable growth. Wesfarmers supports the UN Sustainable Development Goals and aims to make progress against these goals, because it is good for our businesses, employees, suppliers and investors, but also because it improves outcomes for all in our local communities, industries, across Australia and in the global community.

During the 2018 financial year, we completed detailed gap and benchmarking analysis to ascertain where we are achieving good outcomes and where we need to improve. Wesfarmers recognises the complex nature of many of the challenges facing our businesses, our communities and our world, because of global environmental change. We look forward to facing the challenges ahead and being part of the solution to achieve a low carbon economy.

Governance

The Board of Wesfarmers has the highest level of oversight and responsibility for climate change within the Group. Each divisional board and management team has responsibility for identifying and managing any material business risks and opportunities, including climate change, in accordance with the Group's Risk Management Framework. Divisional management teams provide an annual risk report to their respective divisional boards

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for review and approval, prior to providing the report to the Wesfarmers Leadership Team at the annual planning forum. A consolidated Group risk report is provided to both the Audit and Risk Committee and the Board of Wesfarmers for further review and approval. Additional information on corporate governance is available on pages 68 to 71 of this report and the full 2018 Corporate Governance Statement is available on the corporate governance section of the company's website at **www.wesfarmers.com.au/cg**

Risk management

Wesfarmers and its businesses undertake a thorough annual risk review in accordance with the Wesfarmers Risk Management Framework. This is well established throughout our businesses and provides the most efficient vehicle for climate change risk assessment, management and mitigation. Further information on the Wesfarmers Risk Management Framework is available on page 71 of this report.

For the 2018 financial year risk review, Wesfarmers' divisions assessed:

- security and pricing of energy supply; and
- physical, regulatory, reputational and competitive risks associated with climate change.

Further impact analysis, including risk mitigation opportunities, will be developed. Through the TCFD project Wesfarmers will expand our understanding of climate-related risks and opportunities within the businesses. As the project matures and we embed improved reporting processes and controls within our businesses, we will move towards more granular analysis, including comprehensive one, two, and four degree scenario analysis, resulting in improved disclosures. We expect to be in a position to include this scenario analysis in next year's annual report.

Strategy

Wesfarmers' climate strategy drives our environmental, energy, waste and water initiatives. By taking a proactive approach to managing climate-related risks and opportunities throughout the portfolio, we aim to maximise lowest cost abatement opportunities first and improve our energy, waste and supply chain systems. Wesfarmers has applied an internal carbon price to capital allocation decisions since 2014. As part of the risk procedure, high level risk analysis has commenced, the findings of which are set out below.

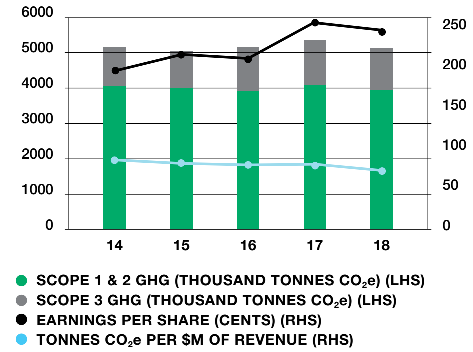
Risks and opportunities

Topic	Impact	Risk	Mitigation and opportunity
Physical risks	Acute	Extreme weather events such as fires, floods and cyclones could affect supply and logistics chains and manufacturing facilities within many of our businesses.	Improving resilience within our businesses to enable a rapid return to normal operations with minimal impact following any extreme or acute climate events. Improving controls, monitoring and reporting on environmental performance will also drive improvements in operations to further prepare and adapt to climate change.
Physical risks	Chronic	Changes in mean temperatures and rainfall patterns will lead to changing consumer and business needs. Sourcing of materials could become more expensive due to water scarcity and a move to phase-out unsustainable products.	Ensuring energy efficiency across all store networks and facilities will help mitigate increased energy cost and usage requirements. Further analysis of embedded carbon and water costs in supply chains will drive additional mitigation efforts as well as exploration of opportunities to meet changing consumer demands.
Transition risks	Policy	Government policy (including pricing carbon) and any other regulatory mechanism may increase costs for companies with carbon or other climate and environmental exposure. Additional regulation in relation to water and biodiversity may become more stringent over time as scarcity of resources and pollution concerns continue to escalate.	Legislative levers built into the Safeguard Mechanism make the introduction of a carbon pricing regime possible. Application of an internal carbon price enables management of potential carbon liability risks for existing facilities and projects or acquisitions. Through a focus on energy efficiency, and water and carbon footprint reduction initiatives, we aim to manage our exposure to regulatory risk. Further analysis of carbon and water within supply chains will enable a proactive approach to managing these risks going forward.
Transition risks	Legal	Greater attention by stakeholders, particularly investors, could lead to increased litigation. Litigation is likely to be a higher risk for companies which rely heavily on revenue sourced from products that are unlikely to be required in a carbon-constrained world.	Analysis of stranded assets has provided options to remove these risks from our business while highlighting opportunities for growth in lower-risk industries. Improved reporting, analysis and disclosure of all climate-related risks, enables shareholders to accurately assess our efforts to mitigate this risk.
Transition risks	Technology	The risks of disruptive technologies affecting demand for our products. The integration of new and old technologies can be complex, while the implementation of new or unproven technologies can result in a decrease in productivity if not managed correctly.	The rate of technological advancement in renewable energy generation and low-cost abatement technologies present both risks and opportunities to all our businesses. Our businesses are actively looking to capitalise on technologies available as well as looking at new opportunities presented. We are improving data and reporting processes, which is driving better resource allocation and efficiency as a result of increased accountability and ownership. The importance and power of data and analytics will be part of the sustainable technological drive to a low-carbon economy.
Transition risks	Market	The supply and demand for consumables and commodities will change as consumer demand shifts to lower carbon products and technologies evolve. Environmental insecurity resulting in increased costs for electricity, water and other raw materials, could impact market penetration and share.	Lower cost generation achieved by renewables opens up a range of opportunities to source cheaper energy from renewable sources. Similarly, Power Purchase Agreements (PPAs) currently evolving in this area provide an opportunity to hedge commodity supply risk through alternate contract arrangements. Emphasis is placed on 'behind-the-meter' renewable sources, along with lowest cost abatement projects first, ensuring the businesses are well placed to enter into PPAs as they become more commercially viable.
Transition risks	Reputation	A lack of direction on managing the effects of climate change creates an increased risk of reputational damage through stakeholder and investor activism or as a result of incorrect investment decisions being made.	Thorough research and analysis of investment opportunities, including the application of an internal carbon price, mitigates poor investment decisions being made while capitalising on opportunities presented. Refer above under Legal for efforts to mitigate legal and investor activism risks.

Metrics and targets

Wesfarmers monitors carbon emissions for regulatory compliance obligations and voluntary reporting purposes. The monitoring of emissions will support the effectiveness of our climate strategy and drive our risk analysis.

Greenhouse gas emissions



	Scope 1 & 2 GHG ('000 tCO_2e)	Scope 3 GHG[1] ('000 tCO_2e)	Total ('000 tCO_2e)
FY18[2]	**3,945**	**1,174**	**5,119**
FY17	4,078	1,282	5,360
FY16	3,915	1,253	5,168
FY15	4,012	1,048	5,060
FY14	4,047	1,098	5,145

[1] Scope 3 GHG includes emissions from joint ventures.

[2] Wesfarmers divested its Curragh mine during FY18. FY18 data includes emissions from the Curragh mine for the period 1 July 2017 to 29 March 2018. Some emission sources have been estimated for the business.

The Wesfarmers conglomerate model allows for management and accountability targets within individual businesses and as a result no single Group-wide target has been set. Each business tailors its emissions management to its business model resulting in varied approaches to target setting. In some instances targets have been set per source, resulting in strategies to reduce energy and emissions. As a result of the diverse nature of the businesses in the Wesfarmers portfolio, the risks and opportunities presented in one business do not necessarily translate to a similar outcome in another.

Division	Targets and business priorities	Progress
Bunnings	Bunnings is accelerating energy reduction through more renewable energy installations and lighting efficiencies, and will roll out 25 solar PV systems and 19 LED retrofits in the 2019 financial year.	During 2018, nine stores had solar PV systems installed, taking the total number of solar PV systems to 23 stores, covering 25,000 square metres of roof area. Bunnings also retrofitted LED lighting into 12 existing stores during the same period, with 26 stores retrofitted to date.
Coles	In 2009, Coles set a target to reduce its greenhouse gas emissions by 30 per cent by 2020.	Coles met this target four years early in 2016. Since 2009, Coles has achieved a 35 per cent reduction in greenhouse gas emissions, including a 74 per cent reduction in scope one greenhouse gas emissions from refrigerant sources due to ongoing refrigeration and HVAC upgrades.
Department Stores	**Kmart** has set an energy efficiency target of 20 per cent reduction of energy per square metre by December 2020 compared to 2015. **Target** has set an energy efficiency target of 25 per cent reduction of energy per square metre by December 2019 compared to 2015.	An overarching strategy of lowest cost abatement first, combined with improved data collation, analytics, systems and processes, specifically around energy demand management, has enabled our Department Stores to drive energy efficiency projects. Kmart stores have reduced their electricity usage by 15 per cent since 2015 equating to 20 per cent less greenhouse gas emissions per metre of store building area. Target stores have reduced their electricity usage by 32 per cent since 2015 equating to 36 per cent less greenhouse gas emissions per metre of store building area.
Officeworks	Officeworks has set a target of a 15 per cent reduction in greenhouse gas emissions from electricity usage compared to 2015.	Officeworks has reduced electricity usage by 11 per cent since 2015 equating to 17 per cent less greenhouse gas emissions.
Industrials	Most abatement projects have already been realised for the **WesCEF** business. The focus is on ongoing improvements through a process of continuous review and action. **Industrial and Safety** has an internal target of a 10 per cent reduction in electricity used year on year.	As part of ongoing environmental licence compliance requirements all facilities must comply with stringent emissions, water quality, water efficiency and air quality requirements. Under the Safeguard Mechanism all facilities are below baseline and forecast to remain below, based on legislation as it is currently enacted. Significant abatement projects have already been completed. A business-wide focus on energy, water and waste efficiency ensures that opportunities are constantly reviewed as part of ongoing process improvements at all facilities. During 2018, Kleenheat entered into a ten-year 30MW PPA to source renewable energy for its customers. Since 2015, Industrial and Safety (excluding Coregas Air Separation Unit in Mackay) has achieved a 25 per cent reduction in electricity through solar installations and LED retrofit projects.

Additional detail on Wesfarmers' sustainability initiatives, projects and performance can be found on pages 58 to 65 of this report or in the online Sustainability Report at **sustainability.wesfarmers.com.au**

BUNNINGS

Founded in 1886 in WA, Bunnings opened its first warehouse in Sunshine, Melbourne in 1994. Bunnings is the leading retailer of home improvement and outdoor living products in Australia and New Zealand and a major supplier to project builders, commercial tradespeople and the housing industry.

Growing talent
Bunnings team member Aaron Boatwright began his career at Bunnings as a casual employee and after more than 20 years is now the IT Operations Manager, Western Australia.

BUNNINGS AUSTRALIA AND NEW ZEALAND

YEAR IN REVIEW

Revenue
$12,544m

Year	Revenue
2018	**12,544**
2017	11,514
2016	10,575
2015	9,534
2014	8,546

EBIT
$1,504m

Year	EBIT
2018	**1,504**
2017	1,334
2016	1,212
2015	1,088
2014	979

Key financial indicators

For the year ended 30 June	2014	2015	2016	2017	2018
Revenue ($m)	8,546	9,534	10,575	11,514	**12,544**
Earnings before interest and tax ($m)	979	1,088	1,212	1,334	**1,504**
Capital employed (R12) ($m)	3,343	3,244	3,312	3,192	**3,045**
Return on capital employed (%)	29.3	33.5	36.6	41.8	**49.4**
Capital expenditure ($m)	531	711	533	367	**497**

PERFORMANCE DRIVERS

Operating revenue from Bunnings Australia and New Zealand increased 8.9 per cent to $12,544 million. Total store sales growth of 8.9 per cent was achieved during the year, underpinned by an increase of 7.8 per cent in store-on-store sales. Bunnings Australia and New Zealand recorded EBIT of $1,504 million, an increase of 12.7 per cent on last year.

Sales growth was achieved in both consumer and commercial markets with a continued focus on improving the core drivers of price, range and service.

Further investments in customer value, the introduction of online transactional capability for special orders, deeper commercial engagement and continued merchandise innovation were highlights.

PROSPECTS

Bunnings' strategic pillars of price, range and service remain as relevant as ever and continue to underpin our focus on delivering a winning offer to customers. Our customers value convenience and service and we are focused on offering a wide range of products and services to meet their needs.

Our focus on growth remains strong and we are confident that there is significant scope for further growth in consumer and commercial markets. Leveraging our physical network, embracing technology, and a strong commitment to making our business simpler to run are focus areas that strengthen our core and allow us to continue to invest in service, value and growth initiatives.

We are accelerating and significantly evolving our digital capabilities to ensure that the experiences our customers and local communities know us for are even stronger and more accessible than ever.

We see an opportunity to broaden our addressable market. We are challenging ourselves to think more about seasonality in the business, which will open up new category opportunities and enable further improvements in existing categories. Doing more to tailor product ranges to suit different regions will make us even more relevant to our customers in the markets where they live or run their business.

Michael Schneider
Managing Director, Bunnings Group

BACK

BUNNINGS

AUSTRALIA AND NEW ZEALAND

PERFORMANCE DRIVERS

Sales growth was achieved in both consumer and commercial markets, across all trading regions and product categories. Continued increases in customer numbers reflected ongoing actions to improve the core drivers of the consumer and commercial offers: price, range and service.

The good trading performance is a direct outcome of a strategic agenda focused on multiple growth drivers and ongoing improvements to the underlying strength of the business. Highlights included the delivery of more customer value, the introduction of online transactional capability for special orders, deeper commercial engagement and continued merchandise innovation.

A continued focus on productivity led to further operating cost leverage and favourable property market conditions led to positive outcomes on property divestments. A higher level of one-off costs relating to store closure provisioning and asset writedowns in the prior corresponding period assisted EBIT growth.

Further investment in new stores and store refurbishments was offset by funds released from the property recycling program. The combination of strong earnings growth and disciplined capital management resulted in a significant increase in return on capital.

During the period, there were 10 net new store openings. At the end of the year, there were 259 warehouses, 78 smaller format stores and 32 trade centres in the Bunnings network.

Growing talent

Bunnings team member Hayley Coulson has worked in the business for nine years. Hayley began her career as an Administrative Coordinator and is now State Operations Manager for Western Australia.

REVENUE EXCEEDED

$12.5b

EBIT GREW TO

$1,504m

RETURN ON CAPITAL EMPLOYED OF 49.4%

INTRODUCTION OF ONLINE TRANSACTIONAL CAPABILITY FOR SPECIAL ORDERS

Our business

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

Bunnings is focused on creating value for its customers over the long term. The long-term value creation approach is based on four interlinked principles: a winning offer to customers; an engaged, focused and committed workforce; business behaviour that builds trust; and sustainable satisfactory shareholder returns.

Bunnings employs more than 43,000 team members across Australia and New Zealand. Bunnings stores stock around 45,000 products and an expanded range of over 20,000 products is available through a special order service both online and in-store.

Our market

In Australia and New Zealand, Bunnings caters for consumers as well as light and heavy commercial customers across the home improvement and outdoor living market, operating from a network of large warehouse stores, smaller format stores, trade centres, and frame and truss sites.

Bunnings Australia and New Zealand is expanding its brand reach across its market through the opening of new stores and flexible formats, along with more digital engagement. The focus is on delivering the best offer everywhere, be that digital, in-home, in-store or on-site.

Sustainability

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

Safety continued to be a key focus with Bunnings striving to ensure everyone goes home safe, every day. This was reflected in a 19.2 per cent reduction in the number of injuries recorded and a 24.5 per cent reduction in the total recordable injury frequency rate.

Additionally, the lost time injury frequency rate reduced by 23.6 per cent.

The immediate focus has been to implement more energy efficient ways to operate by reducing reliance on grid-sourced energy. By the end of the year, 23 Bunnings stores in Australia were installed with solar systems.

Bunnings continues to drive product stewardship initiatives on a local level for products such as paint and batteries, and during the year a number of locations hosted ‘Paintback’ drop-off days, allowing customers to bring in unwanted paint and packaging for recycling.

Bunnings strives to ensure that products meet or exceed the requirements of local and global standards, and continues to proactively engage its service providers to strengthen social, labour and environmental practices. In January 2018, Bunnings announced its commitment to remove neonicotinoid-based insecticide garden care products from retail shelves by the end of 2018.

Bunnings’ highest priority is to maintain a positive safety performance trend as the business grows, the store network increases and more team members are employed.

Community involvement

Bunnings remains committed to growing community support in a sincere, localised and meaningful manner by contributing to thousands of causes, charities and organisations throughout Australia and New Zealand.

During the year, Bunnings stores supported a wide variety of local, regional and national community organisations through a number of different activities including fundraising sausage sizzles, hands-on projects, local fundraising initiatives and product contributions.

As part of this, Bunnings supported Share the Dignity’s ‘It’s in the Bag’ collections, aimed at making a real, on-the-ground difference to homeless women and victims of domestic violence. During a two-week period more than 107,000 bags filled with personal hygiene products were collected through Bunnings stores across Australia, which were then distributed to local women in need in time for Christmas.

BUNNINGS’ CUSTOMER-FOCUSED APPROACH CONTINUED TO UNDERPIN PERFORMANCE GAINS IN AUSTRALIA AND NEW ZEALAND.

THE INTRODUCTION OF ONLINE TRANSACTIONAL CAPABILITY FOR SPECIAL ORDERS, CONTINUED MERCHANDISE INNOVATION, DELIVERY OF MORE CUSTOMER VALUE AND DEEPER COMMERCIAL ENGAGEMENT WERE HIGHLIGHTS OF THE YEAR.

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BUNNINGS AUSTRALIA AND NEW ZEALAND

Strategy

Bunnings provides its customers with the widest range of home improvement and outdoor living products and is committed to delivering the best service supported by our policy of lowest prices every day. Bunnings 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	• Continued investment in lowest prices	• Ongoing focus on delivering even more value
Better customer experiences	• Consistency in service basics lifted • Improved stock availability • Greater product and project knowledge	• Better customer experiences and deeper engagement: in-store, online and in-home
Greater brand reach	• Opened 10 net new trading locations • Significantly expanded digital ecosystem • Existing store reinvestment	• More stores, with increased format innovation • Further expansion of online transactional capabilities • Targeted store reinvestment
Deeper commercial engagement	• Created more value and deeper relationships • Leveraged the network for customer convenience – stores and trade centres • Improved service with more localised engagement, easier to deal with	• Continue to leverage core strengths of a total market capability: stores, trade centres, in-field and digital • Wider market focus to expand selling opportunities • Progress 'near-neighbour' export opportunities
More merchandise innovation	• Expanded ranges and products and made DIY easier • Further product and project innovation with wider ranges and new products	• Creating, leveraging and responding to lifestyle trends, technology trends and environmental and economic changes • Development and implementation of services that complement the core DIY offer

Operating and financial review — Retail businesses

BUNNINGS AUSTRALIA AND NEW ZEALAND

Risk

Bunnings recognises that taking appropriate business risks is a critical aspect of generating acceptable business returns. In doing so, it seeks to appropriately manage risks to minimise losses and 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 is commensurate with the impact (likelihood and consequence) on the business from the risk occurring.

Risk	Mitigation
Safety	• Continued focus and targeted in-store awareness campaigns
Talent recruitment and retention	• Strategies directed at creating and maintaining status as employer of choice • Succession planning, retention and development plans
New and existing competitors	• Relentless focus on strategic pillars of 'lowest price, widest range and best service' • Ongoing strategies to increase customer centricity and deepen customer engagement
Reputation	• Strong culture of 'doing the right thing' • Focus on ethical sourcing and product standards • Ongoing regulatory compliance training

BUNNINGS UNITED KINGDOM AND IRELAND

In June 2018, Wesfarmers completed the divestment of the BUKI/Homebase business to a company associated with Hilco Capital. Under the terms of the agreement, all Homebase assets were acquired, including the Homebase brand, store network, freehold property, property leases and inventory for a nominal amount. The 24 Bunnings pilot stores have been converted back to the Homebase brand. Wesfarmers will participate in a value share mechanism, which is not limited by time, whereby it is entitled to 20 per cent of any equity distributions from the business.

The agreement to divest the business followed a comprehensive review of the BUKI business which considered a range of options to improve shareholder returns. A divestment under the agreed terms was considered to be in the best interests of Wesfarmers shareholders as the materiality of the turnaround opportunity and risks associated with turnaround were not considered to justify the additional capital and management attention required from Bunnings and Wesfarmers.

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, Liquor Market, Spirit Hotels, Coles Financial Services and Coles Online.

Growing talent
Shirin Behrouzi has worked at Coles for 15 years in various roles and has recently been appointed as a Regional Manager in Geelong, Victoria.

COLES

YEAR IN REVIEW

Revenue
$39,388m

2018	**39,388**
2017	39,217
2016	39,242
2015	38,201
2014	37,391

EBIT
$1,500m

2018	**1,500**
2017	1,609
2016	1,860
2015	1,783
2014	1,672

Key financial indicators

For the year ended 30 June	2014[1]	2015	2016	2017	2018
Revenue ($m)	37,391	38,201	39,242	39,217	**39,388**
Earnings before interest and tax ($m)	1,672	1,783	1,860	1,609	**1,500**
Capital employed (R12) ($m)	16,272	16,276	16,541	16,586	**16,386**
Return on capital employed (%)	10.3	11.0	11.2	9.7	**9.2**
Capital expenditure ($m)	1,018	937	763	811	**762**

[1] 2014 excludes a $94 million provision relating to future Liquor restructuring activities (reported as an NTI).

PERFORMANCE DRIVERS

Coles' revenue of $39,388 million for the year was broadly in line with last year, with earnings before interest and tax declining 6.8 per cent to $1,500 million.

Food and Liquor recorded sales growth of 2.1 per cent driven by continued investment in value, quality and service. Sales momentum steadily improved during the year, underpinned by growth in customer transactions, number of units sold and basket size.

Coles' focus to deliver a better customer experience was reflected in improved customer satisfaction scores, to the highest level in two years, particularly in the areas of quality, range and availability.

Fresh food remains a substantial growth opportunity and Coles made significant progress during the year in improving the quality and range of its fresh products, especially in produce, meat and bakery, increasing its fresh market share and sales contribution.

Coles lowered prices by 1.2 per cent for customers during the year. Trusted value remains paramount for Coles, and as at 30 June 2018 there were approximately 4,500 products on 'Everyday Low Pricing'.

Coles Online delivered strong double-digit sales growth for the year, as further investments were made to improve fulfilment capabilities, reduce delivery times and provide innovative pick-up solutions.

The Liquor transformation continued to build on an improved and more consistent customer offering as pricing, range and store investment were further enhanced. Liquor has achieved 11 consecutive quarters of comparable sales growth and continues to gain momentum.

Coles Express recorded revenue (including fuel) of $5,761 million for the year, 6.1 per cent lower than the previous year due to lower fuel volumes.

Despite a decline in fuel transactions, convenience store sales increased by 1.6 per cent for the year.

Flybuys achieved 5.6 per cent growth in active households and double-digit growth in points redeemed as new partnerships and initiatives provided customers with even greater value.

PROSPECTS

In an ever-changing competitive landscape, Coles remains committed to its customer-led strategy to provide better value, quality and service to its customers across Australia.

Coles is a great business, supported by more than 112,000 passionate team members, and is well-placed to grow in the future. Coles aims to create a strong point of difference in the marketplace as it invests in improving the quality of its fresh food offer, tailoring stores to the shopping missions of local communities, and providing a suite of convenient shopping alternatives for customers.

Coles is focused on making life easier for customers and creating unparalleled convenience through its many channels and services such as Coles Online, Financial Services and Australia's number one loyalty program, flybuys.

At a time when Australian household budgets remain under pressure, Coles will continue to lower the cost of the weekly shop for customers and build on its trusted value position. Such investment is expected to be funded by ongoing productivity savings.

There are significant cost-of-doing business opportunities that exist within the business and these will be realised over time through productivity initiatives and greater use of technology across the business.

Coles Liquor continues to execute well on its transformation plan, with opportunities to improve range, convenience and drive further efficiencies across the business.

Coles Express remains committed to growth through providing a market-leading shop offer in conjunction with a competitive fuel offer.

Driving innovation remains a focus in the food offer in-store and will increasingly influence the business going forward.

John Durkan
Managing Director, Coles
(John will retire as Managing Director of Coles in mid-September 2018, and transition to a Senior Advisor role)

BACK

COLES

Our business

Coles provides fresh food, groceries, general merchandise, liquor, fuel and financial services through its national store network and online channels. Coles employs more than 112,000 team members across Australia.

Our market

Coles operates a national network of 809 supermarkets, 711 convenience outlets, 899 liquor stores and 88 hotels. Each week, 21.7 million customer transactions are recorded across the Coles businesses.

Coles also operates in the financial services market, offering home, car and landlord insurance, and credit cards.

Sustainability

Coles' sustainability focus falls broadly under three pillars: supporting farmers, suppliers, the community and team members; offering customers great products; and reducing environmental impacts. Information regarding all of these topics can be found in the Wesfarmers sustainability report at **sustainability.wesfarmers.com.au**

Australian sourcing

Coles is committed to building strong and collaborative relationships with Australian farmers, producers and growers.

Coles has an Australian-first sourcing policy to provide Australian-grown food as a first priority. In the 2018 financial year, more than 88 per cent of Coles-branded food and drink was sourced from Australian suppliers, including 96 per cent of fresh produce and 100 per cent of fresh lamb, pork, chicken, beef, milk and eggs.

Supplier relationships

Coles supports small business to innovate and grow through the $50 million Coles Nurture Fund. This was established in April 2015, and supports small-to-medium businesses in the food and grocery sector with the development of new market-leading products, technologies and processes. Since its launch, 27 different producers have benefited from grants or interest-free loans.

Coles also supports Australian producers and growers with long-term contracts which provide certainty around future demand. In April 2018, Coles signed a 10-year agreement with Laurent to provide Coles supermarkets with a range of artisan-style stone-baked sourdough bread. In recent years, Coles has also signed 10-year agreements with TOP Pork Pty Ltd and Sundrop Farms, a nine-year contract with milk supplier Norco and an eight-year agreement with Manbulloo Mangoes. Coles also has a long-term contract with Simplot to supply Australian-grown vegetables, previously sourced overseas.

Community support

Coles is proud of its 104-year contribution to serving communities across Australia.

In the 2018 financial year, Coles direct community investment was more than $67.7 million with an additional $9.3 million contributed by customers, team members and suppliers.

In partnership with SecondBite, Coles donates unsold edible food from its supermarkets and distribution centres to 1,300 community groups supporting disadvantaged Australians. Between 2011 and 30 June 2018, Coles has donated more than 31 million kilograms of unsold edible food to SecondBite, equating to more than 63 million meals. Between 2010 and 30 June 2018, Coles donated the equivalent of more than 17 million meals to Foodbank.

Coles partners with national cancer charity Redkite to provide support to children and young people with cancer and their families. In the 2018 financial year, Coles, its team members and customers provided Redkite with $5.3 million in support, equating to more than $28 million since the partnership began in 2014.

Product quality

Coles is committed to providing its customers with safe, high quality Coles own brand products. Coles' range of own brand products comprises Coles Brand (which includes grocery, non-grocery, fresh produce, meat, deli and dairy), Coles Finest and Mix apparel.

In the 2018 financial year, Coles own brand products were recognised with 168 awards.

Coles' Manufacturing Supplier Standards for food were updated and then relaunched to suppliers in the 2018 financial year. These standards cover product safety and quality, packaging and all claims, such as animal welfare and sustainability. They are based on world's best practice and surpass Australian regulatory standards.

All factories[1] supplying Coles Brand products are regularly audited by Coles or external auditors to confirm compliance with product safety and quality standards. During the 2018 financial year, Coles' rigorous supplier-testing program for Coles own brand completed more than 49,000 checks covering allergens, imported food, residue, organic products, authenticity and microbiology. Coles also performed quality checks on more than 5,000 products in the 2018 financial year and conducted more than 130,000 arrival checks at its fresh produce distribution centres and 38,000 checks for chilled products.

Growing talent

Brenda Palmer has been a team member for more than 50 years at the Coles Malvern store, Victoria.

[1] Factories include supplier sites.

COLES

Ethical sourcing

Coles understands that transparently sourcing goods in a responsible and ethical manner is a global concern and something customers demand. Coles uses more than 750 Coles own brand suppliers, with over 2,200 sites located in more than 40 countries. Coles acknowledges the importance of safeguarding human rights through ethical business practices throughout its supply chain.

Coles is committed to ensuring that all workers in its supply chains are treated fairly. Coles' Ethical Sourcing Policy covers a range of key labour indicators, including wages and benefits, working hours, freedom of association, safe working conditions, and discrimination and forced or bonded labour, child labour and illegal labour. The policy applies to all suppliers providing Coles own brand products, fresh produce and meat sold in Coles supermarkets.

Responsible sourcing

Coles understands the importance of having mechanisms in place to responsibly source Coles own brand products and ingredients in order to protect human rights, safeguard animal welfare and minimise environmental impacts.

Coles' Animal Welfare Policy sets out Coles' expectations regarding the treatment of animals and aquaculture species in the meat, fresh produce and grocery products supply chains for all Coles own brand products. The policy details commitments to source animal and aquaculture products from farming operations that have a high standard of animal welfare and, where appropriate, hold animal welfare certification.

All Coles own brand seafood has been responsibly sourced since 2015. Programs and certifications ensure potential impacts on marine health and the environment are carefully monitored. All Coles own brand seafood products have Marine Stewardship Council (MSC) or Aquaculture Stewardship Council certification, or meet Coles Responsibly Sourced Seafood criteria.

Coles was awarded the MSC's Best Sustainable Seafood Supermarket in Australia in September 2017.

Where Coles sources commodities such as tea, coffee, cocoa and palm oil, it is committed to using independent and internationally recognised certification programs in order to support ethical practices and environmental protection in these supply chains.

Environmental impact

Coles is committed to reducing its impact on the environment. During 2017, it announced its strategy to reduce waste and enhance packaging. This included plans to halve food waste in supermarkets by 2020, make all Coles Brand packaging recyclable by 2020 and divert 90 per cent of all waste from landfill by 2022.

On 1 July 2018, Coles removed single-use plastic shopping bags across all its businesses. The move brought stores in Queensland, New South Wales, Victoria and Western Australia in line with Tasmania, South Australia, the Northern Territory and the ACT, where Coles already complied with legislated bans on single-use bags.

Coles was also able to offer REDcycle recycling bins for soft plastics at all Coles supermarkets in the 2018 financial year. Through the program customers can recycle plastic bags as well as wide range of other soft plastic packaging that cannot be recycled through most kerbside recycling services.

Coles has replaced some corrugated cardboard, waxed cardboard and expanded polystyrene boxes with reusable plastic crates across its supply chain. At the end of the 2018 financial year, it had six million reusable plastic crates in circulation with more than 400 suppliers for fruit, vegetables, poultry, red meat and pre-packaged salads.

Coles recognises that investing in energy efficiency initiatives helps to minimise its environmental impact while also reducing costs. In the 2018 financial year, Coles invested $25.4 million in energy efficiency projects. Solar panels were installed on 20 supermarkets during the 2018 financial year, taking the total number of supermarkets with solar to 26.

Diversity

Coles recognises the importance of providing an inclusive environment for its team members and customers that encourages diversity. Launched in September 2017, Coles' Better Together program aims to promote diversity by creating a supportive and inclusive environment for team members and customers. The program incorporates five pillars: accessibility, gender balance, pride, flexibility and Indigenous.

Coles is one of Australia's largest corporate sector employers of Indigenous Australians with almost 3,600 team members nationally, representing 3.2 per cent of total headcount. This is a significant achievement considering that when the original plan was launched in 2011, there were only 65 Indigenous team members across Coles.

In June 2018, Coles launched its 2018-2020 Accessibility Action Plan which aims to improve the accessibility of Coles' stores, sites, workplaces and digital assets for people with disability.

Health and safety

Maintaining a safe workplace for team members and keeping customers, suppliers and other visitors safe across all Coles' businesses is paramount. Coles' total recordable injury frequency rate for the 2018 financial year was 33.3, a 14.2 per cent improvement on the previous year. In the reporting period, there was continued focus on safety under the pillars of leadership and culture, critical risk reduction, and mind your health.

BACK

COLES

Strategy

In June 2018, Coles unveiled its 'Fresh Tomorrow' strategy in response to the shifting retail landscape and changing customer trends. The five-year vision builds on its previous customer-led strategy and involves six key priorities centred on driving greater convenience and innovation for customers.

Fresh remains a significant growth opportunity for Coles and can provide a key point of differentiation in the marketplace. Coles is focused on becoming the 'Destination for Fresh' through offering the best quality, Australian grown produce at trusted prices. This will involve deepening long-term supplier partnerships to ensure produce is not only fresh, but also fully traceable and sustainable.

Coles is committed to becoming an Own Brand powerhouse as it focuses on step-changing quality and injecting innovation into new products across all price points, to ensure the needs of all customers are met.

Coles will continue to transform the customer experience with its 'anytime, anywhere' customer offer, creating unparalleled convenience with innovative home delivery and pick-up solutions, as well as evolving store formats and renewals to the different shopping missions of customers.

Over the longer term, the cost base will be transformed through greater use of technology and data analytics across the supply chain to improve forecasting, availability and overall efficiencies from suppliers to stores.

Liquor will continue to execute on its transformation plan, with significant opportunities to create a point of difference through growing the Exclusive Brand portfolio and Liquor Direct channel. Productivity efficiencies will be further realised as store and supply chain processes are simplified.

Coles Express will play a key role in improving the convenience proposition for customers as it expands its footprint, rolls out Click & Collect across the network, and drives innovation in its market-leading shop offer.

Investing in the capability of team members, aiming to be a social responsibility leader, and ensuring Coles is the best and safest workplace will continue to be integral to the Coles culture. Key programs, such as the 400-strong Coles Graduate Program, Women in Leadership Initiative and increased Indigenous recruitment, will continue to deliver a world-class diverse workforce.

Food and Liquor

Growth strategies	Achievements	Focus for the coming years
Transform food offer	• Proportion of sales from fresh food categories continued to rise • Improved quality and range has contributed to market share gains • Ten-year partnership with Laurent offers customers high quality artisan breads at affordable prices	• Coles aims to be the Destination for Fresh, with a focus on offering the best quality Australian-grown products and utilising exclusive supplier partnerships • Continue to invest in team member capabilities to improve service • Coles will also continue to grow its own brand portfolio by increasing quality and injecting innovation into new products across all price points • Coles will leverage new and strategic global partnerships
Move towards Everyday Low Prices	• Approximately 4,500 items on 'Everyday Low Pricing' • Deflation excluding Tobacco at 2.0 per cent for the year • Nine consecutive years of price deflation	• Coles is committed to providing trusted value to customers, with a focus on offering more key value products at 'Everyday Low Prices' • Own Brand, particularly at the entry price point, will also play a critical role in providing value for money, and lowering the total cost of the shop for customers
Offer anytime, anywhere shopping	• Coles Online achieved close to 30 per cent sales and transaction growth • Opened Australia's largest Online Supermarket in NSW • Approximately 1,000 Click & Collect locations • More than six million active flybuys customers, double-digit growth in points redeemed • New ebay partnership, launched flybuys app (more than one million downloads)	• Deliver profitable growth in Coles Online • Coles will continue to invest in a suite of convenient shopping alternatives including digital channels such as Coles Online and the Coles mobile application, as well as a range of convenient delivery options such as home delivery and an extensive Click & Collect network – across all brands – to ensure a seamless customer experience that facilitates easy ordering and payment • Grow flybuys by providing more personalised offers that are meaningful for customers and provide choices in how customers earn and convert their points

Operating and financial review — Retail businesses

COLES

Growth strategies	Achievements	Focus for the coming years
Land the right offer in every location	• 20 supermarkets opened, 12 closed and 51 renewals completed • 2.2 per cent growth in supermarkets net selling area during the year • 31 new liquor stores were opened, and 16 closed	• Coles will continue to improve its extensive national store network and reinvent the in-store experience by leveraging customer insights, innovations and technologies to tailor stores and product ranges to the shopping missions of local customers • Coles will develop flexible store blueprints that allow it to fill network gaps with smaller formats in inner city locations • The next evolution of renewals will be primarily focused on range innovation, particularly in the fresh food space • Coles will continue to target supermarket net space growth of between 2-3 per cent per annum
Reduce costs	• OneTeam is now live in 550 stores, delivering better rostering solutions and improved customer service • Stockless Stockrooms are now live in around half the network, driving overall better inventory management	• Coles will continue to streamline its cost base and leverage technology and data analytics to deliver a simplified store and supply chain model • Coles will continue to improve direct sourcing capabilities, customer-led range simplification and trading terms with suppliers • Coles is currently in the development phase for a new Easy Inventory program which, over the medium-term, will provide significant opportunities to reduce stock loss in-store
Win Together	• Better store retention for permanent team members • An increase in job satisfaction • Continued investment in Coles' renowned graduate program • Nearly 3,600 Indigenous team members • Sports for Schools • Proud partnerships with Redkite, SecondBite, Little Athletics • Coles Nurture Fund	• New leadership framework to build the right culture and capabilities for team members, as well as to build relationships with suppliers and customers • Continue to instil behaviours that ensure safety is always front of mind • Continue to nurture talent through the Retail Leaders Program and the Graduate Program • Aim to be a corporate social responsibility leader on global challenges such as ethical sourcing, animal welfare, and food standards • Continue to engage with customers and communities through partnerships, community events and sponsorships and investment in innovation
Liquor transformation	• Strong execution of five-year transformation plan • 11 consecutive quarters of comparable sales growth underpinned by growth in transactions, units and basket size • 163 Liquorland renewals in FY18 • Focus on greater convenience; all banners now offering Click & Collect, and same and next day delivery	• Entering last year of transformation plan • Next evolution of Liquorland store renewals to be rolled out, along with the rollout of Liquor Market concepts into First Choice stores • Expand the exclusive brand portfolio and liquor-direct channel to provide greater choice and convenience for customers • Realise greater productivity efficiencies as systems and processes are simplified

Convenience

Growth strategies	Achievements	Focus for the coming years
Deliver a better store network	• Opened 17 new Coles Express sites • 402 sites upgraded during the year, with a focus on expanding and improving the food-to-go offer	• Extend and optimise the existing store network with Coles' Alliance Partner • Leveraging technology to reduce cost and deliver efficiencies • Trialling a standalone convenience format
Inspire customers through greater value	• Provided greater value to customers by extending Coles' 'Everyday' value to more products throughout the store, resulting in stronger sales • Rolled out Click & Collect service to a number of sites to further increase convenience for customers	• Extend the 'Everyday' value offer across a greater range of products • Continue to provide a competitive fuel offer to customers • Key Alliance initiative includes V-Power Diesel rollout • Click & Collect to be fully rolled out across the network in the 2019 financial year
Focus on freshness, quality and additional range	• Extended the range of everyday essentials and convenience products • Upgraded sites, which included installing ovens, chillers, bakery and sandwich cases to enable a full food-to-go offer	• Continue to improve product quality and freshness across its food-to-go offering • Rollout of food-to-go offer to more than 500 stores by the first half of the 2019 financial year • Trialling a small format fresh offer which will entail a tailored meat, produce, deli, dairy, and bakery range

Risk

Coles' risks primarily relate to issues that may affect business operations or the competitive environment within which it operates. Key risks include changes to the competitive landscape and consumer trends, disruption to product availability, retention of personnel, and regulatory changes. Low economic growth affecting Coles' key markets or continued global economic uncertainty may also significantly impact the Coles Group's businesses and key markets.

Changing competitive landscape and consumer trends

Increased competition is expected to continue to be a feature of the market in which Coles operates, due to strong performance by current competitors and new entrants, particularly international discount retailers that have grown successfully in recent years. In the future, Coles may need to compete with a more diverse range of retailers operating different models, including pure play online retailers.

Customer expectations are also rapidly evolving, for example in relation to increased integration with multiple digital platforms, increased appetite for convenience and ongoing expectation of lower prices. If Coles fails to compete effectively or execute on its strategy, this could result in a loss of market share or missed growth opportunities.

Product availability

Coles is generally dependent on the supply of products by an extensive, diversified network of primary producers, suppliers and distributors. If the supply of products is disrupted by any number of factors (such as natural disasters, transport or shipping delays or labour disruptions), then Coles may be impacted by increased running costs and disruption to its everyday operations.

Disruption to Coles' information technology infrastructure and systems may also impede the day-to-day running of its operations.

Retention of personnel

Coles is a people-intensive business with more than 112,000 team members.

A failure to successfully manage industrial relations or ensure proper processes, security and culture at stores or sites could result in industrial disputes, work stoppages or accidents that cause adverse reputational, financial, legal, productivity and/or morale impacts. Industrial action in operations in Coles' supply chain in particular has the potential to cause widespread disruption to the business.

Regulatory changes

Coles is subject to a wide range of laws and regulations in key areas such as planning and environment regulation, packaging and labelling regulation, regulation of the transportation, handling, storage and distribution of fuel, food hygiene standards, health and safety laws, tobacco and alcohol regulation, employment and consumer law.

Food and Liquor

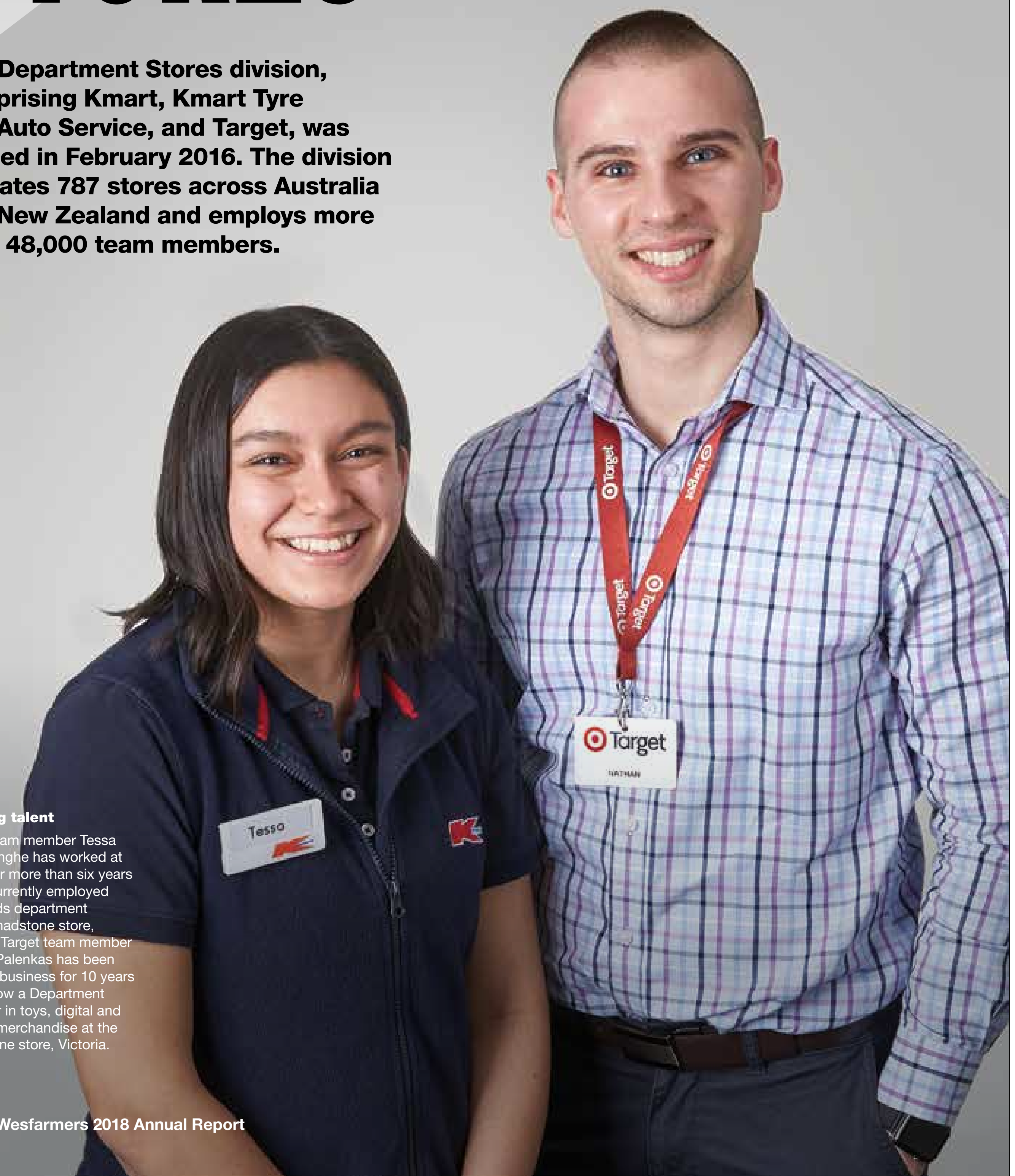
Risk	Mitigation
Increased competitive intensity limiting Coles' ability to achieve profitable growth	Coles responds to competitive pressure by monitoring the retail market, putting in place programs to realise lower operating costs and continuing to execute its strategy to redefine its proposition to customers, improve its price competitiveness and differentiate itself from competitors. Coles 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. In terms of customer trends, Coles monitors customer insights and continues to invest in trials for emerging and digital technologies and new in-store initiatives.
Product availability issues may cause widespread business disruption	Coles seeks to mitigate supply chain risks by maintaining a high degree of rigour around ongoing contract and supplier management, moving some key services in-house. Coles seeks to mitigate information technology risks by regularly testing and reviewing its infrastructure and systems, strong resilience processes, planning and testing, and continually seeking to strengthen data and cyber security.
Attraction, retention and succession of team members	Coles seeks to mitigate industrial relations risks with a targeted strategy. In addition to its directly employed workforce, Coles has a number of third party logistics providers which have site-specific enterprise agreements. The expansion of the leadership program at Coles has promoted talent within the business and enabled effective succession planning and career development.
Regulatory change may limit growth	Coles mitigates the risk of non-compliance through a robust compliance framework, and works constructively with government, regulatory and industry bodies to promote good faith, commercial conduct.

Convenience

Risk	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 such as new standalone (non-fuel) sites.
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.
Increases in cost of fuel	Coles is continually in negotiations with its Alliance partner to provide a competitive and sustainable fuel offer to customers.
Regulatory change may limit growth	Coles mitigates the risk of non-compliance through a robust compliance framework, and works constructively with government, regulatory and industry bodies to promote good faith, commercial conduct.

DEPARTMENT STORES

The Department Stores division, comprising Kmart, Kmart Tyre and Auto Service, and Target, was formed in February 2016. The division operates 787 stores across Australia and New Zealand and employs more than 48,000 team members.



Growing talent
Kmart team member Tessa Wijeyesinghe has worked at Kmart for more than six years and is currently employed in the kids department at the Chadstone store, Victoria. Target team member Nathan Palenkas has been with the business for 10 years and is now a Department Manager in toys, digital and general merchandise at the Chadstone store, Victoria.

DEPARTMENT STORES

YEAR IN REVIEW

Revenue

$8,837m

2018	8,837
2017	8,528
2016	8,646
2015	7,991
2014	7,710

EBIT

$660m

2018	660
2017	543
2016	275
2015	522
2014	452

Key financial indicators

For the year ended 30 June	2014[1]	2015	2016[2]	2017	2018[3]
Revenue ($m)	7,710	7,991	8,646	8,528	**8,837**
Earnings before interest and tax ($m)	452	522	275	543	**660**
Capital employed (R12) ($m)	4,340	3,778	3,629	2,253	**2,013**
Return on capital employed (%)	10.4	13.8	7.6	24.1	**32.8**
Capital expenditure ($m)	243	295	293	222	**293**

1 2014 excludes a $677 million impairment of Target's goodwill (reported as an NTI).
2 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 Target impairment of $1,266 million.
3 The 2018 earnings before interest and tax for Department Stores excludes the pre-tax non-cash impairment of $306 million for Target.

PERFORMANCE DRIVERS

Revenue for the Department Stores division was $8,837 million for the year. This was an increase of 3.6 per cent with continued strong growth in Kmart partially offset by lower revenue in Target. Target's sales were affected by the reset of product, range and price across the business. Kmart's strong sales growth was supported by double-digit growth in customer transactions and units sold.

Kmart's total sales increased 8.0 per cent, with comparable sales increasing 5.4 per cent. This reflected strong performances in all categories, particularly in home and kids general merchandise.

Kmart continued to invest in its store network, opening 10 new stores including one Target store conversion, closing two stores and completing 20 store refurbishments during the year.

Kmart Tyre and Auto Service also invested in its network, finishing the year with 256 service centres after opening six new centres and closing one during the year.

Target recorded a pre-tax non-cash impairment of $306 million, reflecting a moderated outlook for the business. Total sales decreased 4.7 per cent, however the quality of the sales mix improved and growth was achieved in online, menswear and homewares. The online proposition was further advanced via expanded ranges and improved customer convenience, which supported increased rates of conversion and improved sales growth.

Earnings for the Department Stores division increased 21.5 per cent to $660 million, representing record earnings under Wesfarmers' ownership. This reflected continued strong growth from Kmart, along with improved trading margins and productivity improvements in Target.

PROSPECTS

The Department Stores division is well positioned for the future.

Kmart will continue to drive sustainable growth through a focus on making it a great place to shop that is simple to run and delivering better products at lower prices. Kmart will continue to invest in price to further drive volume and maintain Kmart's price leadership position in the market. The business is well positioned for the 2019 financial year, with a continued focus on category growth opportunities and the delivery of ongoing operating efficiencies in stores and the supply chain. Continued investment in the store network is expected to deliver five new stores and the completion of 33 store refurbishments in the 2019 financial year.

Target will continue to advance its business transformation, building on the momentum created by changes over the past two years with a strong focus on quality and fashion at the best price. Improvements in fashion and quality across the range will be supported by an improved online experience. Target will also drive productivity by continuing to optimise the store network and focusing on end-to-end costs, in particular through more direct sourcing, and improving working capital management.

Guy Russo
Chief Executive Officer, Department Stores

(Guy was Chief Executive Officer, Department Stores, and Managing Director, Target, for the reporting period and will transition to a Senior Advisor role in November 2018)

BACK

KMART

Our business

Kmart was established in 1969, with the opening of its first store in Burwood, Victoria. In April 2019, Kmart will celebrate its 50th anniversary. Kmart operates 228 stores throughout Australia and New Zealand, offering customers a wide range of apparel and general merchandise products at low prices, every day.

Kmart employs more than 33,000 team members, who are focused on the Kmart vision of delivering the lowest prices on everyday items for Australian and New Zealand families. On 13 August 2018, Wesfarmers announced that it had entered into an agreement with Continental A.G. to sell Kmart Tyre and Auto Service, subject to certain conditions including regulatory approvals.

Our market

Kmart operates in the clothing, homewares and general merchandise retail sector, both locally and internationally. This sector is competitive and comprises department stores, specialty retailers and a growing online channel. It is also characterised by an expanding presence of international retailers, an increasing level of direct sourcing and online growth. Kmart sources from both local and international suppliers, with product-sourcing offices in Hong Kong, China, Bangladesh, India and Indonesia.

Sustainability

Kmart continues to drive its ‘Better Together’ sustainable development program focused on people, partners and planet. This includes the continued rollout of its sustainable materials strategy and a review of the environmental risks and opportunities across the factories where suppliers operate. Kmart is partnering with the Better Cotton Initiative as part of its commitment to sustainable cotton, and over the course of the 2019 financial year will remove single-use plastic bags from all check outs across Australia and New Zealand. Kmart is focused on enhancing working conditions and empowering workers throughout the supply chain, shown through its commitment to: the Accord on Fire and Building Safety in Bangladesh; the International Labour Organization and the International Finance Corporation Better Work program in Indonesia, Cambodia and Bangladesh; and Action, Collaboration, Transformation, a collaboration between international retailers and IndustriALL, the global union, to address the issue of living wage.

Kmart continues to support organisations such as Salaam Baalak in Delhi, OneSky in China, and Graeme Dingle Foundation in New Zealand, and fundraise for Headspace, Reach Foundation and The Salvation Army (through the Kmart Wishing Tree Appeal) in Australia and New Zealand.

Safety

Kmart remains committed to the safety of its team members, customers and suppliers. Kmart’s total recordable injury frequency rate (TRIFR) reduced by 8.1 per cent to 19.4 and lost time injury frequency rate (LTIFR) also decreased to 4.3 this year.

Growing talent

Kmart team member Ethan Williams has worked in the business for three years and was recently promoted to the role of Department Manager, Home, at Chadstone, Victoria.

Ian Bailey
Managing Director, Kmart

Ian will assume the additional responsibility of leading the Department Stores division from 1 November 2018.

KMART

Strategy

Kmart’s vision is to provide families with everyday products at the lowest prices. Kmart will continue to drive sustainable growth through a focus on making Kmart a great place to shop that is simple to run and delivering better products at lower prices. Kmart is focused on delivering growth and improving productivity and efficiencies to maintain its price leadership position in a highly competitive market. 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 support the success of the business.

Growth strategies	Achievements	Focus for the coming years
A great place to shop that is simple to run	• Delivered strong sales growth (total sales increased 8.0 per cent), supported by increased customer transactions and units sold • Increased focus on customer experience, with over 70 per cent of stores in the Plan C format • Implementation of productivity and cost reduction initiatives • Growth of the online channel • Opened 10 new stores and completed 20 store refurbishments during the year	• A rewarding self-serve experience • Simplifying ways of working to deliver improved productivity • Kmart products available everywhere, including further expansion of online channel • Ongoing investment in the store network through refurbishments and new store openings
Better products at even lower prices	• Improved product quality and standards • Continued improvement in customer price perception • Increased proportion of products sourced through strategic relationships with the right factories	• Leading the lowest price in a highly competitive market • Profitable growth through increased volumes and improved product offering • Maintaining strong brand perception for on-trend everyday items • Leveraging data insights to drive better decisions

Risk

Kmart’s risks include foreign exchange rate fluctuations, maintaining price leadership, new market entrants and the expansion of existing competitors. Price is a key differentiator between Kmart and its competitors, given high levels of product substitution exist within the market.

Risk	Mitigation
Competitor activity	• Monitoring of competitor activity and consumer trends • Maintaining price leadership position in the market by making use of extensive overseas sourced ranges, in-house design capabilities and volume-driven efficiencies • Continuing to innovate the store format to improve the customer experience, through new layouts and leveraging technology • Continuing to improve consistency of product quality
Exchange rate volatility	• Hedging and product and pricing frameworks will be used to effectively manage foreign exchange movements
Ethical sourcing and sustainability	• Ongoing improvements to Kmart’s environmental compliance across all factories, including setting targets for improvements with strategic suppliers • Developing a capital works plan to support energy efficiency and cost optimisation activities • Development of ‘Better Together’ program focused on making a positive difference to our people, partners and planet

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TARGET

Our business

Target operates a national network of 303 stores as well as online. Its objective is to provide quality and fashion at the best prices. Target employs more than 13,000 team members across its stores, support offices and direct sourcing operations – all focused on delivering fashion that excites and quality that endures.

Our market

Like Kmart, Target participates in the Australian clothing, homewares and general merchandise retail sector. 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, fashion and value.

Sustainability

Target is committed to proactively managing team member safety, embracing diversity and supporting the communities in which it operates, as well as maintaining a strong focus on environmental practices and ethical supply chain transparency. Target is also partnering with the Better Cotton Initiative as part of its commitment to sustainable cotton, and over the course of the 2019 financial year will remove single-use plastic bags from all check outs across Australia.

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 the Accord on Fire and Building Safety in Bangladesh, and a member of Action, Collaboration, Transformation (ACT), a collaboration between international retailers and IndustriALL, the global union, to address the issue of living wage. Target supports Uniting Care Australia (through the Christmas Appeal) and the Alannah and Madeline Foundation.

Safety

Target remains committed to the safety of its team members, customers and suppliers, recording its lowest ever LTIFR and number of injury claims. Target's TRIFR reduced 32.1 per cent to 19.4 and its LTIFR dropped to 2.8.

Growing talent

Team member Erika Kilpady has worked at Target for eight years and was recently promoted to Department Manager, Ladies at the Chadstone store, Victoria.

Marina Joanou
Managing Director, Target

On 14 August 2018, Marina Joanou, Chief Financial Officer of the Department Stores division was promoted to Managing Director of Target.

TARGET

Strategy

Target is focused on delivering fashion that excites and quality that endures at the best price.

Target's strategy remains unchanged and incorporates:

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

Within this, Target is focused on three key areas over the next 12 months: fashion acceleration, a seamless and engaging online proposition and continuing to optimise the store network.

Growth strategies	Achievements	Focus for the coming years
Product: volume, quality, fashion and basics	• Improved processes and disciplines across merchandise and sourcing functions • Reduced stock levels and improved inventory health • Further progressed range reduction	• Improve fashionability and quality of product ranges through focus on better and best ranges and reset of quality and fashion standards • Invest in people and customer channels including design, online user experience and visual merchandising • Ongoing reset of product, price and range • Upweighting visual merchandising and improving design overlays in store
Price: low prices every day	• Increased levels of direct sourcing • Progressed the strategic supply base plan	• Develop a strategic framework to deliver customer segmentation and price architecture • Execute the strategic supply base plan • Continue to lower end-to-end costs
Promotion: brand love with mass reach	• Improved effectiveness of marketing spend and evolved marketing mix • Evolved the brand strategy	• Continue to improve effectiveness and evolve the marketing mix • Develop and implement a single view of the total customer journey across all touch points built on customer insights
Customer: easiest customer experience	• Improved store presentation and simplified store environment • Commenced rollout of assisted check outs • Progressed store renewal trials • Lowered supply chain and store operating costs	• Improve the customer experience and ease of shop • Further improve store remuneration efficiency • Further progress store renewal trials and reset space and grades
Place: great stores and locations	• Completed review of Target's store network • Focused on reducing unproductive space • Progressed store renewal trials • Accelerated growth of the online proposition including improved availability, increased store fulfilment and reduced customer delivery times	• Optimise the store network (reduce selling floor and improve sales density) • Execute a seamless and engaging online proposition via an enhanced customer experience, improved fulfilment model and improved convenience
People: inspired team, living our values	• Embedded vision and values • Improved safety performance • Developed clear accountabilities • Advanced relocation of store support office	• Create a talent pipeline, leveraging learning and development programs • Develop an inclusion strategy

Risk

Target's strategy to reset the business is well progressed and the business is focused on making further changes to the operating model to better position the business to grow earnings into the future. This journey is being undertaken in an increasingly competitive apparel and general merchandise market.

Risk	Mitigation
Business reset and transformation	• Focused strategy with operational plans that underpin key strategic initiatives • Clear accountabilities, objectives and performance indicators • Merchandising and operating processes and discipline including establishing a strategic framework to deliver customer segmentation and improved price and range architecture • Acceleration of online growth plan through operating model reset • Business simplification and cost base reset
Competitor activity	• Monitoring of competitor activity and consumer trends • Clear pricing strategy and reset of fashion and quality to provide differentiated offer and access and capture large addressable market • Online proposition advancement to enhance customer experience, support in-store traffic and leverage store network
Team member attraction and retention	• Improved culture, ways of working and values embedded across the business • Short-term incentive plan launched and implementation of learning and development strategies and talent and succession cycle
Exchange rate volatility	• Hedging and product and pricing frameworks will be used to effectively manage foreign exchange movements

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OFFICEWORKS

Officeworks is Australia's leading retailer and supplier of office products and solutions. Officeworks seeks to be a one-stop shop for micro-, small- and medium-sized businesses, students and households.

Growing talent

Officeworks team member Michelle Cole commenced work as a night filler and after 17 months is the Business Specialist in-store, at the Malaga store, in Western Australia.

OFFICEWORKS

YEAR IN REVIEW

Revenue

$2,142m

2018	**2,142**
2017	1,964
2016	1,851
2015	1,714
2014	1,575

EBIT

$156m

2018	**156**
2017	144
2016	134
2015	118
2014	103

Key financial indicators

For the year ended 30 June	2014	2015	2016	2017	2018
Revenue ($m)	1,575	1,714	1,851	1,964	**2,142**
Earnings before interest and tax ($m)	103	118	134	144	**156**
Capital employed (R12) ($m)	1,097	1,034	994	980	**939**
Return on capital employed (%)	9.4	11.4	13.5	14.7	**16.6**
Capital expenditure ($m)	26	39	41	36	**45**

PERFORMANCE DRIVERS

Officeworks delivered revenue of $2,142 million for the year, an increase of 9.1 per cent on the prior corresponding period. Earnings increased 8.3 per cent to $156 million.

Customers continued to respond favourably to Officeworks' 'every channel' strategy, with sales growth achieved across both stores and online.

Providing a compelling customer offer remained a strong focus throughout the year. The growth in sales and earnings was underpinned by new and expanded product ranges, merchandise layout and store design changes, online enhancements, and a relentless focus on price, range and great customer service across all channels to market.

Strong momentum in the business-to-business segment was maintained as Officeworks' 'every channel' offer continued to resonate with an increasing number of micro-, small- and medium-sized business customers.

Strong sales growth, effective management of gross margin and cost of doing business and disciplined capital management delivered an increase in return on capital of 1.9 percentage points to 16.6 per cent.

Ongoing investment in stores and online to support the future growth of the business was further reflected in a strong capital expenditure program during the year.

Six new stores were opened during the year, and at the end of June 2018 there were 165 stores operating across Australia.

PROSPECTS

Officeworks will continue to drive growth and productivity by executing its strategic agenda. Competitive intensity is expected to remain high as the landscape evolves, but Officeworks is well placed to continue to drive growth in this environment.

Key focus areas in the 2019 financial year will include strengthening and expanding the customer offer by adding new products and ranges as well as adding more services to complement the existing range. This will strengthen Officeworks' position as a one-stop shop for micro-, small- and medium-sized businesses, students and households.

Investment in the store network will continue through more store openings and ongoing enhancements to merchandise layouts and store design. Likewise, enhancements to the online offer will continue to make it easier and more convenient for customers to shop whenever, wherever and however they choose.

Enhancing productivity and efficiency across all elements of the business will remain a priority with the focus on working capital optimisation, better space utilisation, effective cost control and more effective use of data to improve decision-making.

Officeworks remains committed to investing in the safety, talent and diversity of the team, and making a positive difference in the community.

Mark Ward
Managing Director, Officeworks

(Mark will retire as Managing Director of Officeworks at the end of 2018 and remain with the Wesfarmers Group working on a number of projects)

BACK

OFFICEWORKS

Our business

Officeworks is Australia's leading retailer and supplier of office products and solutions for micro-, small- and medium-sized businesses, students and households, committed to helping customers make bigger things happen. Operating through a nationwide network of 165 stores, an online platform, a call centre and a team of business specialists, Officeworks is focused on delivering a one-stop shop for customers by delivering the widest range, low prices and great service.

Our market

Officeworks' current addressable market in Australia is approximately $20 billion. The market remains highly competitive, with a wide variety of participants, some of whom participate across multiple categories while others seek to specialise in certain areas.

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

Sustainability

The Positive Difference Plan is Officeworks' commitment to sustainability. Officeworks strives to make a positive difference by reducing environmental impacts, supporting the aspirations of our team and the communities in which we operate, and through the responsible and sustainable sourcing of products and services.

Environment

Officeworks has continued to improve energy efficiency, reducing energy intensity by 12 per cent during the year, on the 2014 baseline. This was achieved through the continued rollout of LED lighting to an additional 38 stores, bringing this to a total of 88 per cent of the store network. In addition, a building energy monitoring system was installed in another 67 stores, taking the total to 129 stores.

This year Officeworks increased recycling rates from 73 per cent in 2017, to 76 per cent, and helped customers recycle 692 tonnes of unwanted ink and toner cartridges, IT equipment and mobile phones and accessories.

Responsible sourcing

This year, Officeworks continued to focus on responsible sourcing, ensuring that all suppliers are adhering to the Ethical Sourcing Policy and Sustainable Wood-Fibre Policy.

To ensure the products sold by Officeworks are ethically sourced, all suppliers of products and services are required to adhere to Officeworks' Ethical Sourcing Policy. Officeworks reviewed audits from 441 suppliers, working with suppliers to improve the working conditions at the sites that were reviewed.

Officeworks continued to transition paper products to Forest Stewardship Council (FSC) certified or 100 per cent recycled, with 85 per cent of all private label paper products meeting this requirement. In addition, Officeworks planted 200,000 trees as part of the Restoring Australia initiative, planting two trees for every one used, based on the weight of paper products they purchased at Officeworks.

People and community

Officeworks believes a diverse culture that supports balanced hiring decisions and opportunities for career growth makes good business sense. Over the past 12 months, the number of females in leadership positions increased from 37.4 per cent as at June 2017, to 41.2 per cent as at June 2018. In addition, the number of Indigenous team members at Officeworks has increased from 2.3 per cent to 2.7 per cent.

Officeworks continued to focus on making Officeworks safer than ever and rolled out the 'Safety FIRST' framework via the 'Safety Starts with You' training program to 85 per cent of team members, which helped to reduce the rolling 12-month all injury frequency rate to 10.2 injuries per one million hours worked.

As a supporter of education, Officeworks continued to partner with The Smith Family and Australian Literacy and Numeracy Foundation throughout the year. During the Officeworks Back to School Appeal, supporting The Smith Family, Officeworks customers donated $461,764, which resulted in more than 800 students being supported through Learning for Life sponsorships.

SALES GROWTH ACHIEVED IN BOTH STORES AND ONLINE

8.3% INCREASE IN EARNINGS TO $156M

Growing talent

Officeworks team member Paul Tan has worked in the business for 11 years and is the Customer Fulfilment Centre (CFC) Coordinator at the Perth CFC, in Western Australia.

OFFICEWORKS

Strategy

Officeworks aims to provide a one-stop shop for its core customers' needs and wants. Officeworks does this by delivering customers the widest range of products and great service at low 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 to even more customers both physically and digitally;
- Doing things better by enhancing productivity and efficiency;
- Investing in the talent and diversity of the team while providing a safe place to work and shop; and
- Making a positive difference in the community.

Growth strategies	Achievements	Focus for the coming years
Strengthen and expand the customer offer	• Introduced new and expanded ranges • Implemented store design changes across selected stores	• Continue to add inspiration, innovation and differentiation to products • Continue to expand the services range to help more customers start, run and grow their business • Relentless focus on providing great customer service • Ongoing investment in price
Extend our 'every channel' reach	• Six new stores opened • Introduced free two-hour 'click and collect' • Ongoing enhancements to the online offer • Integrated with Google Home Assistant • More business specialists driving business-to-business customer growth	• Make customer engagement easier • Continue to improve the online experience • Ongoing investment in a seamless multi-channel offer: 'clicks and bricks' working together • Accelerate business-to-business customer growth
Enhance productivity and efficiency	• Improvement in working capital metrics • Improved space utilisation in stores • Effective cost control • Invested in supply chain enhancements to support future growth	• Continue investing to improve working capital outcomes • Continue to invest in an efficient, cost-effective and agile supply chain • Improve space utilisation • Improve cost of doing business and productivity • Use data to enhance decision making
Invest in talent, diversity and safety	• Delivered a range of development programs to the team • Remained committed to diversity, with a specific focus on balanced leadership and Indigenous engagement • Reduced the rolling 12 AIFR by 14.3 per cent	• Ongoing investment in leadership development programs • Continued focus on team member diversity, including balanced leadership • Rigorous approach to safety behaviours and outcomes
Make a positive difference in the community	• Approximately 85 per cent of Officeworks products from FSC certified or 100 per cent recycled sources • Collected more than one million printer cartridges • Installed LED lighting in an additional 38 stores and energy monitoring systems in an additional 67 stores • Planted 200,000 trees as part of the Restoring Australia initiative • Continued to partner with restoring Australia, The Smith Family and the Australian Literacy and Numeracy Foundation	• Lift recycling levels, reduce energy consumption further • Continue to find ways to do things that are better for the environment • Continue to foster community partnerships

Risk

Officeworks accepts that risk is an important part of exploring opportunities to operate successfully and that there is a need to understand and manage risk with a view to minimising unintended consequences. Risks deemed unacceptable to the business are subject to appropriate control and mitigation measures aimed at reducing their likelihood or minimising their consequences, including risk transference through contractual arrangements, insurance or avoidance.

Risk	Mitigation
Changing consumer behaviours	• Regular reviews of product range to ensure it meets the evolving demands and preferences of Officeworks' target customers • Innovation within existing product categories and expansion into new categories • Continued focus on providing great customer service • Continue investment in the 'every-channel' model, making it easier and more convenient for customers to shop whenever, wherever and however they choose.
New and existing competitors	• Relentless focus on key strategic pillars – low prices, widest range, great service • Continue to build customer loyalty and strengthen the customer offer • Effective cost control and disciplined inventory management • Continue to focus on innovative range, service and marketing formats
Unfavourable economic conditions	• Continued focus on providing a compelling offer to customers • Effective cost control while continuing to invest for the future • Relentless focus on driving continuous improvement across all elements of the business to remain competitive
Data and IT security	• Dedicated internal capability focused on IT systems and security • A vast array of IT-related controls are in place which include appropriate firewalls, disaster recovery plans, periodic testing to ensure an appropriate level of security is maintained, and a security awareness program to keep all team members informed of their responsibilities

INDUSTRIALS

The Industrials division includes Wesfarmers' three industrial businesses: Chemicals, Energy and Fertilisers; Industrial and Safety; and Resources. The businesses, under focused leadership, continue to invest in digital systems and supply chain improvements and improve customer service, all to position each business within the division for future growth.

Growing talent

CSBP Business Improvement Superintendent Gemma Jones commenced work for the company as a Human Resources Manager seven years ago and is now based at the Kwinana operation, in Western Australia.

INDUSTRIALS

YEAR IN REVIEW

Revenue

$5,269m

2018	**5,269**
2017	5,161
2016	4,672
2015	4,985
2014	4,977

EBIT

$867m

2018	**867**
2017	915
2016	47
2015	353
2014	482

Key financial indicators

For the year ended 30 June[1]	2014	2015	2016	2017	2018
Revenue ($m)	4,977	4,985	4,672	5,161	**5,269**
Earnings before interest and tax ($m)	482	353	47	915	**867**
Capital employed (R12) ($m)	4,125	4,245	4,244	3,393	**3,295**
Return on capital employed (%)	11.7	8.3	1.1	27.0	**26.3**
Capital expenditure ($m)	386	258	220	169	**167**

[1] Refer to individual businesses key financial indicators for footnotes.

PERFORMANCE DRIVERS

Reported EBIT in the Industrials businesses decreased during the period to $867 million compared to $915 million in the prior year, primarily due to the completion of the sale of the Curragh coal mine on 29 March 2018.

The Chemicals, Energy and Fertilisers business generated $390 million in reported earnings 1.3 per cent below the prior year, which included one-off gains of $55 million. Underlying earnings improved by 14.7 per cent. The result was favourably impacted by higher EGAN sales volumes due to production issues at the competing Burrup ammonium nitrate plant. Energy earnings also increased with a higher Saudi CP (the international benchmark indicator for LPG) and continued growth in natural gas retail customers.

The Industrial and Safety business generated $118 million in reported earnings, an increase of $3 million on the prior year. Blackwoods' earnings were impacted by the continued investment in the transformation of customer service, supply chain and digital.

Workwear Group earnings improved on the prior year due to improved margins from sourcing initiatives offset by restructuring costs in the supply chain and remediation costs following a fire at a major Distribution Centre. Coregas earnings were lower than the prior year despite stronger sales due to margins being impacted by higher energy costs and increased competition.

Resources generated $359 million in reported earnings, down $46 million on the prior year. This decline was primarily due to the completion of the sale of Curragh metallurgical coal mine on 29 March 2018. This was partially offset by higher production and sales volumes from the Bengalla thermal coal mine (in which Wesfarmers holds a 40 per cent joint venture interest) taking advantage of the favourable price environment.

PROSPECTS

The performance of the Chemicals, Energy and Fertilisers business will continue to be impacted by international commodity prices, exchange rates, competitive factors and seasonal outcomes. Earnings for the Chemicals business in the 2019 financial year are expected to be affected by an oversupply of explosive-grade ammonium nitrate (EGAN) in the Western Australian market, resulting in lower margins as production is diverted to other customers and markets. To mitigate this, the business remains focused on securing commitments for future uncontracted volumes. Natural gas retailing is expected to grow albeit at a lower rate due to competition.

The continued transformation of Blackwoods and the almost completed turnaround of the Workwear Group business will provide a platform to support future growth for both businesses. The investment focus is on improving systems, supply chain efficiencies, optimising category management and enhancing customer service. While Coregas will experience ongoing margin pressure from pricing and input costs, the business is focused on growth opportunities in healthcare and the Trade N Go business.

Subsequent to year-end, Wesfarmers announced the sale of its 40 per cent interest in the Bengalla mine which, subject to completion, will complete Wesfarmers' exit from coal mining following a detailed strategic review of these assets.

David Baxby
Managing Director, Industrials

INDUSTRIALS

CHEMICALS, ENERGY AND FERTILISERS

Growing talent
Kleenheat Apprentice Mechanical Fitter Corey Collard commenced work at the business in Kwinana, Western Australia, three years ago.

YEAR IN REVIEW

Revenue

$1,830m

2018	**1,830**
2017	1,639
2016	1,820
2015	1,839
2014	1,812

EBIT

$390m

2018	**390**
2017	395
2016	294
2015	233
2014	221

Key financial indicators

For the year ended 30 June	2014[1]	2015[2]	2016[3]	2017[4]	2018
Revenue ($m)	1,812	1,839	1,820	1,639	**1,830**
Earnings before interest and tax ($m)	221	233	294	395	**390**
Capital employed (R12) ($m)	1,539	1,535	1,554	1,443	**1,407**
Return on capital employed (%)	14.4	15.2	18.9	27.4	**27.7**
Capital expenditure ($m)	172[5]	56	60	44	**60**

1 2014 excludes a $95 million gain on sale of the 40 per cent interest in ALWA (reported as an NTI).
2 2015 includes a net $10 million gain comprising insurance proceeds and the gain on sale of Kleenheat's east coast LPG operations, partially offset by asset writedowns.
3 2016 includes $32 million of one-off restructing costs associated with the decision to cease PVC manufacturing.
4 2017 includes $33 million relating to WesCEF's share of revaluation gains in Quadrant Energy and profit on sale of land of $22 million.
5 Excludes capitalised interest.

PERFORMANCE DRIVERS

Revenue of $1,830 million was 11.7 per cent above last year with Chemicals, Energy and Fertilisers all contributing to revenue growth. Chemicals revenue increased primarily due to higher EGAN sales volumes as a result of production disruptions to the competing Burrup ammonium nitrate (AN) plant and higher PVC sales volumes. Energy revenue increased due to higher Saudi CP (the international benchmark indicator for LPG) and continued growth in the number of natural gas retail customers.

Reported earnings of $390 million were 1.3 per cent lower than the prior year. The prior year earnings include one-off benefits of $55 million. Excluding these one-off items, earnings increased 14.7 per cent.

An ongoing focus on safety, particularly high potential incidents, has seen the lost time injury frequency rate maintain at historically low levels with LTIFR at 1.3 compared to 0.7 last year.

Our business

WesCEF operates eight businesses in Australia and employs approximately 1,200 team members. WesCEF's business units are Chemicals, Energy (Kleenheat), and CSBP Fertilisers.

Our market

Chemicals includes:

- the manufacture and supply of ammonia, AN and industrial chemicals primarily to the Western Australian resources and industrial sectors through CSBP
- Queensland Nitrates (QNP), CSBP's 50 per cent joint venture with Dyno Nobel Asia Pacific which manufactures and supplies AN to the resources 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
- Australian Vinyls, which supplies PVC resin and specialty chemicals 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. 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 fertilisers for the Western Australian agricultural sector. CSBP Fertilisers also provides technical support services for growers. Fertilisers recently launched its agricultural technology business, Decipher, which allows growers and their advisors to visualise farm data and make more informed nutritional decisions.

Wesfarmers announced an agreement to divest its 13.2 per cent indirect interest in Quadrant Energy on 22 August 2018.

Sustainability

WesCEF continues to manage its safety performance through its 'Safe Person, Safe Process, Safe Place' program, investing in leadership capability, operating responsibly, contributing positively to the communities in which it operates, and maintaining a commitment to environmental stewardship.

In addition to supporting grass-roots organisations, WesCEF sponsors a number of community groups including, the Clontarf Gilmore College, Moorditj Koort and the Western Australian Cricket Association (WACA) Regional Junior Cricket Program. WesCEF has partnerships with Scitech, Murdoch University, Edith Cowan University and the Kwinana Industries Council to progress STEM education in the communities in which it operates.

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CHEMICALS, ENERGY AND FERTILISERS

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 business capacity to meet the needs of customers	• Utilised asset flexibility to realise AN market opportunity as a result of competing Burrup AN plant disruption • Extended the terms of EGAN and ammonia contracts with key customers • Further incremental debottlenecking of sodium cyanide capacity • Commissioned automated AN bagging plant and driver self-service at Kwinana • Kleenheat won the Canstar Blue Most Satisfied Customer Award for the second year running	• Secure AN contract extensions and pursue new volumes • Continue to focus on plant reliability, process efficiency, product quality and productivity improvements • Continue to invest to grow and expand fertiliser services and natural gas retailing offer
Execute opportunities for growth in existing and new markets	• Commissioned a new AN emulsion facility at Kwinana • Continued market-share growth of natural gas retailing business in WA • Continued development of Decipher and launch of a paid subscription service	• Continue the development of Decipher • Ongoing evaluation of opportunities to grow in existing and new markets • Continue to evaluate alternative energy opportunities • Prepare for Full Retail Contestability in the WA 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, skill building, creating an inclusive culture and supplier engagement • Delivery of structured programs for employees across leadership, management essentials, wellness and inclusivity • Programs for vacation students, cadets and graduates across disciplines but with a focus on engineering and data science • Trialling and implementing new ways to attract and retain female employees, especially in leadership and non-traditional roles • Launched a new learning management system	• Implement and measure success of further targeted programs to attract, develop and retain an engaged, diverse workforce • Continue a strong focus on leadership development and a more inclusive culture • Ongoing development of technical competence through training and skills enhancement across our complex and diverse operations • Development of data analytics and digital capability • Expand learning management system to cover contractors
Focus on sustainable operations for the benefit of employees, customers and communities in which we operate	• Significant reduction in environmental internal limits non-conformances compared to previous year • Commissioned a reverse osmosis (RO) plant at CSBP Kwinana to increase water supply options and offset losses from an existing source • Direct community contributions of $377,000 supporting the Clontarf Gilmore College, Moorditj Koort, and the WACA Regional Junior Cricket Program, as well as STEM-based initiatives delivered with the Kwinana Industries Council and various universities	• Ongoing commitment to improve safety performance and capability • Continue focus on regulatory compliance • Develop long-term water supply strategy to inform future investment decisions • Continue to support the CSIRO-led Western Trade Coast recycled wastewater Managed Aquifer Recharge project for sustainable long-term water supply options • Continue to deliver on community investment strategies

Risk

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

Risk	Mitigation
Serious injury, safety or environmental incident	• Continue to invest in improving safety culture and performance for the safe operation of facilities and distributing products in a way that minimises any adverse effect on employees, contractors, local communities or the environment • Maintain a strong focus on operating facilities and distribution systems in a manner which minimises the effect on the environment
Increased competition	• Maintain brand awareness, focus on satisfying the needs of customers and continue to invest in initiatives that improve the customer experience • Continue to review and expand product and service offering • Positive contributions to the communities in which we operate
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

BACK

INDUSTRIALS

INDUSTRIAL AND SAFETY

Growing talent
Industrial and Safety team member Christian Whitfield commenced in the business eleven months ago as a graduate and is now an Analyst, Commercial at Macquarie Park, New South Wales.

YEAR IN REVIEW

Revenue

$1,750m

2018	**1,750**
2017	1,776
2016	1,844
2015	1,772
2014	1,621

EBIT

$118m

2018	**118**
2017	115
2016	63
2015	70
2014	131

Key financial indicators

For the year ended 30 June	2014	2015[1]	2016[2]	2017	2018
Revenue ($m)	1,621	1,772	1,844	1,776	**1,750**
Earnings before interest and tax ($m)	131	70	63	115	**118**
Capital employed (R12) ($m)	1,127	1,257	1,339	1,363	**1,409**
Return on capital employed (%)	11.6	5.5	4.7	8.4	**8.4**
Capital expenditure ($m)	51	65	44	34	**50**

[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 of $1,750 million was 1.5 per cent lower than the prior year. Blackwoods' revenue was marginally below the prior year due to strong demand from the mining segment not offsetting weaknesses in other segments. Workwear Group revenue was lower than the prior year due to strong demand in the industrial work wear market in Australia being offset by weaker demand in New Zealand and the UK, and impacts from a fire at a major distribution centre. Coregas revenue increased on the prior year due primarily to growth in tonnage, bulk and New Zealand sales channels, moderated by changes in sales mix and pricing pressure.

Earnings of $118 million were a 2.6 per cent increase on the prior year. Blackwoods earnings were impacted by the continued investment in the transformation of customer service, the supply chain and digital platforms. Workwear Group earnings increased due to improved margins from sourcing initiatives partially offset by increasing costs in the supply chain and remediation costs at the fire-affected distribution centre. Coregas earnings were lower than the prior year despite stronger sales due to margins being impacted by higher energy costs and increased competition.

Our business

Industrial and Safety operates four main businesses: Blackwoods, Workwear Group, Coregas and Greencap.

Blackwoods is the market leader in B2B industrial suppliers and safety products to businesses of all sizes across Australia and New Zealand. It distributes its products through an extensive national supply chain, branch network and online platforms. Its broad product range is supported by expert technical advice and solutions.

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

Coregas is a supplier of industrial, specialty and medical gases in Australia and New Zealand, serving customers of all sizes through multiple sales channels and distribution networks, including Blackwoods and Bunnings.

Greencap is an expert risk management and digital compliance solutions business.

Our market

Industrial and Safety service customers across diverse industries such as construction, mining, manufacturing, retail, food and beverage, utilities, transport, facilities maintenance and government. The businesses also service a wide range of customer groups including large corporate enterprises, government organisations and small-to-medium sized businesses.

Sustainability

Industrial and Safety continued its target-based sustainability plan during the year, and progressed key areas of focus such as gender balance, Indigenous engagement, ethical sourcing and the health and wellbeing of team members. Employee safety continued to be a high priority area. Each business has progressed their strategic safety plans to manage and mitigate critical risks.

WIS is striving to reduce its emissions intensity and improve its resilience to climate change and rising energy costs. In the past four years, it has installed renewable solar systems on major distribution centres and continued to focus on sustainable buildings with LED light fittings. Under this program the business has reduced electricity consumption by 25 per cent since 2015.

INDUSTRIAL AND SAFETY

Strategy

Industrial and Safety continues to optimise the businesses through lowering the cost of doing business, improving the offer to customers and investing in core systems and digital.

Across Blackwoods the transformation continues with initiatives focused on the four core areas of: sales and customer service; merchandising and sourcing; supply chain; and, digital and systems which are focused on delivering a more customer-centric and competitive business.

Other strategic priorities include further enhancing the product offer in Workwear Group and growing Coregas through new distribution channels and markets.

Growth strategies	Achievements	Focus for the coming years
Implementation of a more customer-centric and competitive Blackwoods platform	• Improved supply chain processes and performance • Greater investment in customer service, merchandising and digital capabilities • Building preferred supplier arrangements and own brand development • National strategic relationships with local delivery	• Investment in core systems including a new website, customer relationship management tool and ERP system • Supply chain initiatives to drive efficiencies and improve delivery speed and accuracy • Leverage the platform to increase share of wallet with existing customers and grow medium-size customer segment
Optimisation of Workwear Group	• Supply chain optimisation completed • Sourcing rationalisation program progressed • Customised apparel offer introduced	• Improve range and pricing architecture • Further refinement of the operating model to reduce cost of doing business • Drive a results-focused culture
Grow Coregas through new distribution channels	• Increased market share • Continued to leverage Blackwoods and Bunnings distribution channels in Australia and New Zealand • Cylinder tracking technology implemented • Growth in medical gases offer and customers	• Further develop new distribution channels and market opportunities

Risk

As a supplier of industrial, safety and work wear 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.

Risk	Mitigation
Subdued investment activity in traditional customer segments	• Continue development of the new Blackwoods platform in Australia and New Zealand to support growth into different market sectors • Continue to execute performance improvement plans in Blackwoods and Workwear Group • Further develop new distribution channels for Coregas
Growth of new and existing competitors, including supplier sales direct to customer	• Develop a more customer-centric and relevant platform • Launch new digital capabilities • Continue to optimise range and price
Safety or environmental incident	• Continue to focus on quality systems and ensuring compliance with standards • Fully operational safety program including regular monitoring and the continuation of the safety culture • Active safety engagement by senior management

INDUSTRIALS

RESOURCES

YEAR IN REVIEW

Revenue

$1,689m

2018	**1,689**
2017	1,746
2016	1,008
2015	1,374
2014	1,544

EBIT

$359m

2018	**359**
2017	405
2016	(310)
2015	50
2014	130

Key financial indicators

For the year ended 30 June[1]	2014	2015	2016[2]	2017	2018[3]
Revenue ($m)	1,544	1,374	1,008	1,746	**1,689**
Earnings before interest and tax ($m)	130	50	(310)	405	**359**
Capital employed (R12) ($m)	1,459	1,453	1,351	587	**479**
Return on capital employed (%)	8.9	3.4	(22.9)	69.0	**74.9**
Capital expenditure ($m)	163	137	116	91	**57**

1 2018 includes contribution from Curragh for the period 1 July 2017 to 29 March 2018.
2 The 2016 earnings before interest and tax for Industrials excludes the $850 million non-cash impairment of Curragh.
3 The 2018 earnings before interest and tax excludes the $120 million pre-tax gain on disposal of the Curragh coal mine.

PERFORMANCE DRIVERS

The sale of the Curragh coal mine in Queensland to Coronado Coal Group was completed on 29 March 2018 and as a result Curragh only contributed nine months to the 2018 financial year. Overall the investment by Wesfarmers in Curragh, which was acquired in 2000, has delivered an after-tax internal rate of return of approximately 49 per cent per annum.

Revenue of $1,689 million was 3.3 per cent below last year, primarily due to the divestment of Curragh, which was partially offset by an increase in the average prices for thermal and metallurgical coal achieved due to the continued robustness of export coal markets.

Earnings of $359 million were $46 million below last year, primarily due to the divestment of Curragh.

At Bengalla, a continued focus on production debottlenecking drove an increase in production to take advantage of higher export thermal coal prices, resulting in higher earnings.

Our business

Following the divestment of Curragh, Resources has a 40 per cent joint venture interest in the Bengalla mine, located south-west of Muswellbrook, in the Hunter Valley region of New South Wales.

Wesfarmers announced an agreement to sell its 40 per cent interest in the Bengalla Joint Venture on 7 August 2018. The sale of the interest in Bengalla is expected to close in the fourth quarter of calendar year 2018 and will complete Wesfarmers' exit from coal mining following a detailed strategic review.

Our market

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

Sustainability

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.

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.

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 $45 million, compared to $55 million last year due to lower property revaluations.

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 2018.

The Trust performed in line with its business objectives during the year, providing a 1.7 per cent increase in full-year distributions and $70 million in net revaluation gains from its property investment portfolio.

The Trust's portfolio as at 30 June 2018 consisted of a total of 79 properties: 76 established Bunnings warehouses, eight of which have adjacent retail showrooms that the Trust owns and are leased to other retailers; one fully leased stand-alone large format showroom property; and two vacant properties.

Gresham Partners

Wesfarmers has a 50 per cent shareholding in Gresham Partners Group Limited, the holding company for the Gresham Partners operations. Gresham is a leading independent financial services business with activities in corporate advisory, funds management, property, and capital solutions.

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

Wesfarmers is a participant in the Gresham Private Equity funds with the remaining holding being an underground mining services business, Barminco Limited, operating both in Australian and overseas markets. In August 2018, Ausdrill Limited agreed to acquire Barminco. As a part of the transaction Barminco shareholders will become shareholders in the enlarged Ausdrill upon completion.

Wespine Industries

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

Timber sales for the 2018 financial year increased by 31 per cent with higher sales to the Eastern States more than offsetting sustained weakness in house building activity in Western Australia. Operating margins also improved during the year, reflecting production efficiencies on higher volumes.

Safety performance improved with the rolling 12-month total recordable injury frequency rate for the year falling to a record low in June 2018. The management team is maintaining its focus on all aspects of workplace safety.

SUSTAINABILITY

Wesfarmers considers sustainability as an opportunity to drive strong and long-term shareholder returns.

At Wesfarmers we believe long-term value creation is only possible if we play a positive role in the communities we serve. Sustainability is about understanding and managing the ways we impact the communities and environments in which we operate, to ensure we continue to create value in the future.

Wesfarmers is committed to minimising our footprint and to delivering solutions that help our customers and the community do the same. We contribute to the communities in which we operate through strong partnerships and by providing direct and indirect employment. We endeavour to continually improve our performance and publicly report on our progress and challenges in our annual sustainability report.

In March 2018, Wesfarmers announced the completion of the sale of its Curragh coal mine and this report includes data for that business until 29 March 2018.

The Dow Jones Sustainability Index (DJSI) tracks sustainability performance of leading companies around the world. In September 2018, Wesfarmers was advised that it is one of only six companies worldwide in the food and staples sector to be included in the DJSI World index.

Our full sustainability report is available at **sustainability.wesfarmers.com.au**

OUR PERFORMANCE

WE ARE PROUD OF OUR PROGRESS IN THE FOLLOWING AREAS.

Safety

Injury rate

↘15%

Reduced our total recordable injury frequency rate by 15 per cent to 24.4.

Ethical sourcing and human rights

Factories in our audit program

4,003

Improved the transparency of our supply chain with 4,003 factories including supplier sites in our audit program.

Diversity

Indigenous employees

5,228

Worked to promote diversity in our workplaces, with a 24% increase in employees identifying as Indigenous[1].

Community contributions

Direct funding

$86.6m

Contributed a further $60.9 million in indirect funding to community organisations.

WE ACKNOWLEDGE THAT WE CAN IMPROVE OUR PERFORMANCE.

Diversity

Wesfarmers' workforce is made up of 54 per cent women and 46 per cent men. A key opportunity for the Group is to increase the percentage of leadership positions held by women.

Over the last five years, there has been a 5.0 per cent increase in women in management roles and a 5.5 per cent increase in women in senior roles.

Climate change resilience

We will continue to focus on climate change resilience, especially energy efficiency.

We are proactive about managing risks associated with climate change because we believe this will deliver significant benefits for us all.

This year we reduced our Scope 1 and 2 carbon emissions by 3 per cent.

[1] As at 30 June 2018.

SAFETY

We maintain a relentless focus on providing safe workplaces.

Wesfarmers is a business driven by people. As Australia's largest private sector employer some 217,000 people come to work in our offices, shops, plants and facilities every day.

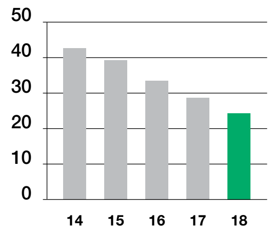
The safety of team members, customers, suppliers and visitors across all our sites is our highest priority. We continue to make improvements to safety.

To monitor our safety performance, we use total recordable injury frequency rate (TRIFR) and lost time injury frequency rate (LTIFR), which show injuries per million hours worked by employees and long-term contractors. This year, our TRIFR decreased by 15 per cent from 28.7 to 24.4, with improvements across most divisions. Our LTIFR decreased nine per cent this year compared to the prior corresponding period.

We were pleased that our workers' compensation claims decreased by more than 500 to 5,863.

Total recordable injury frequency rate[1]

24.4



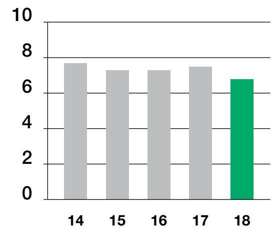
FY18	24.4
FY17[2]	28.7
FY16[2]	33.6
FY15	39.4
FY14	42.7

[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]

6.8



FY18	6.8
FY17[2]	7.5
FY16[2]	7.3
FY15	7.3
FY14	7.7

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

[2] Restated due to maturation of data.

PEOPLE DEVELOPMENT

Our greatest competitive advantage is our people and we are committed to providing them with opportunities to improve their performance and their careers.

Wesfarmers is Australia's largest employer with approximately 217,000 employees. Our businesses provide employment to approximately one in 60 working Australians.

During the year, we paid $9.3 billion in salaries, wages and benefits to our employees.

Training and development

Wesfarmers' divisions provide job-specific and career development training opportunities that include technical skills, customer service, team work, and leadership. These programs are available to full-time, part-time and casual employees.

At the Group level, we focus on the potential and capability of our leadership teams and general managers, to ensure they have the capabilities we require for today and for the future.

We set standards for talent, leading cross-divisional talent development processes and supporting the individual development of our most critical and highest potential leaders.

This year Wesfarmers launched a Group-wide investment in awareness and capability building associated with data analytics, in line with one of our strategic focus areas.

Workplace relations

More than 87 per cent of our team members are covered by collective agreements. We recognise the right of those we employ to negotiate either individually or collectively, with or without the involvement of third parties. Collective agreements typically include provisions for notice periods and provisions for consultation and negotiation. We also believe in maximising the flexibility of workplace arrangements available to our employees and their managers.

Blackwoods helps team members plan for the time of their lives

Blackwoods has identified an increasing corporate risk associated with a maturing workforce. During the year, it introduced a program to address the cost of illness and injury within this cohort and the loss of business knowledge and customer serviceability as older people left the organisation.

DIVERSITY

We strive to create an inclusive work environment, with particular attention to gender balance and the inclusion of Indigenous people.

Wesfarmers is committed to building an inclusive culture that harnesses the power of diversity of thought and experience in our teams. Diversity enables us to best deliver on the needs of each of our customers and thus deliver for our shareholders.

Gender balance

While our workforce is balanced with 54 per cent of our team members female, there is room to strengthen the gender balance in management roles. Twenty-eight per cent of senior management roles are held by women. 'Gender balance' means that teams have a minimum of 40 per cent of either gender.

Building a more gender balanced business that appreciates and caters to the strengths, preferences and needs of different team members and different customers is a source of competitive advantage.

Female representation across the Group

	2017	2018
Wesfarmers Limited Non-Executive Directors	38%	33%
Senior executive positions (General manager or above)	24%	28%
All management and professional roles	32%	34%
Total workforce	54%	54%

Wesfarmers supports its divisions to build a gender-balanced workforce in a number of ways. In 2018, independent external gender audits identified opportunities to improve gender balance. Wesfarmers has developed its own gender tool kit which is a resource to help our businesses identify opportunities to better harness the strength of male and female talent and capture business opportunities by better catering to all people across our customer base. The launch of a Wesfarmers cross-divisional Gender Balance Working Group, sponsored by our Group Managing Director, has enabled our divisions to share practices across the Group as well as hear from external experts.

Indigenous representation in our workforce

Wesfarmers' diversity strategy includes a commitment to make every business a place where Indigenous people feel welcome and valued, as employees, customers and suppliers. To do this, 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 team member volunteering with Indigenous organisations.

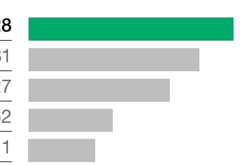
This year, we made progress across all areas of our RAP, with the following highlights.

Indigenous employment

As Australia's largest employer, we believe we can provide Indigenous people with greater opportunities to participate in sustainable employment, and this remains our primary goal. This year we employed 997 more Indigenous team members, and total Indigenous team members now represent 2.5 per cent of Wesfarmers' Australian workforce.

Indigenous team members

2018	5,228
2017	4,231
2016	3,327
2015	2,762
2014	1,711



Wesfarmers is Australia's largest employer of Indigenous people.

Indigenous procurement

In addition to direct employment, Wesfarmers has created Indigenous employment opportunities through procurement from local and national Indigenous suppliers. In the five years from 2013 to 2017, Wesfarmers purchased more than $65 million in products and services from Indigenous suppliers.

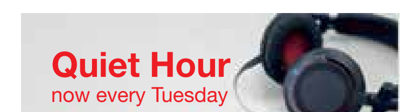
Indigenous partnerships

Wesfarmers is committed to establishing community partnerships with organisations focused on improving the lives of Indigenous people.

Wesfarmers has partnered with Clontarf since 2001 to improve the education, discipline, life skills, self-esteem and employment prospects of young Indigenous men using football as a foundation. During the year Clontarf continued to expand nationally as it aims to double its student intake. While significant financial support is provided by Wesfarmers, a number of our divisions have established relationships with Clontarf Academies around Australia and provide work experience and employment opportunities, as well as mentoring and other in-kind support.

We continued to support Australian Indigenous Mentoring Experience and The Graham (Polly) Farmer Foundation. Wesfarmers also entered into the second year of its partnership with Reconciliation WA. Many of our divisions also have additional partnerships with organisations that support Indigenous communities, such as New Start Australia, The Fred Hollows Foundation and The Australian Literacy and Numeracy Foundation.

Our RAP is available at **wesfarmers.com.au**



Coles launches its accessibility action plan

In June 2018, Coles launched its second Accessibility Action Plan 2018-2020, which aims to improve the accessibility of its stores, sites, workplaces and digital access for people with disability. The new plan makes 16 commitments and includes expanding 'Quiet Hour'. Quiet Hour is a low-sensory shopping experience offering dimmed lights, reduced noise and limited overhead announcements at specified times.

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SUPPLIERS

We commit to strong and respectful relationships with our suppliers.

Our relationships with approximately 18,000 suppliers across the Group are very important to us. This year we paid approximately $47 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.

Kmart and Target commit to sourcing more sustainable cotton

Kmart and Target have joined the Better Cotton Initiative, a sustainable cotton standard and program that exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future.

ETHICAL SOURCING AND HUMAN RIGHTS

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

Ethical sourcing and human rights has been identified as Wesfarmers' most material sustainability issue in our annual materiality process.

Our businesses directly source products from more than 20 countries. Some of the major locations we source from outside Australia include China, Bangladesh, New Zealand, India, Thailand and Vietnam. While our operations and supply chains are complex, our aim is to ensure that human rights are understood, respected and upheld. We expect our partners and stakeholders to adhere to ethical business conduct consistent with our own, and are committed to working with them to fulfil this common goal.

During the year, Wesfarmers continued to engage with government and NGOs to voice its support for establishing a Modern Slavery Act in Australia. We believe the Act will improve transparency in corporate and public sector activities, and ultimately help to eliminate modern slavery across Australian entities' operations and their supply chains.

Our third Modern Slavery Statement can be found in our 2018 Sustainability Report available at **sustainability.wesfarmers.com.au**

Increasing supply chain transparency

Global supply chains are inherently complex, diverse and dynamic. During the year, we continued to focus on supply chain transparency as the key to ensuring modern slavery is not occurring in our supply chains. Our due diligence process has revealed unfair working conditions is a risk in supply chains all over the world, including OECD countries such as Australia.

During the year Target, Kmart and Coles maintained their commitment to supply chain transparency by continuing to publish the details of the factories that directly produce their own brand products.

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 Industrial and Safety) apply a human rights and ethical sourcing audit program to certain suppliers. Suppliers are considered lower risk if they are supplying recognised international brands.

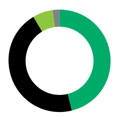
This year, our audit program covered 4,003 factories or supplier sites in Australia and overseas used to produce products for sale across our retail businesses.

Factories and supplier sites in the audit program are required to have undertaken an assessment as mandated by our business. Factories may then be required to undertake further assessments including having a current audit certificate, which means they have been audited by us or another party whose audits we accept. The audits identify a range of non-compliances, from minor non-compliances such as minor gaps in record keeping to critical breaches, such as incidences of forced labour or bribery.

Where a non-compliance is identified, the factory is required to fix the issue, within an appropriate period of time, depending on the nature of the non-compliance.

We were able to remedy 43 of these issues immediately, 50 had action plans that were on track at the end of the reporting period, one was exited immediately and no further supply orders were placed at the remaining 20.

Ethical sourcing audit program findings



4,003
Total number of factories[1]

Approved	1,849
Conditionally Approved	1,815
Expired Audits	257
Critical Breaches	82

[1] Factories include supplier sites.

Officeworks works with suppliers to improve working conditions

Officeworks has a comprehensive approach to ethical sourcing that is built on the values of transparency, integrity, collaboration and continuous improvement, aiming to protect workers' rights throughout the supply chain.

COMMUNITY CONTRIBUTIONS

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

Wesfarmers is a successful company, and one that creates value for all its stakeholders. As a result, we have a significant positive impact on the Australian economy. The wealth created by the Group during the year was $69.9 billion which, in one form or another, was distributed to our various stakeholders. Wesfarmers is Australia's largest private sector employer. The vast majority of our shares are owned by residents of Australia, and we invest in the local communities where our businesses operate.

In 2018, the Wesfarmers Group contributed $86.6 million in direct funding to community organisations across Australia and New Zealand and other regions where we operate. The Group also facilitated donations from customers and employees totalling $60.9 million this year, taking total community contributions to approximately $148 million.

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.

Our divisional contribution

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

Wesfarmers has a local footprint in many communities. Many of our divisions have major, long-term partnerships at a national level, such as the enduring partnership between Kmart and The Salvation Army through the Kmart Wishing Tree Appeal, or Coles' relationship with national food relief charity SecondBite.

In addition to these major partnerships, a significant part of our community investment is directed to smaller, not-for-profit organisations operating locally. For example, Bunnings has supported thousands of local community groups throughout the year by participating in activities such as fundraising sausage sizzles, hands-on projects, community workshops and product contributions.

Our retail businesses all support local community groups through the provision of gift cards, products or facilitating the collection of customer donations for local fundraising initiatives. As a result of these locally driven activities, there are a significant number of community groups and programs which have received the support of our businesses across a wide range of areas.

Wesfarmers contribution

In addition to the millions of dollars invested in community programs by our various businesses, Wesfarmers also supports a number of organisations philanthropically.

The Wesfarmers Board approves partnerships focused on five areas: medical research and health; Indigenous programs, particularly targeting education and employment outcomes; education initiatives; community programs; and the Wesfarmers Arts program.

In 2018, approximately $9 million was contributed to our partners, the majority of which are long-term commitments with West Australian-based organisations.

This year marked the start of our renewed contract with Telethon Kids Institute, with an increased funding contribution from Wesfarmers to $1.5 million per annum. Wesfarmers has had a long partnership with Telethon Kids, most recently through the establishment of the Wesfarmers Centre of Vaccines and Infectious Diseases.

Blackwoods' support for the Fred Hollows Foundation exceeds $1 million

Through proceeds from the sale of a select range of products and employee and supplier support, Blackwoods contributed more than $500,000 to support Indigenous health programs in the past 12 years.

During the year, Backwoods reviewed its support to the foundation and announced an improved contribution of 10 per cent of proceeds from the sale of Prosafe eye and face protection products going to The Fred Hollows Foundation Indigenous Australia program, contributing more than $600,000 this year alone.

Wesfarmers Arts

Wesfarmers has supported the arts in Australia for more than three decades. Our engagement in the cultural life of the community embraces our long-term support for a wide range of premier performing and visual arts organisations and the ongoing development of The Wesfarmers Collection of Australian Art.

From rare watercolours of the earliest years of European settlement, to the art of today across painting, photography, sculpture and digital media, The Wesfarmers Collection reflects the diversity of creative Australia through the work of our country's defining artists. During the year, we shared works from our collection with museums and galleries throughout Australia and online via Instagram, Facebook and the Wesfarmers Art Collection app, available free from the Appstore.

In 2018 the Wesfarmers Arts sponsorship program provided $3.3 million in support of the activities of 14 leading arts organisations.

Wesfarmers Arts supports Yirra Yaakin Aboriginal Theatre - Noongar Shakespeare Project

In 2018 we embarked on a major initiative with Yirra Yaakin to develop a contemporary Noongar Indigenous interpretation of Macbeth set to premier at Perth Festival in 2020 and tour to The Globe Theatre, UK.

BACK

PRODUCT SAFETY AND CUSTOMER PRIVACY

We are committed to providing consumers with safe products and protecting their privacy.

All of the consumer products we supply must be safe and meet consumer guarantees under the consumer laws of the countries where we operate. We ensure that all our products comply with relevant mandatory standards before they are offered for sale. As well as safety testing and compliance with required standards, our divisions implement product recalls where possible safety issues may arise.

During the year as part of our materiality process, customer privacy emerged as a key material issue for Wesfarmers and its businesses. We are committed to complying with the Australian Privacy Act and all relevant legislation.

We have systems and procedures in place to protect customer information and acknowledge that privacy protection requires ongoing significant resources. This remains a high priority.

During the year we continued to implement a number of controls to minimise risk, including enhanced monitoring and vulnerability testing of our systems and procedures.

CLIMATE CHANGE RESILIENCE

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

We acknowledge the scientific consensus on climate change and the effects it may have on our customers, our operations, the economy and the communities in which we operate. We are proactive about managing risks associated with climate change because responding will deliver significant economic, social and environmental benefits for us all.

Wesfarmers supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which has developed voluntary, consistent climate-related financial disclosures for companies, and is committed to providing stakeholders with information in relation to how we are managing climate change risks. In line with the TCFD recommendations, our disclosures can be found in the Operating and Financial Review section on page 23.

Bunnings invests in renewable energy

At the end of the financial year solar PV systems were installed at 23 Bunnings stores across Australia, covering 25,000 square metres of roof area.

Managing our emissions

The scale of the climate challenge is great but the International Panel on Climate Change highlights that the world has the means to address it. Our divisions are looking for ways to improve energy efficiency, reduce emissions across their operations and supply chains and invest in low-emissions and renewable technologies as we transition to a low carbon economy.

We recognise our responsibility to all our stakeholders to play an active role in addressing climate change.

We emit greenhouse gases both directly and indirectly. Our direct (Scope 1) 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 2) emissions is electricity used by our operations. We also estimate our Scope 3 emissions, which are other indirect emissions that occur as a result of our operations (e.g. employee air travel), but are not controlled by us.

We are able to manage our emissions intensity (tonnes of emissions per one million dollars revenue) through various initiatives including technology improvements in our industrial processes and through energy efficiency initiatives in all our businesses.

Our emissions

This year, we emitted a total of 3,945 thousand tonnes of carbon dioxide equivalent (CO_2e) in scope one and two emissions, which was 3 per cent less than last year. This represents a 6 per cent reduction in emissions intensity from last year. This year, the decrease in our emissions was driven by energy efficiency projects at Coles, Kmart and Officeworks which account for a reduction of more than 200 thousand tonnes of CO_2e. The decrease is also related to the sale of the Curragh coal mine as we have calculated the emissions related to this business up until it was divested in March 2018.

Officeworks plants more than 200,000 trees

Partnering with Greening Australia, Officeworks committed to planting two trees for every one used, based on the weight of paper-based products purchased by its customers. Encompassing more than 8,000 products, the initiative set out to re-establish native plants across landscapes to revegetate bushland, help wildlife flourish, support threatened species, and increase the water quality in these regions.

WASTE AND WATER USE

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

We are working to reduce our waste to landfill intensity rate and to divert as much as possible to recycling, both in our operations and for our customers.

Water management is a material issue for WesCEF, Resources, Coles and Bunnings. Senior management of those businesses is responsible for assessing and managing water related risks and opportunities and their divisional boards have oversight of these strategic risks and opportunities. We recognise that Australia is a highly water stressed country and our focus is on using water more efficiently, reducing our water use intensity rate and replacing scheme water with reclaimed or recycled water where possible.

Recycling and waste

This year, we decreased our waste to landfill by 4 per cent to 154 thousand tonnes and decreased our waste recycled by 6 per cent to 351 thousand tonnes. This was primarily due to waste diversion projects at Coles, Target and Officeworks.

Our main sources of waste are cardboard, food and plastic at Coles. Coles is focused on innovating and improving its recycling programs across these areas. The total amount of waste recycled by Coles decreased 3 per cent this year, while waste to landfill decreased 8 per cent. Coles is combating food waste in stores and the supply chain by partnering with SecondBite. Through this partnership it ensures that edible, surplus food ends up on the plates of people in need instead of contributing to landfill.

In May 2018, Coles marked a milestone with soft plastics recycling for customers available in all its supermarkets nationally. Coles' partnership with REDcycle provides customers with a simple and effective way of recycling soft plastics, including plastic packaging and plastic bags. Customers can simply place their soft plastics in a dedicated REDcycle bin at their local Coles store, where it will be collected and recycled into a range of products.

Reducing water use

This year, the Group recorded water use of approximately 13,422 megalitres. This represents a decrease in water use of 18 per cent due to the sale of the Curragh coal mine as we have calculated the water use related to this business until it was divested in March 2018.

Dry ice replaces water at CSBP

During the year, WesCEF reduced its water use by using dry ice rather than water to clean equipment where feasible.

ROBUST GOVERNANCE

We maintain robust corporate governance policies in all our businesses.

The Board of Wesfarmers is committed to fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders.

Further information on our corporate governance practices can be found on pages 68 to 71 and in the full 2018 Corporate Governance Statement available on the company's website at **www.wesfarmers.com.au/cg**

BOARD OF DIRECTORS

MICHAEL CHANEY AO
CHAIRMAN

BSc, MBA, Hon. LLD W.Aust, FTSE
Age 68

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 (retired April 2018)
- Chancellor of The University of Western Australia (retired December 2017)
- Member of Commonwealth Science Council (since October 2014)
- Chair of the National School Resourcing Board (since November 2017)
- Chairman of National Australia Bank Limited (retired December 2015)
- Member of Prime Minister's Business Advisory Council (retired December 2015)

JENNIFER WESTACOTT AO
DIRECTOR

BA (Honours), FAICD, FIPAA
Age 58

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)
- Member of the Prime Minister's Cyber Security Review Panel (concluded April 2016)
- Board member of Cyber Security Research Centre (CSRC) Ltd (since February 2018)
- Co-Patron of Pride in Diversity (since November 2017)

ROB SCOTT
MANAGING DIRECTOR

B.Comm, MAppFin, CA, GradDipAppFin
Age 49

Term: Director since November 2017.

Skills and experience: Rob joined Wesfarmers in 1993 before moving into investment banking in various roles in Australia and Asia. Rob rejoined Wesfarmers in 2004 in Business Development before being appointed Managing Director of Wesfarmers Insurance in 2007 and then Finance Director of Coles in 2013. He was Managing Director, Financial Services in 2014 and Managing Director of the Wesfarmers Industrials division in 2015. Rob became the Group's Deputy Chief Executive Officer in February 2017 and assumed the role of Managing Director and Chief Executive Officer at the conclusion of the 2017 Annual General Meeting in November 2017.

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

- Director of Gresham Partners Group Limited (resigned July 2018)
- Director of Gresham Partners Holding Limited (resigned July 2018)
- Member of UWA Business School Advisory Board (since August 2017)
- Chairman of Rowing Australia (since October 2014)

THE RIGHT HONOURABLE BILL ENGLISH KNZM
DIRECTOR

BA (Hons) (Wellington), BCom (Otago)
Age 56

Term: Director since April 2018.

Skills and experience: Bill was Minister of Finance and Deputy Prime Minister of New Zealand from October 2008 to December 2016 and Prime Minister until the change of government in October 2017. He retired from parliament in March 2018. Bill has also held ministerial roles in health, education, housing, and revenue since his election to Parliament in 1990. He has long-term interests in economic restructuring, sound microeconomic policy, and social policy reform.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
None

WAYNE OSBORN
DIRECTOR

Dip Elect Eng, MBA, FAICD, FTSE
Age 67

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 (retired April 2017)
- Director of Alinta Energy Limited (retired April 2017)
- Director of Iluka Resources Limited (retired May 2016)

PAUL BASSAT
DIRECTOR

B.Comm, LL.B. (Melb)
Age 50

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 and Science 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 (resigned October 2017)

TONY HOWARTH AO
DIRECTOR

CitWA, Hon.LLD (UWA), SF Fin, FAICD
Age 66

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, the responsible entity for the BWP Trust (since October 2012)
- Chairman of MMA Offshore Limited (retired November 2017)
- Chairman of St John of God Health Care Inc. (retired May 2018)
- Chairman of the West Australian Rugby Union Inc. (retired December 2017)
- Director of Alinta Holdings (since March 2011)
- Director Alinta Energy Pty Limited (since September 2016)
- Director of Viburnum Funds Pty Ltd (since July 2007)

VANESSA WALLACE
DIRECTOR

B.Comm (UNSW), MBA (IMD Switzerland), MAICD
Age 55

Term: Director since July 2010.

Skills and experience: Vanessa is an experienced strategy 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 SEEK Limited (since 1 March 2017)
- Director of AMP Limited (resigned May 2018)
- Chairman of AMP Capital Holdings Limited (resigned June 2018)
- Executive Chairman of Strategy& (Japan) Inc. (retired June 2015)

DIANE SMITH-GANDER
DIRECTOR

B.Ec, MBA, Hon.DEc W.Aust (UWA), FAICD, FGIA
Age 60

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 advisor 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):

- Director of AGL Energy Limited (since September 2016)
- 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 of Safe Work Australia (since February 2016)
- Trustee and director of 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)
- Chair of the Asbestos Safety and Eradication Council (since December 2016)

JAMES GRAHAM AM
DIRECTOR (to 23 July 2018)

BE (Chem)(Hons)(Syd), MBA (UNSW), FIEAust, FTSE, FAICD, SF Fin
Age 70

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)

BACK

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. This statement details the key aspects of the governance framework and practices of Wesfarmers. Wesfarmers regularly reviews its governance framework and practices so as to ensure it consistently reflects market practice and stakeholder expectations.

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 2018.

A copy of Wesfarmers' full 2018 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 2018 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, to guide and monitor the management of Wesfarmers and its businesses in accordance with the strategic plans, to instil the core values of the Group, and to 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 to fostering a culture of compliance which values ethical behaviour, personal and corporate integrity, accountability, transparency and respect for others.

The Group 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 on pages 12 and 13 and 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, the key focus areas of the Board during the 2018 financial year are set out below.

Key focus areas of the Board during the 2018 financial year included:

- Overseeing the implementation of strategy to address areas of underperformance and reposition the portfolio to deliver growth in shareholder returns
- Approving the proposed demerger of Coles and overseeing the proposed leadership change with Steven Cain to be appointed as the next Managing Director of Coles to succeed John Durkan (March 2018)
- Overseeing a comprehensive review of strategic options to improve shareholder returns for the Bunnings United Kingdom and Ireland business and approving the divestment (May 2018)
- Approving the sale of the Curragh coal mine in Queensland for $700 million with a post-tax gain on sale of approximately $123 million (December 2017)
- 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 the development plans of each division likely to impact long-term shareholder value creation whether through portfolio management, consideration of divestment options or other strategies
- 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
- Monitoring and evaluating growth opportunities to complement the existing portfolio
- Reviewing policies, reporting and processes to improve the Group's system of corporate governance

CORPORATE GOVERNANCE OVERVIEW

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 nine directors, including eight non-executive directors. Detailed biographies of the directors as at 30 June 2018 are set out on pages 66 and 67 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.

Rob Scott was appointed as Wesfarmers Deputy Chief Executive Officer in February 2017, and joined the Board and assumed the role of Group Managing Director in November 2017.

Former New Zealand Prime Minister, The Right Honourable Bill English KNZM was appointed a director on 30 April 2018. He brings significant and valuable experience to the Board given his outstanding record of financial management and government policy development and given Wesfarmers' extensive business interests in New Zealand. He guided the New Zealand economy through the global financial crisis, initiated tax reforms, implemented partial floats of four government companies and led the financing to rebuild Christchurch after the 2010 earthquakes.

On 23 July 2018, Wesfarmers announced that James Graham had retired as a non-executive director of the company to coincide with his appointment as Chairman-elect of the proposed demerged Coles group.

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

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

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. Mr Norman will step down from this role to become an advisor to the proposed demerged Coles Board, continuing his strategic contribution to that business.

David Cheesewright who has extensive experience in international retailing and manufacturing, including 19 years with Walmart, will be the Wesfarmers nominee on the Coles Board in recognition of its retention of a shareholding interest. Mr Cheesewright is also to be appointed an advisor to the Wesfarmers Board.

Skills, experience and expertise

- CEO level experience
- ASX-listed company experience
- Capital markets
- Finance and banking
- Strategy and risk management
- E-commerce and digital
- Governance
- Human resources and executive remuneration
- Financial acumen and transaction experience
- Marketing/customers/retail
- Regulatory and government policy
- Resources and industrial
- International business experience
- Corporate sustainability
- International and domestic political experience
- Crisis and disaster management and recovery
- Community engagement
- International trade experience

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 having regard to the ASX Principles. In particular, the Board focuses on 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 the company's 2018 annual report and considers that all eight non-executive directors are independent.

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CORPORATE GOVERNANCE OVERVIEW

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. Following the resignation of Mr Graham from the Board in July 2018, the Gresham Mandate Review Committee was disbanded in August 2018. Details of the current membership and composition of each committee are set out in the 2018 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 to 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 are set out in the 2018 Corporate Governance Statement.

Key focus areas of the Nomination Committee during the 2018 financial year included:

- Identification and nomination of Bill English as a new non-executive director for election to the Board bringing skills, experience and expertise to augment those of current directors
- Identification and nomination of Chairman-elect and non-executive directors for the proposed Coles demerged entity
- Consideration of feedback from major shareholders during the Chairman's Roadshow conducted prior to the 2017 Annual General Meeting

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 77 to 96 of this annual report.

Senior executives comprising members of the Wesfarmers Leadership Team have a variable or 'at risk' component as part of their total remuneration package under the Key Executive Equity Performance Plan (KEEPP). The mix of remuneration components and the performance measures used in the KEEPP 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, risk management and, ultimately, generating satisfactory returns for shareholders.

Annual performance reviews of each member of the Wesfarmers Leadership Team, including the Group Managing Director, for the 2018 financial year have been undertaken. More details about Wesfarmers' performance and development review process for senior executives is set out in the 2018 Corporate Governance Statement.

Key focus areas of the Remuneration Committee during the 2018 financial year included:

- Reviewing and making a recommendation to the Board in relation to the fixed and variable remuneration of the Group Managing Director and his direct reports
- Reviewing and making recommendations to the Board in relation to the Wesfarmers variable remuneration plans, including recommending to the Board the vesting outcomes of the 2014 Wesfarmers Long Term Incentive Plan shares, based on the achievement of the performance conditions as at 30 June 2018
- Reviewing the succession and transition plans for the Wesfarmers Leadership Team, including the transition plans for the newly appointed Group Managing Director and Group Chief Financial Officer
- Reviewing the senior executive remuneration framework and policies, including terms of employment such as notice periods, restraint and non-solicitation clauses
- Reviewing the expected implications of the proposed demerger of Coles from the Wesfarmers Group on the long-term incentive plans in operation within the Group
- Reviewing and making a recommendation to the Board on non-executive director fees
- Reviewing and monitoring diversity targets and gender pay equity

Role of Audit and Risk Committee

The Audit and Risk Committee assists the Board in fulfilling its responsibilities in overseeing the company's financial reporting, compliance with legal and regulatory requirements, the setting and reviewing of risk parameters of the Wesfarmers Group, and proactively managing the Group's systems of internal control and its financial and non-financial risk management framework.

Key focus areas of the Audit and Risk Committee during the 2018 financial year included:

- Monitoring the Group's cyber security framework, including data protection management, third party data risk management and the reporting structure and escalation process on information security risks
- 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
- 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 retail shrinkage control measures and reporting procedures in the Group's divisions
- Reviewing and evaluating the adequacy of the Group's insurance arrangements to ensure appropriate cover for identified operational and business risks
- Monitoring the Group's tax compliance program both in Australia and overseas, including cross-border intra-Group transactions, to ensure its obligations are met in the jurisdictions in which the Group operates

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. Darren Lewsen is the lead partner for Ernst & Young and was appointed on 1 July 2013. In accordance with the requirements of the *Corporations Act 2001*, the Audit and Risk Committee approved Mr Lewsen to act as the lead partner for a sixth year in 2018/19.

Ernst & Young provided the required independence declaration to the Board for the financial year ended 30 June 2018. The independence declaration forms part of the directors' report and is provided on page 76 of this annual report.

CORPORATE GOVERNANCE OVERVIEW

Risk management

Wesfarmers is committed to the identification, monitoring and management of material financial and non-financial 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, transparency, integrity, fairness, constructive challenge and accountability, and these values are reflected in the Group's Code of Conduct.

These elements are necessary to support effective risk management and awareness, and to support appropriate behaviours and judgements about risk taking.

Management is responsible for the Group's day-to-day compliance with risk management systems. Management monitors compliance with, and the effectiveness of the risk management systems and controls at a divisional level. Senior management across the Wesfarmers Group is responsible for reinforcing and modelling the key behaviours required to maintain a sound risk culture, including encouraging constructive challenge and transparency. Wesfarmers' senior management reports to the Board on the adequacy of the risk management systems and processes on a consolidated basis across the Group. Divisional Managing Directors are accountable for risk management outcomes, and day-to-day compliance in their respective divisions. During the second half of the 2018 financial year, the Group formalised its approach to the review and consideration of operational risks within each division through the establishment of divisional audit and risk committees. These committees ensure management has access to timely information about emerging and existing risks and provides management with a dedicated forum to facilitate constructive debate and challenge regarding operational risk management. The committees further strengthen operational risk management and support the divisional boards and management and have become an increasingly important component of the Board's assurance framework on risk and governance.

Risk Management Framework

The Risk Management Framework of Wesfarmers is reviewed by the Board on an annual basis and was approved in May 2018. This framework details the overarching principles and 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, Group Managing Director and Chief Financial Officer, 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 Cycle and Divisional Reporting Requirements documents that clearly set 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; the environment; legal liability; information technology; ethical sourcing; 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 and business continuity processes 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 2018 Corporate Governance Statement.

Ethical and responsible behaviour

Wesfarmers' primary objective is to deliver satisfactory returns to shareholders through financial discipline and exceptional management of a diversified portfolio of businesses. The Wesfarmers Way is the framework for the company's business model and comprises our core values of integrity, openness, accountability and entrepreneurial spirit, details of which are published on Wesfarmers' website. The Wesfarmers Way, together with the Code of Conduct and other policies, guide the behaviour of everyone who works at Wesfarmers as we strive to achieve our primary objective. The Board and senior executives of the Group strive to ensure that their own actions and decisions are consistent with Wesfarmers' core values.

Diversity

Wesfarmers considers building a diverse and inclusive workforce as an opportunity to deliver on our objective of satisfactory returns to shareholders. Our customers and stakeholders are increasingly diverse and to gain the best insight into their needs, and how to meet them, diverse and inclusive teams are required. A diversity of perspectives and backgrounds also strengthens creativity and innovation in teams. Moreover, creating an environment that attracts, retains and promotes talent with a wide range of strengths and experiences ensures Wesfarmers is best equipped for future growth.

Our commitment to diversity across Wesfarmers extends to all individuals and all perspectives. Particular focus is paid to achieving a gender balance in senior management positions across our divisions and continuing to boost employment of Indigenous people.

Further details on diversity are set out on page 61 of this annual report and in the 2018 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 6 to 71 forms part of the directors' report for the financial year ended 30 June 2018 and is to be read in conjunction with the following information:

Results and dividends

Year ended 30 June	2018 $m	2017 $m
Profit		
Profit attributable to members of the parent entity	**1,197**	2,873
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 2018:		
(a) out of the profits for the year ended 30 June 2017 and retained earnings on the fully-paid ordinary shares:		
(i) fully-franked final dividend of 120 cents (2016: 95 cents) per share paid on 28 September 2017 (as disclosed in last year's directors' report)	**1,361**	1,070
(b) out of the profits for the year ended 30 June 2018 on the fully-paid ordinary shares:		
(i) fully-franked interim dividend of 103 cents (2017: 103 cents) per share paid on 5 April 2018	**1,168**	1,165
(ii) fully-franked final dividend of 120 cents (2017: 120 cents) per share to be paid on 27 September 2018	**1,361**	1,361

Principal activities

The principal activities of entities within the consolidated Group 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 G Scott (Group Managing Director)
- P M Bassat
- S W English
- 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 2017 to 30 June 2018, except:

- T J Bowen who resigned as Finance Director of the company on 4 September 2017;
- R J B Goyder who retired as Group Managing Director and as a director of the company on 16 November 2017, at the conclusion of the 2017 Annual General Meeting;
- R G Scott who was appointed as Group Managing Director and a director of the company on 16 November 2017, at the conclusion of the 2017 Annual General Meeting; and
- S W English who was appointed as a director of the company on 30 April 2018.

On 23 July 2018, J P Graham retired as a director of the company coincident with his appointment as Chairman-elect of the proposed demerged Coles group.

The qualifications, experience, special responsibilities and other details of the directors in office as at the date of this report appear on pages 66 and 67 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
M A Chaney	–	–	87,597
S W English	–	–	1,000
A J Howarth	20,000	–	18,654
W G Osborn	–	–	14,728
R G Scott*	–	34,299	447,848
D L Smith-Gander	–	–	12,045
V M Wallace	–	–	13,483
J A Westacott	–	–	5,493

* R G Scott holds 34,299 performance rights allocated under the 2015 Wesfarmers Long Term Incentive Plan (WLTIP). If the performance conditions are met, Mr Scott will be allocated Wesfarmers fully-paid ordinary shares at the end of the performance period. Mr Scott also holds 185,872 Wesfarmers fully-paid ordinary shares under the 2016 and 2017 Key Executive Equity Performance Plan (KEEPP). For further details, please see the remuneration report on pages 77 to 96 of this annual report.

T J Bowen resigned as Finance Director on 4 September 2017. As at that date, Mr Bowen had a relevant interest in 184,172 shares and 217,079 performance rights in Wesfarmers Limited. He had no relevant interests in BWP Trust units as at his resignation date.

R J B Goyder retired as Group Managing Director and as a director of the company on 16 November 2017, at the conclusion of the 2017 Annual General Meeting. As at that date, Mr Goyder had a relevant interest in 726,254 shares and 247,928 performance rights in Wesfarmers Limited. He had no relevant interests in BWP Trust units as at his retirement date.

J P Graham retired as a director on 23 July 2018, coincident with his appointment as Chairman-elect of the proposed demerged Coles group. As at that date, Mr Graham had a relevant interest in 785,155 shares in Wesfarmers Limited and a relevant interest in 15,120 units in BWP Trust.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2018 and the number of meetings attended by each director:

	Board		Audit and Risk Committee		Remuneration Committee		Nomination Committee		Gresham Mandate Review Committee	
	Eligible to attend[1]	Attended[2]	Eligible to attend[1]	Attended[2]	Eligible to attend[1]	Attended[2]	Eligible to attend[1]	Attended[2]	Eligible to attend[1]	Attended[2]
P M Bassat	13	12	-	-	8	7	4	3	-	-
T J Bowen[3]	2	2	-	-	-	-	-	-	-	-
M A Chaney[4]	13	13	-	-	8	8	4	4	-	-
S W English[5]	3	3	1	1	-	-	1	1	-	-
R J B Goyder[6]	5	5	-	-	-	-	-	-	-	-
J P Graham	13	13	-	-	8	8	4	3	-	-
A J Howarth	13	13	7	7	-	-	4	4	-	-
W G Osborn	13	12	-	-	8	8	4	4	1	1
R G Scott[7]	8	8	-	-	-	-	-	-	-	-
D L Smith-Gander	13	13	7	7	-	-	4	4	1	1
V M Wallace	13	13	-	-	8	7	4	4	-	-
J A Westacott	13	13	7	7	-	-	4	4	1	1

1 Number of meetings held while the director was a member of the Board/Committee.

2 Number of meetings attended.

3 T J Bowen resigned as Finance Director on 4 September 2017.

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

5 S W English was appointed a director of the company on 30 April 2018. He was appointed to the Audit and Risk Committee effective 1 May 2018.

6 R J B Goyder retired as Group Managing Director and as a director of the company on 16 November 2017, at the conclusion of the 2017 Annual General Meeting.

7 R G Scott was appointed as Group Managing Director and a director of the company on 16 November 2017, at the conclusion of the 2017 Annual General Meeting.

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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.

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 77 to 96 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.

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 continuing operations up from $64,913 million to $66,883 million
- profit for the year down from $2,873 million to $1,197 million (includes the trading result for the Curragh coal mine and BUKI, the $375 million (£210 million) post-tax loss on disposal of BUKI, $123 million post-tax gain on disposal of the Curragh coal mine, $300 million non-cash impairment of Target and $1,023 million (£584 million) in impairments, write-offs and store closure provisions for BUKI)
- dividends per share of $2.23 (2017: $2.23 per share)
- total assets down from $40,115 million to $36,933 million
- shareholders' equity down from $23,941 million to $22,754 million
- net debt down from $4,809 million to $3,933 million
- net cash flows from operating activities down from $4,226 million to $4,080 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 14 to 57 of this report.

Events after the reporting period

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

Dividend

On 15 August 2018, a fully-franked final dividend of 120 cents per share resulting in a total dividend of $1,361 million was declared for a payment date of 27 September 2018. This dividend has not been provided for in the 30 June 2018 full-year financial statements.

DIRECTORS' REPORT

Wesfarmers Limited and its controlled entities

Events after the reporting period (continued)

Sale of interest in Bengalla

On 7 August 2018, Wesfarmers announced that it had entered into a binding agreement with New Hope Corporation to sell its 40 per cent interest in Bengalla for $860 million subject to certain conditions including regulatory approval. On successful completion of the transaction, Wesfarmers expects to record a pre-tax profit on sale of between $670 and $680 million, subject to completion adjustments.

Sale of Kmart Tyre and Auto Service (KTAS)

On 13 August 2018, Wesfarmers announced that it had entered into an agreement with Continental A.G. to sell its KTAS business for $350 million subject to certain conditions including regulatory approval. On successful completion of the transaction, Wesfarmers expects to record a pre-tax profit on sale of between $270 and $275 million, subject to completion adjustments.

Sale of interest in Quadrant

On 22 August 2018, Wesfarmers announced it had agreed to sell its 13.2 per cent indirect interest in Quadrant Energy Holdings Pty Ltd (Quadrant) to Santos Limited for net proceeds of approximately US$170 million (A$231 million). On successful completion of the transaction, Wesfarmers expects to report a pre-tax profit on sale of approximately US$98 million (A$133 million).

Non-audit services

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2018 and received, or is due to receive, the following amounts for the provision of these services:

	$'000
Tax compliance	683
Other	343
Total	**1,026**

The total non-audit services fees of $1,026 thousand represents 12.0 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2018. Total non-audit services fees and assurance-related services fees was $1,968 thousand representing 23.0 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2018.

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).

Auditor

On 21 December 2017, the Board granted approval under section 324DAA of the *Corporations Act 2001* for Mr Darren Lewsen to continue, as lead auditor, to play a significant role in the audit of the company for one additional successive financial year, being the financial year ending 30 June 2019. The approval was granted in accordance with a recommendation from the Audit and Risk Committee which was satisfied the approval:

- is consistent with maintaining the quality of the audit provided to the company; and
- would not give rise to a conflict of interest situation (as defined in section 324CD of the *Corporations Act 2001*).

Reasons supporting this decision include:

- the benefits associated with the continued retention of knowledge regarding key audit matters and significant judgements, in light of recent changes to Wesfarmers' key management and the planned demerger of Coles;
- the Audit and Risk Committee has been satisfied with the quality of Ernst & Young and Mr Lewsen's work as auditor; and
- the company maintains, and will continue to maintain, robust auditor independence policies and controls to ensure the independence of the auditor is maintained.

A copy of the Board resolution granting approval has been lodged with ASIC in accordance with section 324DAC of the *Corporations Act 2001*. The statutory disclosures required under section 300(11AA) of the *Corporations Act 2001* in relation to this approval will appear in the Directors' Report for financial year 2019, being the year in which Mr Lewsen will play a significant role in the audit of the company in reliance on the approval granted under section 324DAA of the *Corporations Act 2001*.

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 2018, 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 Lewsen
Partner 14 September 2018

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 68 to 71 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 Level 14, Brookfield Place Tower 2, 123 St Georges Terrace, 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 2018 (AUDITED)

Contents

Executive remuneration

1. Introduction

The 2018 financial year saw strong performances from a number of Wesfarmers' businesses with the Department Stores division, Industrials division, Officeworks, and Bunnings Australia and New Zealand all exceeding their EBIT budget while Coles met budget in a very competitive market. It was a challenging year for some other businesses within the Group, with the announcement in February 2018 of significant impairments, writedowns and forecast losses for Bunnings United Kingdom and Ireland (BUKI) prior to the eventual divestment of Homebase and a significant impairment of Target. These impairments resulted in substantial financial remuneration reductions in 2018 for the executives involved (as detailed in section 3 and throughout this remuneration report).

1.1 2018 – a new team

Key management personnel (KMP) changes

In November 2017, Rob Scott took up his appointment as Wesfarmers' Group Managing Director, succeeding Richard Goyder who led the company for more than 12 years.

With a new Group Managing Director at the helm of the company and a renewed Wesfarmers Leadership Team (see section 2.1), the 2018 financial year has been a year of considerable change, marked by decisive actions taken in the long-term interests of Wesfarmers' shareholders and a review of the company's portfolio of businesses.

In addition to changes within the Leadership Team, Wesfarmers was also pleased to announce the appointment of a new non-executive director of the Group, The Right Honourable Bill English KNZM. See section 4 for further detail regarding the non-executive directors.

Renewed leadership, renewed focus

In a rapidly changing business environment, Mr Scott's strategic areas of focus for the Group are: developing and attracting world-class talent to support the business into the future; driving entrepreneurial initiative (where the Leadership Team is encouraged to take measured risks); and, investing in Wesfarmers' digital and data capabilities. These areas of focus are all underpinned by a commitment to generating long-term, sustainable returns for shareholders by creating long-term value for our stakeholders.

The Key Executive Equity Performance Plan (KEEPP) is the primary incentive plan in which the executive KMP participates and supports these strategic objectives, as discussed in further detail in sections 2.2 and 3.3.

Portfolio review

Wesfarmers is committed to delivering satisfactory returns to shareholders by proactively managing its portfolio, investing in value-accretive growth opportunities and improving its underperforming businesses. The 2018 financial year saw a number of significant decisions being taken which were intended to position Wesfarmers to deliver strong returns for shareholders over a long-term horizon.

On 16 March 2018, Wesfarmers announced the proposed demerger of Coles from the Group, subject to shareholder and other approvals. If approved, it is due to occur in late November 2018. The demerger is expected to have an impact upon the remuneration of the executive KMP (see section 3.6 for further information).

On 29 March 2018, Wesfarmers announced the completion of the sale of the Curragh coal mine to Coronado Coal Group. The profit from the sale of the business has been excluded from executive remuneration outcomes (as set out in section 3.3).

Further, Wesfarmers completed the divestment of Homebase in the United Kingdom and Ireland to a company associated with Hilco Capital on 11 June 2018, after acquiring the business in 2016. The underperformance of this business was disappointing and the divestment was deemed to be in the best interests of shareholders and has been reflected in executive remuneration outcomes (as set out in section 3).

REMUNERATION REPORT 2018 (AUDITED)

1.2 2018 remuneration snapshot

Remuneration objective

Drive leadership performance and behaviours to deliver satisfactory returns to shareholders over the long term

Guiding principles

1	2	3
Align executive and stakeholder interests through share ownership, focusing on Group results through awards of long-term, at-risk deferred equity	Be transparent and fit for purpose, recognising our autonomous operating model, linking rewards to achievement of objectives for which executives are directly accountable and responsible while retaining a link to Group performance, e.g., the use of the individual KEEPP scorecards and individualised KEEPP performance hurdles	Attract, engage and retain world-class talent and outstanding people to drive outcomes
4	**5**	**6**
Recognise and reward high performance with a strong focus on the long term	Align effective risk management and strategy execution with reward, having greater focus on long-term held equity than cash	Drive strategic achievement, e.g., in safety, customer metrics, gender balance, succession planning and talent management, in the KEEPP scorecards

REMUNERATION REPORT 2018 (AUDITED)

1.2 2018 remuneration snapshot (continued)

How did the business perform? *Refer to section 3*	• Reported NPAT was $1,197 million, which included a number of significant items such as: the December 2017 non-cash impairment of Target; the December 2017 non-cash impairment, write-offs and store closure provisions for BUKI; the loss on the subsequent disposal of BUKI; and the profit from the sale of Curragh. • Adjusted NPAT, excluding the significant items was $2,772 million. • With the exception of BUKI, all divisions performed well against their budgets.
Linking business performance to remuneration outcomes *Refer to section 3*	• The 2014 Wesfarmers Long Term Incentive Plan (WLTIP) was tested at 30 June 2018, and the results were impacted by the losses, both the operational losses and the loss on disposal of the business, from BUKI as well as the non-cash impairments of both Target and BUKI. Following testing, all performance rights lapsed. This delivered no value to 2014 WLTIP participants, including for some senior executives who have now left the business. In total, $12 million worth of WLTIP allocations were forfeited as at 30 June 2018 by the current and former executive KMP as disclosed in section 2.1, with $17 million forfeited overall by all plan participants (based on a Wesfarmers Limited share price of $49.36 as at 30 June 2018). Section 3.4(b) shows the number of performance rights forfeited. • Mr Goyder and Terry Bowen, former Group Chief Financial Officer, did not receive any annual incentive in the 2018 financial year as the financial hurdles as at 31 December 2017 were not achieved and both agreed to forfeit any payment in relation to their strategic hurdles. • Following the end of the 2018 financial year, the outcomes of the 2018 KEEPP for the executive KMP have been determined using the financial and strategic measures set out in their scorecards and, overall, reflect their individual contributions. • The profit from the sale of the Curragh coal mine and the loss from the disposal of BUKI were excluded from the outcomes of the 2018 KEEPP. The impairments announced in February 2018 were excluded from the outcomes of the 2018 KEEPP. • The full impact of the BUKI operating losses were included in Mr Scott's 2018 KEEPP scorecard outcomes, delivering an outcome of 84.4 per cent of maximum opportunity. • The full impact of the BUKI operating losses were also applied to the 2018 KEEPP scorecard outcomes for Anthony Gianotti, Group Chief Financial Officer and Michael Schneider, Managing Director, Bunnings Group; and significantly reduced the remuneration of the BUKI operational leadership team. • For the executive KMP, excluding Mr Scott, the 2018 KEEPP award outcome was on average 83.3 per cent of maximum opportunity.
Other outcomes *Refer to section 3 and section 4.1*	• Mr Scott's fixed annual remuneration (FAR) was increased to $2,500,000 on appointment to Group Managing Director. The FAR for Mr Scott is 28.7 per cent less than the FAR paid to his predecessor, Mr Goyder, who stepped down as Group Managing Director in November 2017. • Mr Gianotti's FAR was increased to $1,350,000 on appointment to Group Chief Financial Officer. The FAR for Mr Gianotti is 27.0 per cent less than the FAR paid to his predecessor, Mr Bowen, who stepped down as Group Chief Financial Officer in November 2017. • Fixed remuneration remained unchanged for the majority of the Leadership Team, with an average increase of 1.9 per cent in the October 2017 remuneration review. • There were no increases to non-executive director fees in 2018. • The maximum cash payable under the 2018 KEEPP for the Group Managing Director and the Group Chief Financial Officer reduced in comparison with the maximum cash payable under the previous variable incentive plans, further aligning remuneration outcome to long-term business performance.

REMUNERATION REPORT 2018 (AUDITED)

2. Executive KMP and remuneration frameworks

2.1 Executive KMP

Guiding principle	The remuneration framework is designed to enable the Group to attract, engage and retain world-class talent and outstanding people to drive outcomes

The executive KMP includes the Group Managing Director and the Group Chief Financial Officer and those executives who have authority and responsibility for planning, directing and controlling the activities of a major profit generating division of Wesfarmers. The executive KMP for 2018 are as follows:

Executive KMP
Group Managing Director (Rob Scott)[1]
Managing Director, Coles (John Durkan)
Chief Executive Officer, Department Stores (Guy Russo)
Managing Director, Bunnings Group (Michael Schneider)
Newly appointed executive KMP
Group Chief Financial Officer (Anthony Gianotti)[2]
Managing Director, Wesfarmers Industrials (David Baxby)[3]
Former executive KMP
Group Managing Director (Richard Goyder)[4]
Group Chief Financial Officer (Terry Bowen)[5]

1 R G Scott commenced in the role of Group Managing Director on 16 November 2017.
2 A N Gianotti was appointed as Group Chief Financial Officer and became a member of the executive KMP on 13 November 2017.
3 D A Baxby was appointed as Managing Director, Wesfarmers Industrials and became a member of the executive KMP on 14 August 2017.
4 R J B Goyder ceased in the role of Group Managing Director and as a member of the executive KMP on 16 November 2017.
5 T J Bowen ceased in the role of Group Chief Financial Officer and as a member of the executive KMP on 10 November 2017.

It is anticipated that there will be changes to the executive KMP for 2019. In March 2018, Wesfarmers announced that John Durkan will step down as Managing Director, Coles and will be replaced in the role by Steven Cain in mid-September 2018. Further, in August 2018, Wesfarmers announced that Guy Russo will step down as Chief Executive Officer, Department Stores in November 2018, to be replaced by Ian Bailey. Both Mr Durkan and Mr Russo will remain with the Group in the role of Senior Advisor. Mr Cain and Mr Bailey are expected to be KMP for part of the 2019 financial year.

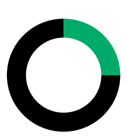
2.2 Remuneration framework and policy

Guiding principle	Wesfarmers is committed to an executive remuneration framework that embodies all of the guiding principles as set out in section 1.2

Wesfarmers' primary objective is to provide satisfactory returns to shareholders and the guiding remuneration principles are focused on driving the leadership performance and behaviours consistent with achieving this objective.

Our ongoing remuneration framework for the executive KMP comprises FAR and participation in the KEEPP. The graph below shows these components as a percentage of total maximum remuneration for each executive KMP:

Total maximum remuneration



Fixed remuneration	25%
KEEPP	75%

The remuneration mix for the executive KMP is structured to reward executives for performance at a Group or divisional level, as appropriate, and to align executive and stakeholder interests through share ownership.

Fixed remuneration

Total remuneration is set at a competitive level to attract, retain and engage key talent, with fixed remuneration set at a level that is appropriate for the requirements of the role. The level of differentiation between the roles is based upon: role and responsibility; business and individual performance; internal and external relativities; and contribution, competencies and capabilities.

REMUNERATION REPORT 2018 (AUDITED)

KEEPP

The KEEPP was introduced in the 2017 financial year, and was the only variable remuneration plan the current executive KMP were invited to participate in during the 2018 financial year.

Annual awards under the plan are determined with respect to performance against a scorecard that comprises both financial and strategic measures relevant to the role of each participant. The target opportunity for each participant is 200 per cent of FAR and the maximum opportunity is 300 per cent of FAR. Where the executive was not a member of the executive KMP in the prior financial year and did not have a KEEPP scorecard for that year, the Group Managing Director recommends to the Remuneration Committee and the Board the amount under the KEEPP to grant.

The award is delivered primarily in shares. The cash component is only paid to the extent that the KEEPP award is above 100 per cent of FAR and will reduce over time. Starting in the 2020 financial year, the Group Managing Director and Group Chief Financial Officer will not receive a KEEPP cash component. The 2018 KEEPP allocation to participants consists of cash, with the remainder split between Restricted Shares (50 per cent) and Performance Shares (50 per cent).

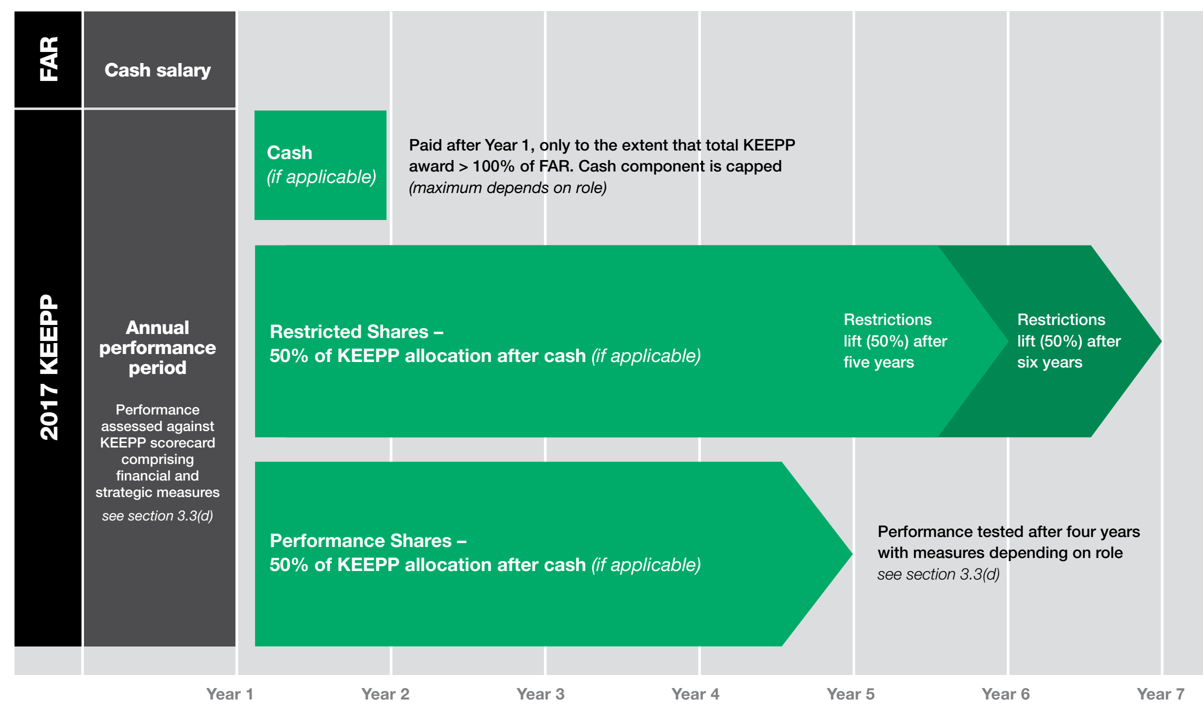
Guiding principle	The KEEPP is designed to reflect each of the guiding principles as set out in section 1.2

Restricted Shares provide alignment with shareholders over the long term. Half of the Restricted Shares will be restricted for five years and half will be restricted for six years, providing a significant portion of remuneration linked to Group performance over the long term.

Performance Shares have conditions designed to create a strong link with the creation of shareholder value. For the 2017 KEEPP, the performance conditions for the Group Managing Director and Group Chief Financial Officer are relative total shareholder return (TSR), absolute return on equity (ROE) plus strategic goals. For the divisional managing directors the performance conditions are divisional performance against corporate plan earnings before interest and tax (EBIT) and return on capital (ROC), and relative TSR over four years. The strategic intent of these performance conditions is set out below:

- Group ROE was chosen to reward performance at the Group level for the Group Managing Director and Group Chief Financial Officer, specifically because this should drive dividends and share price growth over time. Following the non-cash impairments in BUKI and Target, and the proposed demerger of Coles, modifications will be made to the KEEPP awards applicable to the Group Managing Director and the Group Chief Financial Officer to ensure they are not afforded any undue benefit from the increase in ROE that would naturally result from those actions.
- TSR was chosen because it provides a relative external market performance measure having regard to Wesfarmers' ASX 100 peers, and ensures all participants are still remunerated against Group results.
- Four-year divisional EBIT, subject to average ROC, was chosen to ensure that the remuneration of divisional managing directors is directly linked to the achievement of long-term financial returns for the business in which they are directly involved.

In total, each KEEPP cycle operates over seven years. The diagram below shows the remuneration lifecycle for each element of the remuneration framework. A detailed summary of how the KEEPP operates is provided in section 3.3(d).



As at 30 June 2018, the service and performance conditions to determine vesting of the 2018 KEEPP allocation had not yet been finalised. Further information regarding the KEEPP is provided in section 3.3.

REMUNERATION REPORT 2018 (AUDITED)

3. Outcomes

3.1 Overview of company performance

The Group reported NPAT of $1,197 million for the 2018 financial year. The result includes: $1,575 million of significant items being $123 million gain relating to the sale of the Curragh coal mine; $375 million loss on disposal of BUKI; $300 million non-cash impairment of Target; and $1,023 non-cash impairment of BUKI. NPAT decreased by $1,676 million from the 2017 financial year.

The 2018 financial year has seen good performance against budget for most of the businesses, which is pleasing given the competitive environment in which most businesses operate. The table below summarises details of Wesfarmers' performance for key financial measures over the past five financial years.

Financial year ended 30 June	2014	2015	2016	2017	2018
Net profit after tax (NPAT) ($m)	2,689	2,440	407	2,873	**1,197**
Adjusted NPAT (excluding significant items) ($m)[1]	2,253	2,440	2,353	2,873	**2,772**
Total dividends per share (declared) (cents)	200[2]	200	186	223	**223**
Capital management distribution (paid) (cents)	50	100	-	-	**-**
Closing share price ($ as at 30 June)	41.84	39.03	40.10	40.12	**49.36**
Earnings per share (EPS) (cents)	234.6[3]	216.1	36.2[4]	254.7	**105.8[5]**
Adjusted EPS (cents)[1]	196.6	216.1	209.5	254.7	**245.1**
Return on equity (ROE) (rolling 12) (%)	10.5[3]	9.8	1.7[4]	12.4	**5.2[5]**

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 to reset Target. 2018 excludes the following pre-tax (post-tax) amounts: $931 million ($1,023 million) of impairments, write-offs and store closure provisions in BUKI; a $375 million ($375 million) loss on disposal of BUKI; a $306 million ($300 million) non-cash impairment of Target; and, a $120 million ($123 million) gain on disposal of Curragh.

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

3 2014 EPS and ROE includes the items outlined in footnote 1 above.

4 2016 EPS and ROE includes the items outlined in footnote 1 above.

5 2018 EPS and ROE includes the items outlined in footnote 1 above.

3.2 Fixed annual remuneration

Guiding principle

Fixed annual remuneration is set at levels to attract, engage and retain world-class talent and outstanding people to drive outcomes

Wesfarmers' practice is not to increase fixed remuneration by reference to inflation or indexation as a matter of course. Changes are based on merit, a material change in role or responsibility, the market rate for comparable roles rising materially, or as a result of internal relativities, while protecting the significant investment of Wesfarmers in developing its key talent.

As explained in section 1.2, the fixed remuneration of Mr Scott and Mr Gianotti was increased in November 2017, upon transitioning to their new roles.

During the annual remuneration review in October 2017, the fixed remuneration increased by an average of 1.9 per cent for the Leadership Team.

REMUNERATION REPORT 2018 (AUDITED)

3.3 KEEPP outcomes - overview

(a) Performance conditions and outcomes for the 2018 financial year scorecard

Careful consideration was given to how both the Group and divisional results should be reflected in the 2018 KEEPP scorecard outcomes. Mr Scott, Mr Gianotti and David Baxby, Managing Director, Wesfarmers Industrials, have not received a benefit from the profit received from the sale of the Curragh coal mine. The outcomes for Mr Scott, Mr Gianotti and Mr Schneider were negatively impacted by the inclusion of the full operating losses from BUKI.

The impairment of both BUKI and Target was undertaken consistent with the requirements of the accounting standards. The actions taken by management to exit from BUKI and to continue to extract value across the broader Department Stores network were considered to be in the best interests of shareholders. The Board has considered the respective impact of each of these on remuneration outcomes for the executive KMP.

Given the long-term nature of the KEEPP, the focus required to improve performance within the Group for the long-term benefit of shareholders and the degree of responsibility for past decisions and performance, the $1,023 million non-cash impairment of BUKI has not impacted the 2018 KEEPP scorecard outcomes for Mr Scott and Mr Gianotti who took up their current roles during the 2018 financial year. Further, the $300 million non-cash impairment of Target has not impacted the 2018 KEEPP scorecard results for Mr Scott, Mr Gianotti and Mr Russo.

The Board considers that these decisions on remuneration outcomes for the executive KMP for the 2018 financial year align with the long-term interests of shareholders by delivering the majority of the awards in shares. The shares continue to be subject to share price risk over both the four-year performance period (Performance Shares) and the five- and six-year restriction period (Restricted Shares).

The results of the performance against the annual scorecard for the 2018 KEEPP allocation are outlined below and on the following page. The measures on each scorecard have been approved by the Group Managing Director or Chairman, as applicable, and included because they align with the strategic direction of the Group (or division) and are intended to drive leadership performance and behaviours consistent with achieving the Group's long-term objectives and maximising shareholder return.

Guiding principle

The 2018 KEEPP scorecards are transparent and fit for purpose, recognising our autonomous operating model, linking rewards to achievement of objectives for which executives are directly accountable and responsible

	Measure	Outcome	Performance commentary
Group Managing Director (R G Scott)			
Group financial measures (60%)	Group NPAT and ROE	●	Mr Scott achieved above target results against both Group NPAT and ROE, excluding the profit from the sale of the Curragh coal mine, the loss on disposal of BUKI and the non-cash impairments announced in February 2018 and including the operating losses from BUKI.
Strategic measures (40%)	Portfolio management, strengthening Group performance in growth and TSR, strengthen talent pipeline, improve gender balance	●	Mr Scott exceeded his overall strategic objectives for the year, demonstrated through effective portfolio management to improve long-term TSR, including the sale of the Curragh coal mine, the exit from BUKI and progress in relation to the proposed demerger of Coles, in addition to focusing on growth opportunities through improved digital and data capabilities, recruiting key talent into critical leadership and advisor roles, being a champion for talent initiatives and improving gender balance at senior levels.
Group Chief Financial Officer (A N Gianotti)			
Group financial measures (60%)	Group NPAT and ROE	●	Mr Gianotti achieved above target results against both Group NPAT and ROE, excluding the profit from the sale of the Curragh coal mine, the loss on disposal of BUKI and the non-cash impairments announced in February 2018 and including the operating losses from BUKI.
Strategic measures (40%)	Balance sheet and capital management, risk leadership, strengthen divisional finance talent pipeline, improve gender balance	●	Mr Gianotti was considered to have exceeded his strategic targets for the year in areas including balance sheet and capital management, risk management, external relationship management and talent.

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

REMUNERATION REPORT 2018 (AUDITED)

(a) Performance conditions and outcomes for the 2018 financial year scorecard (continued)

	Measure	Outcome	Performance commentary
Managing Director, Coles (J P Durkan)			
Divisional financial measures (60%)	Coles EBIT and ROC Comparative Sales	Target met or exceeded	Mr Durkan delivered on target results for Coles in a highly competitive environment.
Strategic measures (40%)	Improvement in safety, identification and support for growth initiatives, support for strategic initiatives, improve gender balance	Target met or exceeded	Mr Durkan exceeded his strategic objectives for the year, demonstrated across a number of commercially sensitive areas as well as improvements in safety, employee engagement and gender balance.
Chief Executive Officer, Department Stores (G A Russo)			
Divisional financial measures (60%)	Department Stores EBIT and ROC	Maximum achieved	Mr Russo has delivered continued improvement in both EBIT and ROC for Department Stores, excluding the non-cash impairment of Target, and achieved a maximum 2018 KEEPP outcome for his financial objectives.
Strategic measures (40%)	Improvement in safety, identification and support for growth initiatives, strengthen talent pipeline, improve gender balance, improve digital and data capabilities, continued Target turnaround	Target met or exceeded	Mr Russo performed well against his strategic targets, delivering the next phase of the Target turnaround strategy and achieving good progress in safety improvement and gender balance for Department Stores. Overall, Mr Russo was considered to have exceeded his strategic objectives.
Managing Director, Bunnings Group (M D Schneider)			
Divisional financial measures (60%)	Bunnings Australia and New Zealand EBIT and ROC	Target met or exceeded	Mr Schneider has delivered very strong results for Bunnings Australia and New Zealand, which accounted for 80 per cent of his financial target overall.
	Bunnings United Kingdom and Ireland EBIT and ROC	Threshold not met	None of the financial targets have been met in relation to BUKI and Mr Schneider has not received any benefit in relation to these.
Strategic measures (40%)	Improvement in safety, identification and support for growth initiatives, strengthen talent pipeline, improve gender balance, improve digital and data capabilities, continued support for BUKI turnaround	Target met or exceeded	Mr Schneider achieved strong results in improving digital and data capabilities within Bunnings and made good progress in safety, talent and gender balance in addition to supporting the exit of BUKI. Overall, Mr Schneider exceeded target on his strategic objectives.
Managing Director, Wesfarmers Industrials (D A Baxby)			
Divisional financial measures (60%)	Wesfarmers Industrials EBIT and ROC	Maximum achieved	Mr Baxby delivered strong results for Wesfarmers Industrials, and achieved a maximum 2018 KEEPP outcome for his financial objectives. The profit from the sale of the Curragh coal mine was excluded.
Strategic measures (40%)	Improvement in safety, identification and support for growth initiatives, strengthen talent pipeline, improve gender balance, improve digital and data capabilities	Target met or exceeded	Mr Baxby exceeded in the achievement of his strategic objectives such as talent, gender balance and strengthening digital and data capabilities, although the tough target set for safety improvement has not been achieved. Overall, Mr Baxby was considered to have exceeded target for his strategic objectives.

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

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(b) KEEPP outcomes – 2018 financial year scorecard

Guiding principle The KEEPP outcomes align with each of the guiding principles as set out in section 1.2

The table below sets out specific information relating to the actual KEEPP outcomes for the 2018 financial year, based upon the 2018 financial year scorecards.

Name	Total outcome 2018 KEEPP scorecard ($)	Cash (paid in August 2018) ($)	Balance available for Restricted Shares and Performance Shares[1] ($)	Percentage of maximum 2018 KEEPP opportunity: Awarded %	Percentage of maximum 2018 KEEPP opportunity: Forfeited %
R G Scott	6,327,646	500,000	5,827,646	84.4	15.6
A N Gianotti	3,416,929	270,000	3,146,929	84.4	15.6
D A Baxby	3,240,000	540,000	2,700,000	90.0	10.0
J P Durkan[2]	5,104,550	990,000	4,114,550	77.3	22.7
G A Russo	4,995,000	832,500	4,162,500	90.0	10.0
M D Schneider	3,354,355	675,000	2,679,355	74.5	25.5

1 50 per cent allocated as Restricted Shares and 50 per cent allocated as Performance Shares.

2 The Board has agreed that Mr Durkan's 2018 KEEPP shares will be delivered wholly in Restricted Shares given his change in role from Managing Director, Coles prior to the allocation of any shares under the 2018 KEEPP.

The KEEPP cash component for the 2018 financial year scorecard was paid on 17 August 2018. The Restricted Shares and Performance Shares are expected to be allocated in December 2018. Details of these share grants will be provided in the 2019 remuneration report.

(c) KEEPP awarded during the year (2017 KEEPP allocation)

As presented in the 2017 remuneration report, during the 2018 financial year, following the testing of the 2017 KEEPP scorecards, the executive KMP received shares under the 2017 KEEPP in September 2017. As Mr Schneider and Mr Baxby participated in the KEEPP for the first time in the 2018 financial year and there was no scorecard in place for them in relation to the 2017 KEEPP allocation, the amount of KEEPP awarded to Mr Schneider and Mr Baxby during the year was approved by the Board on recommendation from the Group Managing Director. They received 200 per cent of FAR and 125 per cent of FAR respectively and there was no cash component for either.

Restricted Shares and Performance Shares were allocated to participants under the 2017 KEEPP allocation. One half of the award that is provided in Restricted Shares are restricted for five years (50 per cent) and six years (50 per cent). The other half of the award that is provided in Performance Shares are subject to a four-year performance period. Further details are in section 3.3(d).

Name	Restricted Shares allocated (subject to a five- and six-year restriction from trading)	Performance Shares allocated (vesting subject to performance conditions over a four-year performance period)	Total Share Award value[1] ($)	Fair value at grant[2] ($)
R G Scott	60,848	60,848	5,099,917	4,580,942
D A Baxby	17,896	17,896	1,499,936	1,420,907
J P Durkan	22,311	22,311	1,869,975	1,771,449
G A Russo	40,145	40,145	3,364,715	3,187,433
M D Schneider	35,793	35,793	2,999,956	2,841,893

1 The number of Restricted Shares and Performance Shares allocated is determined based upon the 10-day VWAP of Wesfarmers shares over the period immediately following the full-year results announced in August 2017 (i.e., 18 August to 31 August 2017) being $41.907025. This amount shown represents the total number of Restricted Shares and Performance Shares multiplied by the 10-day VWAP.

2 For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2 *Share-Based Payment*. The Performance Shares subject to market conditions (TSR hurdle) have been independently valued using the Monte Carlo simulation using the Black-Scholes framework. The Restricted Shares and the Performance Shares subject to non-market conditions (Group NPAT and ROE or divisional EBIT and ROC) have been valued using the Black-Scholes option pricing model. The value per Performance Share for the TSR performance hurdle is $27.36 and the value per Restricted Share and per Performance Share subject to Group NPAT and ROE or divisional EBIT and ROC hurdle is $41.07.

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(d) Detailed summary – KEEPP

The key details of the KEEPP are summarised below.

Description	Reward plan designed to reflect Wesfarmers' autonomous management model and to reward executive KMP for financial results of the Group or their division, as applicable, while providing strong long-term alignment with shareholders' wealth. The plan operates over a total of seven years and is delivered (heavily) in Wesfarmers shares (to align with shareholder experience) with long restriction periods (up to six years from the grant date).
Annual scorecard measures	An annual scorecard (agreed between participants and the Group Managing Director or Chairman, as applicable, and reviewed by the Remuneration Committee) is used in determining the amount to be recommended by the Group Managing Director or Chairman, as the overall value of the KEEPP allocation. The annual scorecard comprises financial (Group or divisional, as applicable) and strategic performance conditions that are quantifiable and measurable and specific to the Group or each division, as applicable (see section 3.3(a)). In respect of the financial measures for 2018, which include Group NPAT and ROE or divisional EBIT and ROC targets, threshold vesting begins at either 92.5 per cent or 95 per cent of target and maximum is awarded at or above 105 per cent or 110 per cent of target.
Annual scorecard assessment	**2018 KEEPP:** The value of the full KEEPP award for the financial year is determined using performance against the annual scorecard in the preceding financial year, and as recommended by the Group Managing Director or Chairman, as appropriate. If there is no scorecard in place (for example, if the executive becomes a member of the KMP during the preceding financial year) the value of the award is recommended by the Group Managing Director, based on a number of factors. Performance under the scorecards is assessed after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against strategic measures by the Group Managing Director or Chairman, as appropriate, at the end of the financial year. In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions, where the Board considers this appropriate.
Allocation of awards	Following the determination of the opportunity amount, the KEEPP awards are granted in cash, Restricted Shares and Performance Shares. Cash is only paid where the overall KEEPP award is greater than 100 per cent of FAR. For the Group Managing Director and Group Chief Financial Officer, for 2018 the maximum amount of cash was 10 per cent of the at target opportunity. This will decrease in 2019, and there will be no cash component at all from the start of the 2020 financial year. For the divisional managing directors, cash was paid up to a maximum of 22.5 per cent of the participant's total at target opportunity for 2018 and will be reduced over the next few KEEPP cycles. The KEEPP cash payments are made in late August. The remainder of the KEEPP award is granted as Restricted Shares and Performance Shares as follows: – 50 per cent will be granted as Restricted Shares for up to six years where half of the shares will be restricted for five years and the balance will be subject to a restriction for six years; and – the remaining 50 per cent will be performance-based shares (Performance Shares) which will vest subject to performance conditions over four years. For the 2017 allocation, for the Group Managing Director and Group Chief Financial Officer, the performance conditions are relative TSR, absolute ROE plus strategic goals and for the divisional managing directors the performance conditions are divisional performance against corporate plan EBIT and ROC, and relative TSR over four years. The Restricted Shares and Performance Shares are allocated following the Board deciding on and communicating the conditions and restrictions. Given the expected impact of the proposed Coles demerger on the KEEPP, the number of shares allocated under the 2018 KEEPP allocation will be determined over a period of time as determined by the Board, expected to be post-demerger.
Performance Shares conditions and vesting	**2017 KEEPP Allocation:** The Performance Shares have financial performance conditions over a four-year performance period. **Group Managing Director and Group Chief Financial Officer:** – Wesfarmers' TSR relative to the TSR of the ASX 100 Index (50 per cent weighting); – Absolute ROE (20 per cent weighting); and – Strategic measures (30 per cent weighting). **Divisional Managing Directors:** – Cumulative EBIT and ROC (80 per cent weighting); and – Wesfarmers' TSR relative to the TSR of the ASX 100 Index (20 per cent weighting). Vesting schedule against ROE: – 50 per cent of the Performance Shares vest if 92.5 per cent of the ROE target is achieved; and – 100 per cent of the Performance Shares vest if 100 per cent of the ROE target is achieved. Straight-line vesting occurs in between and following testing, any shares that do not vest are forfeited. Vesting schedule against EBIT and ROC: – 50 per cent of the Performance Shares vest if 90 per cent of the cumulative EBIT target is achieved, subject to achieving 90 per cent of the average ROC target; and – 100 per cent of the Performance Shares vest if 100 per cent of the cumulative EBIT target is achieved, subject to achieving 90 per cent of the average ROC target. Straight-line vesting occurs in between and following testing, any shares that do not vest are forfeited.

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(d) Detailed summary – KEEPP (continued)

Performance Shares conditions and vesting (continued)

Vesting schedule against relative TSR:

Percentile ranking	Percentage of awards vesting
Below the 50th percentile	0% vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	An additional 2% of awards vest for each percentile increase
Equal to the 75th percentile or above	100% vesting

The Board will assess the performance of the Group Managing Director and Group Chief Financial Officer in respect of their strategic targets.

Following testing, any Performance Shares that do not vest will be forfeited. In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions where it is considered appropriate to do so.

2018 KEEPP Allocation:
As 30 June 2018, the performance and service conditions to determine vesting of the 2018 KEEPP allocation had not yet been finalised.

Restrictions upon shares allocated	**Restricted Shares** **2017 KEEPP Allocation:** Restricted Shares are subject to a five- or six-year trading restriction. They will be released from restriction on the day following the full-year results announcement for the 2022 and 2023 financial years in August 2022 and August 2023 respectively (i.e., the beginning of the trading window) and will not be subject to any trading restrictions on dealing (subject to complying with Wesfarmers' Securities Trading Policy). The Board can elect to provide a cash payment as an alternative to the shares (equivalent in value to the vested shares). **2018 KEEPP Allocation:** As at 30 June 2018, the conditions to determine vesting of the 2018 KEEPP allocation had not yet been finalised. **Performance Shares** Performance Shares that vest subject to the performance conditions are not subject to any additional trading restrictions although the Board can elect to provide a cash payment as an alternative to the shares (equivalent in value to the vested shares).
Cessation of employment	**Restricted Shares** Restricted Shares are subject to forfeiture if the executive resigns within 12 months of allocation, breaches the restraint clause in their employment agreement or is dismissed in certain circumstances including cause or significant underperformance. The restriction is intended to continue even if the executive ceases to be an employee of Wesfarmers. The Board has discretion to lift this restriction early and also to provide a cash payment as an alternative to the shares (equivalent in value to the vested shares). **Performance Shares** If an executive ceases employment with Wesfarmers before the end of the performance period, their entitlement to the shares (if any) will depend on the circumstances of cessation. All shares will forfeit in the event of resignation or dismissal for cause or significant underperformance. 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 have his or her Performance Shares left restricted in the plan to be vested (and vest) at the end of the applicable performance period.
Change of control	Board discretion to determine treatment of awards.
Clawback	The terms of the KEEPP 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.
Dividends	**Restricted Shares** These will be escrowed until the end of the 12-month forfeiture period and thereafter be paid to the KEEPP participants. **Performance Shares** These will be escrowed for the full four-year performance period and only paid to the KEEPP participants to the extent that the underlying shares vest.

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(e) KEEPP vesting during the year

The table below sets out details of shares vested in relation to the 2016 KEEPP allocation.

Name	Restricted Shares vested during the year[1]	Performance Shares vested during the year[2]
R G Scott	32,088	-
J P Durkan	48,830	-
G A Russo	47,319	-

1 2016 Restricted Shares vested in November 2017 although 50 per cent continue to be subject to a five-year trading restriction and 50 per cent continue to be subject to a six-year trading restriction.

2 No Performance Shares reached the end of the four-year performance period in the year. The first performance period is due to end 30 June 2020.

3.4 WLTIP overview

(a) LTI vesting during the year

The table below shows the performance of the Group against the targets for the 2014 WLTIP award (being compound annual growth rate (CAGR) in ROE and TSR), whose four-year performance period ended on 30 June 2018. The threshold vesting levels were not achieved and therefore none of the 2014 WLTIP grant vested into shares and all the performance rights lapsed.

Vesting condition	Outcome (2014–2018)	Percentile ranking vs ASX 50	% of maximum award	Total % of shares vested	Number of shares vested
CAGR in ROE (75% of the award)	(16.9)%	20%	0%	0%	-
TSR (25% of the award)	30.7%	47%	0%		

(b) Summary of awards held under WLTIP

The table below sets out details of performance rights lapsed in relation to the 2014 WLTIP allocation as well as details of rights granted under prior year WLTIP awards.

Name	Held at 1 July 2017[1]	Granted during year[2]	Vested	Lapsed during the year[3]	Net change	Held at 30 June 2018[4]
Executive KMP						
R G Scott	59,211	-	-	(24,912)	(24,912)	34,299
A N Gianotti[5]	38,467	-	-	(18,068)	(18,068)	20,399
J P Durkan	124,779	-	-	(45,171)	(45,171)	79,608
G A Russo	90,733	-	-	(35,008)	(35,008)	55,725
Former KMP						
R J B Goyder[6,8]	247,928	-	-	(79,186)	(79,186)	168,742
T J Bowen[7,8]	162,079	-	-	(49,406)	(49,406)	112,673

1 Reflects prior year WLTIP allocations which are subject to performance conditions at that time which remain unvested (i.e., under the 2014, 2015 and 2016 WLTIP allocation of performance rights).

2 No allocations were made under WLTIP this year and following the introduction of the KEEPP it is not expected that there will be any allocations in the future.

3 The rights under the 2014 WLTIP were lapsed as performance hurdles were not met.

4 Reflects the WLTIP allocations subject to performance conditions at that time which remain unvested (i.e., the 2015 WLTIP rights).

5 Reflects the period A N Gianotti became a member of the executive KMP on 13 November 2017.

6 R J B Goyder ceased to be a member of the executive KMP on 16 November 2017. Figures reflect his vested performance rights that continued to be held restricted in the WLTIP and subject to performance conditions beyond this time.

7 T J Bowen ceased to be a member of the executive KMP on 10 November 2017. Figures reflect his vested performance rights that continued to be held restricted in the WLTIP and subject to performance conditions beyond this time.

8 On 28 June 2017, the Board approved that R J B Goyder and T J Bowen will be entitled to have their unvested WLTIP rights continue to be restricted in the plan after they leave the Group, waiving the four-year service period normally required for a WLTIP grant as at the date they ceased employment, resulting in an accelerated expensing profile over the revised vesting period. The Wesfarmers Limited share price on that date was $40.77. All other terms of the grant, including the applicable performance conditions to be satisfied for vesting, remain the same and will be tested at the end of the applicable performance period. The fair value of these WLTIP grants was not changed at the date of modification.

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(c) Detailed summary - WLTIP

The key details of the WLTIP are summarised below.

Description

Award of performance rights subject to a four-year performance period.

Performance period

Four years.

Amount that can be earned

Prior to the 2014, 2015 and 2016 allocations, an assessment was made of the performance of each executive.

Based upon the recommendation by the then Group Managing Director, Mr Goyder, and assessment by the Board, a member of the executive KMP could receive an LTI award equal in value to a minimum of 80 per cent of FAR and up to a maximum of 160 per cent of FAR for outstanding performance in the preceding year.

In the case of Mr Goyder, the Board could 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.

The number of performance rights allocated was 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

2014 WLTIP Allocation (granted during the 2015 financial year):

There are two performance hurdles: Wesfarmers' CAGR in ROE (with a 75 per cent weighting) and Wesfarmers' TSR (with a 25 per cent weighting), relative to the CAGR in ROE and TSR of the ASX 50 Index.

The following vesting schedule applies to both performance hurdles:

Percentile ranking	Percentage of awards vesting
Below the 50th percentile	0% vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	An additional 2% of awards vest for each percentile increase
Equal to the 75th percentile or above	100% vesting

Following testing, any rights that do not vest, lapse.

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.

The following vesting schedule applies to both performance hurdles:

Percentile ranking	Percentage of awards vesting
Below the 50th percentile	0% vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	An additional 2% of awards vest for each percentile increase
Equal to the 75th percentile or above	100% vesting

Following testing, any rights that do not vest, lapse.

2016 WLTIP Allocation (granted during the 2017 financial year):

There is one performance hurdle: Wesfarmers' TSR relative to the TSR of the ASX 50 Index.

The following vesting schedule applies:

Percentile ranking	Percentage of awards vesting
Below the 50th percentile	0% vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	An additional 2% of awards vest for each percentile increase
Equal to the 75th percentile or above	100% vesting

Following testing, any rights that do not vest, lapse.

Restrictions upon shares allocated

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 seven years (for the 2014 and 2015 allocations) or 15 years (for the 2016 allocation) of the grant date to apply.

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.

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 have his or her rights left restricted in the plan to vest based on achievement of the ROE and / or TSR hurdles over the applicable performance period.

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(c) Detailed summary - WLTIP (continued)

Change of control	Board discretion to determine treatment of awards.
Clawback	The terms of the WLTIP contain a mechanism for the Board to clawback or adjust any 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.

3.5 Annual incentive overview

Mr Goyder and Mr Bowen participated in the annual incentive plan during the 2018 financial year, up until the time they each left the Group.

The financial measure (70 per cent weighting), being a Group NPAT hurdle with an ROE gate, up to 31 December 2017, was the same for both Mr Goyder and Mr Bowen. The strategic measures (30 per cent weighting) specifically related to the successful transition of Mr Scott and Mr Gianotti and the delivery of a strong balance sheet at the time of their respective departures. Mr Goyder also had a focus on the continued improvements in safety across the Group.

Following the announcement in February 2018 of the $300 million non-cash impairment of Target and the $1,023 million non-cash impairment of BUKI, as at 31 December 2017 the financial measures were below the minimum threshold required for any payment. Further, Mr Goyder and Mr Bowen agreed to forfeit any payment in relation to their strategic measures. Accordingly, no payments were made to Mr Goyder or Mr Bowen under the annual incentive plan for the 2018 financial year.

3.6 Anticipated impact of the proposed demerger of Coles on executive remuneration

KEEPP

The Restricted Shares and the Performance Shares carry a right to participate in the demerger of Coles. The Wesfarmers Board considers it of utmost importance that the integrity of the KEEPP is preserved by having awards under the KEEPP wholly aligned with Wesfarmers Shares. As well as ensuring the continued long-term alignment between participants and Wesfarmers shareholders, this is also intended to incentivise Wesfarmers' senior executives to demonstrate performance and behaviours which deliver satisfactory returns to Wesfarmers shareholders over the long term.

As a result, the Board has decided that, if the demerger receives the required approvals, the 2016 and 2017 KEEPP allocations held by the senior executives will likely be cancelled prior to the demerger. After the demerger has been completed, the intention is for new awards to be made wholly in Wesfarmers shares. The terms and conditions of the new awards will be determined in a manner that is consistent with the original design principles of the KEEPP, including, for example, the allocation of both Restricted Shares that are held for the long term and Performance Shares that vest based upon the achievement of divisional and/or Group performance conditions, depending on the participant's role. The Board will also ensure that the KEEPP participants will be no better off following the demerger, including by setting performance conditions that remain appropriately challenging in light of the demerger.

Further information will be provided in the 2019 Remuneration Report.

WLTIP

The WLTIP performance rights allocated under the 2015 and 2016 WLTIP allocations do not carry a right to participate in the demerger of Coles. In order to preserve the overall value of the performance rights following the demerger, and to ensure that participants are not disadvantaged by the demerger, assuming the proposed demerger of Coles from the Group receives the required approvals, the Board has decided it will grant participants in the 2015 WLTIP who continue to be employed within the Wesfarmers Group additional performance rights. The additional grants will be made shortly after the demerger on substantially the same terms as the participant's original award of performance rights under the WLTIP. Where a participant in the 2015 or 2016 WLTIP previously ceased employment with the Group but continues to hold performance rights under the WLTIP, the Wesfarmers Board has decided it will make an additional cash payment, equal in value and subject to substantially the same terms as the participant's original award of performance rights. The original award of performance rights held under the 2015 and 2016 WLTIP will otherwise remain on foot and continue to be held subject to the original terms. The calculation method for the additional performance rights (rounding down to the nearest whole performance right) is expected to be as follows:

$$\left(\text{Number of performance rights held immediately prior to demerger} \times \frac{\text{Wesfarmers 5-day post demerger VWAP} + \text{Coles 5-day post demerger VWAP}}{\text{Wesfarmers 5-day post demerger VWAP}}\right) - \text{Number of performance rights held immediately prior to demerger}$$

Further, the Board intends to exercise discretion in relation to the calculation of the 2015 WLTIP ROE hurdle to ensure participants are not afforded any undue benefits from the increase in ROE that would occur as a result of the demerger. As the standard methodology for calculating TSR will incorporate the demerger of Coles into the calculation of Wesfarmers' TSR, the Board is not required to exercise any discretion in relation to the calculation of the TSR hurdles under the 2015 and 2016 WLTIP as a result of the demerger.

Further information will be provided in the 2019 Remuneration Report.

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3.7 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:

- The KEEPP cash component is recognised for the year to which it relates. The KEEPP Restricted Shares are recognised as an expense over a 12-month period typically spanning two financial years and the KEEPP Performance Shares are recognised over the performance period (four years) based on their assessed value when originally granted to the executive. The value recognised for the KEEPP Restricted Shares and Performance Shares may be significantly different to their value if and when the incentive vests to the executive.
- WLTIP 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] The amounts included for the 'value of annual incentive shares' column includes the portion of the 2016 and 2017 annual incentive shares that continued to be expensed in the 2018 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' column for the 2017 KEEPP are detailed in section 3.3. For accounting purposes, the 2016 KEEPP and the 2014, 2015 and 2016 WLTIP continue to be expensed in the 2018 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions, together referred to as the service period.

The expensing for the Restricted Shares and Performance Shares that are yet to be granted under the 2018 KEEPP, will be included in the remuneration table in the 2019 Remuneration Report.

[2] The percentage performance related for the 2018 financial year is the sum of the annual incentive and KEEPP cash 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 and KEEPP shares only, being the amount expensed in the 2018 financial year for the 2014, 2015 and 2016 WLTIP and the 2016 and 2017 KEEPP shares, as applicable, is as follows – R G Scott 47.3 per cent, A N Gianotti 28.7 per cent, J P Durkan 33.1 per cent, G A Russo 49.3 per cent, M D Schneider 35.2 per cent, D A Baxby 31.1 per cent, R J B Goyder 13.3 per cent and T J Bowen 14.5 per cent.

[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. For R G Scott and A N Gianotti this also includes the costs of their respective relocations from Sydney to Perth upon appointment to their new roles.

[4] Long-term benefits relate to leave entitlements earned during the year.

[5] Superannuation contributions are made on behalf of the executive director and senior executives in accordance with Wesfarmers' statutory superannuation obligations. Also included is any part of the executive director and senior executives salary that has been sacrificed into superannuation.

[6] Post-employment benefits, 'other benefits', include the retention incentive accrual (equal to nine months FAR) from last year to this year. None of the KMP have an outstanding entitlement to the retention incentive.

[7] Payments made on termination to R J B Goyder and T J Bowen, principally in relation to contractual notice period and in support of a restraint.

[8] A N Gianotti became a member of the KMP, effective 13 November 2017.

[9] D A Baxby became a member of the KMP, effective 14 August 2017.

[10] M D Schneider became a member of the KMP, effective 7 December 2016.

[11] R J B Goyder ceased to be a member of the KMP following his retirement on 16 November 2017.

[12] On 28 June 2017, the Board approved that R J B Goyder and T J Bowen be entitled to have their unvested WLTIP rights continue to be restricted in the plan after they leave the Group, waiving the four-year service period normally required for a WLTIP grant as at the date they cease employment, resulting in an accelerated expensing profile over the revised vesting period. This accelerated expensing profile is reflected under the 'value of long-term incentive equity'.

[13] T J Bowen ceased to be a member of the KMP following his departure from the Group on 10 November 2017.

[14] J C Gillam ceased to be a member of the KMP following his stepping into a Senior Adviser role from his original role of Chief Executive Officer, Bunnings Group on 6 December 2016.

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REMUNERATION REPORT 2018 (AUDITED)

	Short-term benefits				Long-term benefits	Post-employment benefits		Share-based payments[1]		Termination benefits	Total	Percentage performance related[2]
	Cash salary ($)	Annual incentive and KEEPP cash ($)	Non-monetary benefits[3] ($)	Other[3] ($)	Leave[4] ($)	Super-annuation[5] ($)	Other benefits[6] ($)	Value of annual incentive (STI) – STI shares ($)	Value of long-term incentive (LTI) – LTI equity ($)	Termination payments[7] ($)	($)	%
Executive director												
R G Scott – Group Managing Director, Wesfarmers Limited												
2018	2,177,046	500,000	148,876	545,052	41,666	20,049	-	18,764	3,098,777	-	6,550,230	55.2
2017	1,500,422	900,000	63,611	8,040	23,333	19,620	975,000	129,543	1,988,058	-	5,607,627	53.8
Senior executives												
A N Gianotti[8] – Group Chief Financial Officer, Wesfarmers Limited												
2018	799,266	270,000	49,305	432,517	14,178	12,698	-	174,650	876,207	-	2,628,821	50.2
D A Baxby[9] – Managing Director, Wesfarmers Industrials												
2018	1,040,821	540,000	2,810	8,116	17,589	20,049	-	-	734,361	-	2,363,746	53.9
J P Durkan – Managing Director, Coles												
2018	2,179,951	990,000	3,195	9,228	36,666	20,049	-	48,765	1,624,398	-	4,912,252	54.2
2017	2,155,380	-	3,053	8,040	36,666	19,620	-	306,539	3,129,281	-	5,658,579	60.7
G A Russo – Chief Executive Officer, Department Stores												
2018	1,828,196	832,500	3,195	9,228	30,833	21,804	-	52,166	2,697,035	-	5,474,957	65.4
2017	1,818,052	832,500	27,093	8,040	30,833	31,948	-	357,020	2,936,836	-	6,042,322	68.3
M D Schneider[10] – Managing Director, Bunnings Group												
2018	1,306,451	675,000	133,273	9,228	25,000	21,804	-	197,425	1,633,561	-	4,001,742	62.6
2017	538,440	423,288	45,960	4,538	8,231	11,073	-	111,424	221,622	-	1,364,576	55.4
Former senior executives												
R J B Goyder[11,12] – Group Managing Director, Wesfarmers Limited												
2018	1,270,041	-	142,153	3,514	22,253	10,689	-	-	372,188	968,720	2,789,558	13.3
2017	3,349,179	4,073,135	247,096	8,040	58,433	31,948	-	129,237	4,200,391	-	12,097,459	69.5
T J Bowen[12,13] – Group Chief Financial Officer, Wesfarmers Limited												
2018	661,971	-	8,681	3,363	11,235	10,756	-	-	279,772	950,196	1,925,974	14.5
2017	1,818,053	2,179,506	16,145	8,040	30,833	31,947	-	46,941	2,548,008	-	6,679,473	71.5
J C Gillam[14] – Chief Executive Officer, Bunnings Group												
2017	853,409	-	1,694	3,502	14,520	12,182	-	234,183	489,029	-	1,608,519	45.0
Total												
2018	11,263,743	3,807,500	491,488	1,020,246	199,420	137,898	-	491,770	11,316,299	1,918,916	30,647,280	-
2017	12,032,935	8,408,429	404,652	48,240	202,849	158,338	975,000	1,314,887	15,513,225	-	39,058,555	-

REMUNERATION REPORT 2018 (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 benchmarking. A review was undertaken during the 2018 financial year. No change was made to the main board fees, Audit and Risk Committee fees or Remuneration Committee fees as the current level of fees were considered appropriate.

The level of fees paid to non-executive directors will be reviewed again and benchmarked against appropriately sized companies, if the proposed demerger of Coles proceeds as planned.

4.2 Non-executive director fees and other benefits

Guiding principle Non-executive director fees are set at competitive levels to enable Wesfarmers to attract, engage and retain world-class talent

The fees shown in the table below (inclusive of superannuation) took effect from 1 January 2017, and no changes were made in relation to the fees for the 2018 calendar year. Members of the Nomination Committee and Gresham Mandate Review Committee do not receive any additional fees.

Fees/benefits	Description	2018 ($)	Included in shareholder approved cap
Board fees	**Main Board**		
	Chairman – M A Chaney	770,000	Yes
	Members – all non-executive directors	230,000	
Committee fees	**Audit and Risk Committee**		
	Chairman – A J Howarth	80,000	Yes
	Members – D L Smith-Gander, J A Westacott, S W English[1]	40,000	
	Remuneration Committee		
	Chairman – W G Osborn	52,000	Yes
	Members – M A Chaney[2], J P Graham[3], P M Bassat and V M Wallace	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

1 S W English was appointed to the Audit and Risk Committee, effective 1 May 2018.
2 From 1 January 2014, the Chairman of the Board no longer receives a separate fee for sitting on any of the Board's committees.
3 Following the announcement of J P Graham as Chairman-elect of the proposed demerged Coles group, Mr Graham retired from the Board, effective 23 July 2018.

REMUNERATION REPORT 2018 (AUDITED)

4.3 Non-executive director remuneration

The fees paid or payable to the non-executive directors in relation to the 2018 financial year are set out below:

		Short-term benefits			Post-employment benefits	
		Fees – Wesfarmers Limited ($)	Fees – Wesfarmers Group ($)	Other benefits[1] ($)	Superannuation[2] ($)	Total ($)
Non-executive directors						
P M Bassat	2018	235,951	-	9,228	20,049	265,228
	2017	231,380	-	8,040	19,620	259,040
M A Chaney	2018	749,951	-	10,206	20,049	780,206
	2017	740,380	-	8,040	19,620	768,040
S W English[3]	2018	40,725	-	1,567	4,275	46,567
J P Graham[4]	2018	256,000	-	9,228	-	265,228
	2017	251,000	-	8,040	-	259,040
A J Howarth[5]	2018	289,951	104,300	9,228	20,049	423,528
	2017	285,380	101,900	8,040	19,620	414,940
W G Osborn	2018	261,951	-	9,228	20,049	291,228
	2017	257,380	-	8,040	19,620	285,040
D L Smith-Gander	2018	249,951	-	9,228	20,049	279,228
	2017	245,380	125,568	8,040	19,620	398,608
V M Wallace	2018	235,951	-	9,228	20,049	265,228
	2017	231,380	-	8,040	19,620	259,040
J A Westacott	2018	249,951	-	9,228	20,049	279,228
	2017	245,380	-	8,040	19,620	273,040
Total remuneration	2018	2,570,382	104,300	76,369	144,618	2,895,669
	2017	2,487,660	227,468	64,320	137,340	2,916,788

1 Short-term benefits, 'other benefits', includes the cost of directors and officer insurance and the cost of other business-related expenses.
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 S W English was appointed as a non-executive director on 30 April 2018.
4 J P Graham's fees are paid to Gresham Partners Group Limited for participation on the Board of Wesfarmers Limited. Mr Graham retired from the Board, effective 23 July 2018.
5 A J Howarth receives fees for participation on the board of BWP Management Limited.

Other remuneration information

5. Remuneration governance

5.1 Responsibility for setting remuneration

Responsibility for setting a 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 the Board and committee processes.

Details of the composition of the Remuneration Committee is set out in section 4.2. 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/cg**

REMUNERATION REPORT 2018 (AUDITED)

5.2 Senior executive and director share ownership

Guiding principle

A focus on awards of long-term, at-risk deferred equity rather than cash for executives and a minimum shareholding level for directors, aligns director, executive and stakeholder interests

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'.

- At the date of this report, all executive KMP hold at least 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.

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 of shares at beginning of year[1]	Shares allocated under remuneration framework[2]	Net change in shares[3]	Share balance at year-end[4]	Number of shares not vested at year-end[5]
Non-executive directors					
P M Bassat	19,411	-	-	19,411	-
M A Chaney	87,597	-	-	87,597	-
S W English[6]	-	-	1,000	1,000	-
J P Graham	796,516	-	(6,328)	790,188	-
A J Howarth	17,848	-	806	18,654	-
W G Osborn	9,988	-	4,740	14,728	-
D L Smith-Gander	12,045	-	-	12,045	-
V M Wallace	13,483	-	-	13,483	-
J A Westacott	3,957	-	1,536	5,493	-
Executive director, senior executives and former senior executives					
R G Scott	310,334	121,696	15,818	447,848	153,784
A N Gianotti[7]	-	-	152,666	152,666	93,805
D A Baxby[8]	-	35,792	-	35,792	35,792
J P Durkan	118,884	44,622	-	163,506	93,451
G A Russo	379,526	80,290	(31,938)	427,878	127,608
M D Schneider	24,358	81,945	(3,572)	102,731	102,731
R J B Goyder[9]	759,981	-	(32,617)	727,364	-
T J Bowen[10]	184,172	-	(127,351)	56,821	-
Total	**2,738,100**	**364,345**	**(25,240)**	**3,077,205**	**607,171**

1 This number reflects the fully paid ordinary shares held directly, vested shares under the incentive plans as well as unvested shares under the incentive plans. The unvested shares may include the 2016 KEEPP Restricted Shares and Performance Shares and 2016 annual incentive shares, as appropriate.
2 This number reflects the shares allocated under the 2017 KEEPP Restricted Shares and Performance Shares. The number for M D Schneider also includes the 2017 annual incentive shares allocated in August 2017.
3 The net change may include changes due to personal trades, shares granted as remuneration and forfeited shares.
4 This number reflects the fully paid ordinary shares held directly, vested shares under the incentive plans as well as unvested shares under the incentive plans. The unvested shares may include the 2016 KEEPP Restricted and Performance Shares, the 2017 KEEPP Restricted Shares and Performance Shares and the 2017 annual incentive shares, as appropriate. 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.
5 The unvested shares include the 2016 KEEPP Performance Shares, the 2017 KEEPP Restricted Shares and Performance Shares and the 2017 annual incentive shares, as appropriate.
6 The information for S W English reflects his time as a member of the KMP, from 30 April 2018.
7 The information for A N Gianotti reflects his time as a member of the KMP, from 13 November 2017.
8 The information for D A Baxby reflects his time as a member of the KMP, from 14 August 2017.
9 R J B Goyder ceased employment with the Group on 16 November 2017.
10 T J Bowen ceased employment with the Group on 10 November 2017.

REMUNERATION REPORT 2018 (AUDITED)

5.3 Share trading restrictions

Wesfarmers' Securities Trading Policy reflects the *Corporations Act 2001* prohibition on KMP and their closely related parties entering into any arrangement that would have the effect of limiting the KMP'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 2001* prohibition referred to above.

The policy is available on the Corporate Governance section of the company's website at **www.wesfarmers.com.au/cg.** Breaches of the policy are subject to disciplinary action, which may include termination of employment.

6. Further information on remuneration

6.1 Service agreements

The remuneration and other terms of employment for the Group Managing Director, the Group Chief Financial Officer and executive KMPs 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.

Executive KMPs must give a minimum 12 months' notice should they wish to resign and Wesfarmers must give 12 months' notice should it wish to terminate employment (other than for cause).

The former Group Managing Director, Mr Goyder, and the former Group Chief Financial Officer, Mr Bowen, left the Group in November 2017. Their leaving entitlements were calculated in line with their contractual arrangements. Their 2014, 2015 and 2016 WLTIP allocations were left on foot and will be tested at the relevant testing date – see section 3.4 for further information on the 2014 WLTIP. Their 2018 financial year annual incentive was tested as at 31 December 2017, and neither Mr Goyder or Mr Bowen received any payment in relation to this plan – see section 3.5 for further information.

6.2 Other transactions and balances with key management personnel

Mr Bassat, a director of Wesfarmers, was a director of AFL Sportsready Limited (until 11 October 2017) which provided training services to Wesfarmers Group companies on an arm's length and normal commercial terms basis and was paid $107,710 during this period (2017: $449,350).

Mr Graham, who was a director of Wesfarmers throughout the 2018 financial year, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited with a wholly owned subsidiary of Wesfarmers. Partly owned subsidiaries of Gresham Partners Group Limited have provided office accommodation and advisory services to Wesfarmers and were paid fees of $5,596,377 in 2018 (2017: $2,356,069).

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 minor or domestic in nature.

There were no loans made during the year, or remaining unsettled at 30 June 2018, between Wesfarmers and its KMP and/or their related parties.

6.3 Independent audit of remuneration report

The remuneration report has been audited by Ernst & Young. Please see page 151 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 G Scott
Managing Director

Perth
14 September 2018

FINANCIAL STATEMENTS

For the year ended 30 June 2018 – Wesfarmers Limited and its controlled entities

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INCOME STATEMENT

For the year ended 30 June 2018

	Note	Consolidated 2018 $m	RESTATED 2017 $m
Continuing operations			
Revenue	1	**66,883**	64,913
Expenses			
Raw materials and inventory		**(45,718)**	(44,633)
Employee benefits expense	2	**(9,375)**	(8,746)
Freight and other related expenses		**(757)**	(857)
Occupancy-related expenses	2	**(2,976)**	(2,882)
Depreciation and amortisation	2	**(1,198)**	(1,175)
Impairment expenses	2	**(421)**	(44)
Other expenses	2	**(2,757)**	(2,832)
Total expenses		**(63,202)**	(61,169)
Other income	1	**283**	286
Share of net profits of associates and joint venture	18	**97**	147
		380	433
Earnings before interest and income tax expense (EBIT)		**4,061**	4,177
Finance costs	2	**(211)**	(248)
Profit before income tax		**3,850**	3,929
Income tax expense	3	**(1,246)**	(1,169)
Profit from continuing operations		**2,604**	2,760
Discontinued operations			
Loss after tax for the year for Bunnings UK and Ireland	20	**(1,657)**	(101)
Profit after tax for the year for Wesfarmers Curragh Pty Ltd	20	**250**	214
(Loss)/profit after tax for the period from discontinued operations		**(1,407)**	113
Profit attributable to members of the parent		**1,197**	2,873
Earnings per share attributable to ordinary equity holders of the parent from continuing operations		**cents**	cents
Basic earnings per share		**230.2**	244.7
Diluted earnings per share		**229.8**	244.2
Earnings per share attributable to ordinary equity holders of the parent			
Basic earnings per share	13	**105.8**	254.7
Diluted earnings per share	13	**105.6**	254.2

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	Consolidated 2018 $m	RESTATED 2017 $m
Profit attributable to members of the parent		**1,197**	2,873
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve	12		
Exchange differences on translation of foreign operations		**(7)**	(2)
Exchange differences recognised in the income statement on disposal of foreign operations		**(2)**	-
Cash flow hedge reserve	12		
Unrealised gains/(losses) on cash flow hedges		**96**	(136)
Realised losses transferred to net profit		**29**	92
Realised losses transferred to non-financial assets		**114**	84
Share of associates and joint venture reserves	18	**(7)**	-
Tax effect	3	**(72)**	(17)
Items that will not be reclassified to profit or loss:			
Retained earnings	12		
Remeasurement loss on defined benefit plan		**(1)**	(5)
Tax effect	3	**-**	2
Other comprehensive income for the year, net of tax		**150**	18
Total comprehensive income for the year, net of tax, attributable to members of the parent arising from:			
Continuing operations		**2,754**	2,784
Discontinued operations		**(1,407)**	107
		1,347	2,891

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BALANCE SHEET

As at 30 June 2018

	Note	Consolidated 2018 $m	2017 $m
Assets			
Current assets			
Cash and cash equivalents	4	**683**	1,013
Receivables - Trade and other	5	**1,657**	1,633
Inventories	6	**6,011**	6,530
Derivatives	16	**126**	247
Other		**229**	244
Total current assets		**8,706**	9,667
Non-current assets			
Investments in associates and joint venture	18	**748**	703
Deferred tax assets	3	**692**	971
Property	7	**1,920**	2,195
Plant and equipment	7	**6,488**	7,245
Goodwill	8	**13,491**	14,360
Intangible assets	8	**4,369**	4,576
Derivatives	16	**391**	246
Other		**128**	152
Total non-current assets		**28,227**	30,448
Total assets		**36,933**	40,115
Liabilities			
Current liabilities			
Trade and other payables		**6,541**	6,615
Interest-bearing loans and borrowings	14	**1,159**	1,347
Income tax payable		**299**	292
Provisions	9	**1,726**	1,743
Derivatives	16	**16**	154
Other		**284**	266
Total current liabilities		**10,025**	10,417
Non-current liabilities			
Interest-bearing loans and borrowings	14	**2,965**	4,066
Provisions	9	**1,033**	1,511
Derivatives	16	**-**	24
Other		**156**	156
Total non-current liabilities		**4,154**	5,757
Total liabilities		**14,179**	16,174
Net assets		**22,754**	23,941
Equity			
Equity attributable to equity holders of the parent			
Issued capital	12	**22,277**	22,268
Reserved shares	12	**(43)**	(26)
Retained earnings	12	**176**	1,509
Reserves	12	**344**	190
Total equity		**22,754**	23,941

CASH FLOW STATEMENT

For the year ended 30 June 2018

	Note	Consolidated 2018 $m	2017 $m
Cash flows from operating activities			
Receipts from customers		**75,354**	74,042
Payments to suppliers and employees		**(69,836)**	(68,713)
Net movement in finance advances and loans		**-**	(47)
Dividends and distributions received from associates		**50**	46
Interest received		**15**	83
Borrowing costs		**(195)**	(234)
Income tax paid		**(1,308)**	(951)
Net cash flows from operating activities	4	**4,080**	4,226
Cash flows from investing activities			
Payments for property, plant and equipment and intangibles	4	**(1,815)**	(1,681)
Proceeds from sale of property, plant and equipment and intangibles	4	**606**	653
Net proceeds from sale of businesses and associates		**534**	947
Net investments in associates and joint arrangements		**-**	(2)
Acquisition of subsidiaries, net of cash acquired		**-**	(24)
Net redemption of loan notes		**17**	54
Net cash flows used in investing activities		**(658)**	(53)
Cash flows from financing activities			
Proceeds from borrowings		**688**	220
Repayment of borrowings		**(1,905)**	(1,994)
Proceeds from exercise of in-substance options under the employee share plan	12	**-**	1
Equity dividends paid		**(2,528)**	(1,998)
Demerger transaction costs		**(7)**	-
Net cash flows used in financing activities		**(3,752)**	(3,771)
Net (decrease)/increase in cash and cash equivalents		**(330)**	402
Cash and cash equivalents at beginning of year		**1,013**	611
Cash and cash equivalents at end of year	4	**683**	1,013

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

		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 2016		21,937	(28)	874	(105)	271	22,949
Net profit for the year		-	-	2,873	-	-	2,873
Other comprehensive income							
Exchange differences on translation of foreign operations	12	-	-	-	-	(2)	(2)
Changes in the fair value of cash flow hedges, net of tax	12	-	-	-	23	-	23
Remeasurement loss on defined benefit plan, net of tax	12	-	-	(3)	-	-	(3)
Total other comprehensive income for the year, net of tax		-	-	(3)	23	(2)	18
Total comprehensive income for the year, net of tax		-	-	2,870	23	(2)	2,891
Share-based payment transactions	12	3	-	-	-	3	6
Issue of shares	12	328	-	-	-	-	328
Proceeds from exercise of in-substance options	12	-	1	-	-	-	1
Equity dividends	11	-	1	(2,235)	-	-	(2,234)
		331	2	(2,235)	-	3	(1,899)
Balance at 30 June 2017 and 1 July 2017		**22,268**	**(26)**	**1,509**	**(82)**	**272**	**23,941**
Net profit for the year		**-**	**-**	**1,197**	**-**	**-**	**1,197**
Other comprehensive income							
Exchange differences on translation of foreign operations	12	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Exchange differences recognised in the income statement on disposal of foreign operations	12	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Changes in the fair value of cash flow hedges, net of tax	12	**-**	**-**	**-**	**160**	**-**	**160**
Remeasurement loss on defined benefit plan, net of tax	12	**-**	**-**	**(1)**	**-**	**-**	**(1)**
Total other comprehensive income for the year, net of tax		**-**	**-**	**(1)**	**160**	**(9)**	**150**
Total comprehensive income for the year, net of tax		**-**	**-**	**1,196**	**160**	**(9)**	**1,347**
Share-based payment transactions	12	**9**	**-**	**-**	**-**	**3**	**12**
Acquisition of shares on-market for Key Executive Equity Performance Plan (KEEPP)	12	**-**	**(17)**	**-**	**-**	**-**	**(17)**
Equity dividends	11	**-**	**-**	**(2,529)**	**-**	**-**	**(2,529)**
		9	**(17)**	**(2,529)**	**-**	**3**	**(2,534)**
Balance at 30 June 2018		**22,277**	**(43)**	**176**	**78**	**266**	**22,754**

NOTES TO THE FINANCIAL STATEMENTS: ABOUT THIS REPORT

For the year ended 30 June 2018

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 2018 was authorised for issue in accordance with a resolution of the directors on 14 September 2018. 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 2017. Refer to note 27 for further details;
- does not early adopt Accounting Standards and Interpretations that have been issued or amended but are not yet effective with the exception of AASB 9 *Financial Instruments* (December 2010) as amended by 2013-9 (AASB 9 (2013)) including consequential amendments to other standards which was adopted on 1 July 2014; and
- equity accounts for associates and joint venture 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		
108	Note 1	Income
110	Note 3	Tax expense
112	Note 6	Inventories
113	Note 7	Property, plant and equipment
114	Note 8	Goodwill and intangible assets
115	Note 9	Provisions
129	Note 17	Impairment of non-financial assets
131	Note 18	Associates and joint arrangements
137	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 2018

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, disposals 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

Announced intention to demerge Coles

On 16 March 2018, Wesfarmers announced its intention to demerge its Coles business, subject to shareholder and other approvals. Wesfarmers plans to retain a minority ownership of 15 per cent in Coles. The decision follows a review of Wesfarmers' portfolio and an assessment of the composition of its capital employed to support higher levels of future growth and total shareholder returns. As at 30 June 2018, Coles accounts for approximately 63 per cent of the Group's capital employed and 34 per cent of the Group's earnings before interest and tax from continuing operations.

While the demerger is expected to be completed in November 2018, it remains subject to final Board approval, third party consents, and regulatory and shareholder approvals. As such, the Coles division is not considered a discontinued operation or classified as held-for-sale as at 30 June 2018.

Impairments

Target: impairment to the carrying value of Target of $306 million ($300 million after-tax) was recognised during FY2018. The decrease in the recoverable amount of the Target cash generating unit (CGU) largely reflected the difficult trading conditions in an increasingly competitive market and a moderated outlook for the business. The impairment was recognised in respect of Target's goodwill ($47 million), brand name ($238 million) and other fixed assets ($21 million).

Bunnings United Kingdom and Ireland (BUKI): impairment to the carrying value of BUKI of $861 million (£491 million) pre-tax ($953 million (£544 million) post-tax) was recognised during FY2018. The decrease in the recoverable amount of BUKI was the result of a continued deterioration in the financial performance of the Homebase stores and a moderated long-term outlook for the broader business. The impairment was recognised in respect of BUKI's brand ($18 million) and goodwill ($777 million), both recognised in impairment expenses and a $92 million write-off of its deferred tax asset and $66 million writedown of stock.

For further details on impairment refer to note 17.

Disposal of Wesfarmers Curragh Pty Ltd

On 22 December 2017, Wesfarmers entered into an agreement to sell its Curragh coal mine in Queensland to Coronado Coal Group for $700 million. The agreement also included a value share mechanism linked to future metallurgical coal prices.

The transaction was completed on 29 March 2018, and the Curragh coal mine business is presented as a discontinued operation for FY2018. The gain on disposal after-tax is $123 million (refer to note 20).

Disposal of Bunnings United Kingdom and Ireland

On 25 May 2018, Wesfarmers entered into an agreement to divest the assets of the BUKI business to a company associated with Hilco Capital for a nominal amount. The agreement included a value share mechanism whereby Wesfarmers will continue to participate in any profitable divestment of the business in the long-term.

The transaction was completed on 11 June 2018, and the BUKI business is presented as a discontinued operation for FY2018. The loss after-tax on disposal is $375 million (refer to note 20).

NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION

For the year ended 30 June 2018

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

Bunnings

- Retailer of building material and home and garden improvement products; and
- Servicing project builders and the housing industry.

Coles

- Supermarket and liquor retailer, including a hotel portfolio;
- Retailer of fuel and operator of convenience stores; and
- Coles property business operator.

Officeworks

- Retailer and supplier of office products and solutions for home, small-to-medium sized businesses and education.

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

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.

Resources

- Interest in the Bengalla joint operation.

Other

Includes:

- *Forest products:* non-controlling interest in Wespine Industries 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; 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.

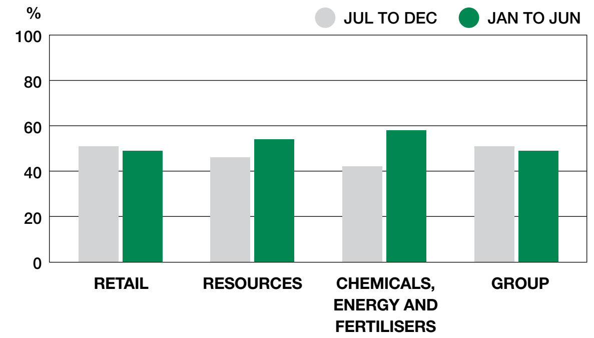
Revenues by segment for FY2018

From continuing operations

	$m
Bunnings	12,544
Coles	39,388
Department Stores	8,837
Officeworks	2,142
Industrials	3,980

Seasonality of revenues in FY2018

From continuing operations



NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION

For the year ended 30 June 2018

NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION

For the year ended 30 June 2018

CONTINUING OPERATIONS	BUNNINGS		COLES		DEPARTMENT STORES[1]		OFFICEWORKS		INDUSTRIALS WIS		INDUSTRIALS WesCEF[2]		INDUSTRIALS RESOURCES[3]		OTHER		CONSOLIDATED		DISCONTINUED OPERATIONS[4]	
	2018 $m	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m
Segment revenue	12,544	11,514	39,388	39,217	8,837	8,528	2,142	1,964	1,750	1,776	1,830	1,639	400	287	(8)	(12)	**66,883**	64,913	2,995	3,531
Adjusted EBITDA[5]	1,683	1,505	2,151	2,256	862	739	181	168	159	158	469	472	190	107	(130)	(53)	**5,565**	5,352	6	316
Depreciation and amortisation	(179)	(171)	(651)	(647)	(202)	(196)	(25)	(24)	(41)	(43)	(79)	(77)	(18)	(16)	(3)	(1)	**(1,198)**	(1,175)	(85)	(91)
Segment result	**1,504**	1,334	**1,500**	1,609	**660**	543	**156**	144	**118**	115	**390**	395	**172**	91	**(133)**	(54)	4,367	4,177	(79)	225
Items not included in segment result[6]	-	-	-	-	(306)	-	-	-	-	-	-	-	-	-	-	-	**(306)**	-	(1,186)	-
EBIT																	**4,061**	4,177	(1,265)	225
Finance costs																	**(211)**	(248)	(10)	(16)
Profit before income tax expense																	**3,850**	3,929	(1,275)	209
Income tax expense																	**(1,246)**	(1,169)	(132)	(96)
Profit attributable to members of the parent																	**2,604**	2,760	(1,407)	113
Other segment information																				
Segment assets	5,025	4,846	21,180	21,140	3,617	3,928	1,452	1,401	1,698	1,661	1,539	1,484	263	260	719	1,121	**35,493**	35,841	-	2,600
Investments in associates and joint venture	17	17	-	-	-	-	-	-	-	-	202	183	-	-	529	503	**748**	703	-	-
Tax assets															692	971	**692**	971	-	-
Total assets																	**36,933**	37,515	-	2,600
Segment liabilities	(1,875)	(1,785)	(4,561)	(4,245)	(1,482)	(1,423)	(532)	(488)	(335)	(385)	(355)	(270)	(68)	(63)	(548)	(684)	**(9,756)**	(9,343)	-	(1,126)
Tax liabilities															(299)	(292)	**(299)**	(292)	-	-
Interest-bearing liabilities															(4,124)	(5,413)	**(4,124)**	(5,413)	-	-
Total liabilities																	**(14,179)**	(15,048)	-	(1,126)
Other net assets[7]	(3,098)	(2,825)	(10)	(209)	(47)	(142)	8	(25)	(631)	(585)	(745)	(793)	(191)	(91)	4,714	6,681	**-**	2,011	-	(2,011)
Net assets	**69**	253	**16,609**	16,686	**2,088**	2,363	**928**	888	**732**	691	**641**	604	**4**	106	**1,683**	2,887	**22,754**	24,478	-	(537)
Capital expenditure[8]	497	367	762	811	293	222	45	36	50	34	60	44	14	13	2	-	**1,723**	1,527	139	156
Share of net profit or loss of associates and joint venture included in EBIT	-	-	-	-	-	-	-	-	-	-	41	61	-	-	56	86	**97**	147	-	-

1 As a result of the changes to internal reporting the Kmart and Target segments have been reported collectively as Department Stores for the current and comparative periods.

2 The 2017 WesCEF result includes profit on sale of land of $22 million (before tax), and $33 million relating to WesCEF's share of revaluation gains recognised by its associate, Australian Energy Consortium Pty Ltd.

3 The Resources segment represents the Group's interest in the Bengalla joint arrangement, as the Curragh coal mine has been classified as a discontinued operation for the current and comparative periods.

4 Discontinued operations relate to the Curragh coal mine and BUKI which were disposed of during the financial year. Refer to note 20 for further information on discontinued operations.

5 Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and other items not included in the segment results outlined in footnote 6.

6 The 2018 segment result excludes Target's pre-tax impairment of $306 million and $1,186 million relating to discontinued operations which includes BUKI's pre-tax writedown of $861 million (£491 million), store closure provision of $70 million (£40 million), $375 million (£210 million) pre-tax loss on disposal relating to BUKI and $120 million pre-tax gain on disposal of the Curragh coal mine. Refer to note 17 for further information on the Target impairment and BUKI writedown and note 20 for discontinued operations.

7 Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.

8 Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,815 million (2017: $1,681 million).

Segment result FY2014 to FY2018

From continuing operations

Capital expenditure by segment for FY2018

From continuing operations

	$m
Bunnings	497
Coles	762
Department Stores	293
Officeworks	45
WIS	50
WesCEF	60
Resources	14

* 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 and non-current assets relating to discontinued operations have been excluded.

	Revenue		Non-current assets	
	2018 $m	2017 $m	**2018 $m**	2017 $m
Australia	**64,909**	63,073	**26,856**	27,170
New Zealand	**1,912**	1,774	**203**	303
United Kingdom	**42**	47	**4**	5
Other foreign countries	**20**	19	**6**	4
	66,883	64,913	**27,069**	27,482

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2018

1. Income

	Consolidated 2018 $m	2017 $m
Sale of goods	**66,582**	64,488
Rendering of services	**12**	12
Interest revenue	**14**	83
Other	**275**	330
Revenue	**66,883**	64,913
Gains on disposal of property, plant and equipment	**62**	122
Other	**221**	164
Other income	**283**	286

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

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

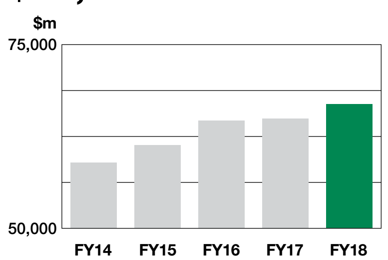
The Group operates a loyalty points program, which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can then be redeemed for products, subject to a minimum number of points being obtained. Consideration received on transactions where points are 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 2018, $308 million of revenue is deferred in relation to the loyalty program (2017: $267 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 2018, $224 million of revenue is deferred in relation to gift cards (2017: $217 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 on 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.

Total revenue
From continuing operations

$66,883 ▲ **3.0%**



	$m
FY18	66,883
FY17[1]	64,913
FY16[1]	64,649
FY15[1]	61,320
FY14[1]	58,924

[1] FY14 to FY17 have been restated to exclude discontinued operations

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2018

2. Expenses

	Consolidated 2018 $m	2017 $m
Remuneration, bonuses and on-costs	**8,616**	8,018
Superannuation expense	**654**	625
Share-based payments expense	**105**	103
Employee benefits expense	**9,375**	8,746
Minimum lease payments	**2,281**	2,184
Contingent rental payments	**191**	215
Other	**504**	483
Occupancy-related expenses	**2,976**	2,882
Depreciation	**913**	905
Amortisation of intangibles	**153**	145
Amortisation other	**132**	125
Depreciation and amortisation	**1,198**	1,175
Impairment of plant, equipment and other assets	**306**	22
Impairment of freehold property	**68**	22
Impairment of goodwill	**47**	-
Impairment expenses	**421**	44
Mining royalties	**33**	24
Repairs and maintenance	**405**	400
Utilities and office expenses	**1,039**	983
Insurance expenses	**190**	150
Other	**1,090**	1,275
Other expenses	**2,757**	2,832
Interest expense	**181**	213
Discount rate adjustment	**12**	11
Amortisation of debt establishment costs	**5**	6
Other finance related costs	**13**	18
Finance costs	**211**	248

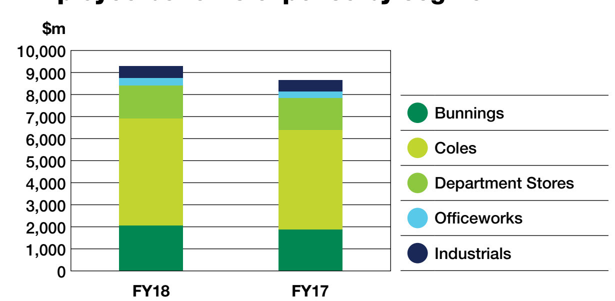
Recognition and measurement

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.

Employee benefits expense by segment



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.

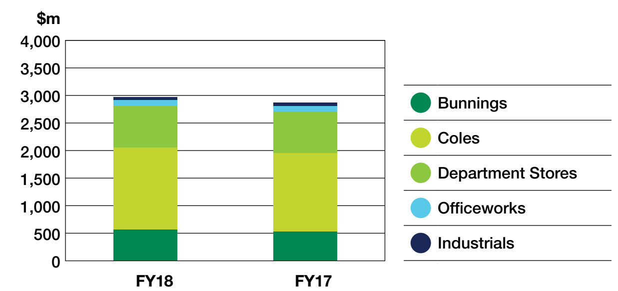
Fixed rate increases to lease payments, excluding contingent or index based rental increases, are recognised on a straight-line basis over the lease term.

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.

Occupancy-related expenses by segment



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 2018, had there been major long-term construction projects, the weighted average interest rate applicable would have been 3.79 per cent (2017: 3.64 per cent).

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2018

3. Tax expense

The major components of tax expense are:	Consolidated 2018 $m	2017 $m
Income statement (continuing operations)		
Current income tax expense		
Current year (paid or payable)	1,283	1,187
Adjustment for prior years	(8)	(18)
Deferred income tax expense		
Temporary differences	(29)	(7)
Adjustment for prior years	-	7
Income tax reported in the income statement	1,246	1,169
Statement of changes in equity		
Net loss on revaluing cash flow hedges	72	17
Other	-	(2)
Income tax reported in equity	72	15
Tax reconciliation (continuing operations)		
Profit before tax	3,850	3,929
Income tax at the statutory tax rate of 30%	1,155	1,179
Adjustments relating to prior years	(8)	(11)
Non-deductible items	111	9
Share of results of associates and joint venture	(12)	(18)
Other	-	10
Income tax on profit before tax	1,246	1,169
Deferred income tax in the balance sheet relates to the following:		
Provisions	250	338
Employee benefits	427	417
Accrued and other payables	130	141
Borrowings	103	143
Derivatives	5	53
Trading stock	90	98
Fixed assets	273	432
Other individually insignificant balances	87	71
Deferred tax assets	1,365	1,693
Accelerated depreciation for tax purposes	212	253
Derivatives	155	148
Accrued income and other	159	155
Intangible assets	106	107
Other individually insignificant balances	41	59
Deferred tax liabilities	673	722
Net deferred tax assets	692	971
Deferred income tax in the income statement relates to the following:		
Provisions	(17)	(20)
Depreciation, amortisation and impairment	10	(23)
Other individually insignificant balances	(22)	36
Deferred tax expense	(29)	(7)

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 is provided using the full liability method. 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 $119 million (2017: $127 million) relate wholly to capital losses in Australia.

Key judgement: unrecognised deferred tax liability

A deferred tax liability has not been recognised on indefinite life intangibles for which the carrying value has been assessed as recoverable through sale, consistent with the Group's practice and strategy to maximise shareholder returns.

NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2018

4. Cash and cash equivalents

	Consolidated 2018 $m	2017 $m
Cash on hand and in transit	492	409
Cash at bank and on deposit	191	604
	683	1,013
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	1,197	2,873
Non-cash items		
Depreciation and amortisation	1,283	1,266
Impairment and writedowns of assets	1,216	49
Loss on disposal of businesses	254	-
Net gain on disposal of non-current assets	(9)	(83)
Share of profits of associates and joint venture	(97)	(147)
Dividends and distributions received from associates	50	46
Discount adjustment in borrowing costs	22	27
Other	3	29
(Increase)/decrease in assets		
Receivables - Trade and other	(215)	87
Receivables - Finance advances and loans	-	(47)
Inventories	(54)	(296)
Prepayments	(10)	18
Deferred tax assets	61	39
Other assets	(2)	5
Increase/(decrease) in liabilities		
Trade and other payables	279	165
Current tax payable	8	275
Provisions	42	(146)
Other liabilities	52	66
Net cash flows from operating activities	4,080	4,226

Net cash capital expenditure

	2018 $m	2017 $m
Cash capital expenditure		
Payment for property	411	308
Payment for plant and equipment	1,171	1,251
Payment for intangibles	233	122
	1,815	1,681
Less: Proceeds from sale of property, plant, equipment and intangibles	606	653
Net cash capital expenditure	1,209	1,028

Recognition and measurement

Cash at bank and on deposit

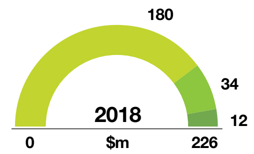
Cash and short-term deposits in the balance sheet comprise cash at bank and on hand, and short-term deposits with an original maturity of three months or less and are classified as financial assets held at amortised cost.

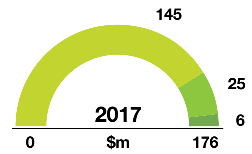
Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

5. Receivables

	Consolidated 2018 $m	2017 $m
Trade and other		
Trade receivables	1,351	1,300
Allowance for credit losses	(58)	(60)
Other debtors	364	393
	1,657	1,633
Allowance for credit losses		
Movements in the allowance for credit losses were as follows:		
Carrying value at the beginning of the year	60	64
Allowance for credit losses recognised	15	16
Receivables written off as uncollectable	(13)	(15)
Unused amounts reversed	(4)	(5)
Allowance for credit losses at year-end	58	60
Trade receivables past due but not impaired		
Under three months	180	145
Three to six months	34	25
Over six months	12	6
	226	176

Ageing of trade receivables past due but not impaired





Under three months

Three to six months

Over six months

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NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2018

5. Receivables (continued)

Recognition and measurement

Trade receivables, finance advances, loans and other debtors are all classified as financial assets held at amortised cost on the basis they are held with the objective of collecting contractual cash flows and the cash flows relate to payments of principal and interest on the principal amount outstanding.

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.

Impairment of trade receivables

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 2018 $m	2017 $m
Raw materials	**37**	91
Work in progress	**2**	15
Finished goods	**5,972**	6,424
	6,011	6,530

Inventories recognised as an expense for the year ended 30 June 2018 totalled $50,122 million (2017: $49,083 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 $78 million (2017: $11 million), which is inclusive of the $66 million writedown of stock made during the financial year for BUKI. 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 certain 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 2018

7. Property, plant and equipment

Consolidated	PROPERTY Land $m	Buildings $m	PLANT AND EQUIPMENT Leasehold improvements $m	Plant, vehicles and equipment $m	Mineral lease and development $m	Total $m
Year ended 30 June 2018						
Cost	**1,142**	**938**	**1,734**	**12,620**	**158**	**16,592**
Accumulated depreciation and impairment	**-**	**(160)**	**(828)**	**(7,136)**	**(60)**	**(8,184)**
Net carrying amount	**1,142**	**778**	**906**	**5,484**	**98**	**8,408**
Movement						
Net carrying amount at the beginning of the year	**1,334**	**861**	**913**	**5,865**	**467**	**9,440**
Additions	**229**	**186**	**193**	**1,013**	**17**	**1,638**
Disposals and write-offs	**(419)**	**(230)**	**(173)**	**(474)**	**(246)**	**(1,542)**
Depreciation and amortisation	**-**	**(20)**	**(152)**	**(939)**	**(19)**	**(1,130)**
Transfers between classes	**-**	**(19)**	**123**	**12**	**(116)**	**-**
Other including foreign exchange movements	**(2)**	**-**	**2**	**7**	**(5)**	**2**
Net carrying amount at the end of the year	**1,142**	**778**	**906**	**5,484**	**98**	**8,408**
Assets under construction included above:	**-**	**237**	**97**	**477**	**-**	**811**
Year ended 30 June 2017						
Cost	1,334	1,035	1,773	13,544	1,010	18,696
Accumulated depreciation and impairment	-	(174)	(860)	(7,679)	(543)	(9,256)
Net carrying amount	1,334	861	913	5,865	467	9,440
Movement						
Net carrying amount at the beginning of the year	1,470	926	925	5,830	461	9,612
Additions	57	251	122	1,084	45	1,559
Disposals and write-offs	(205)	(285)	(12)	(113)	-	(615)
Depreciation and amortisation	-	(26)	(127)	(933)	(22)	(1,108)
Acquisition of controlled entities	14	8	-	-	-	22
Transfers between classes	-	(5)	5	-	-	-
Other including foreign exchange movements	(2)	(8)	-	(3)	(17)	(30)
Net carrying amount at the end of the year	1,334	861	913	5,865	467	9,440
Assets under construction included above:	-	334	59	448	-	841

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 2018

8. Goodwill and intangible assets

Consolidated	GOODWILL Goodwill $m	INTANGIBLE ASSETS Brand $m	Contractual and non-contractual relationships[1] $m	Software $m	Gaming and liquor licences $m	Total $m
Year ended 30 June 2018						
Cost	**15,647**	**3,918**	**57**	**1,401**	**158**	**21,181**
Accumulated amortisation and impairment	**(2,156)**	**(264)**	**(19)**	**(882)**	**-**	**(3,321)**
Net carrying amount	**13,491**	**3,654**	**38**	**519**	**158**	**17,860**
Movement						
Net carrying amount at the beginning of the year	**14,360**	**3,812**	**41**	**566**	**157**	**18,936**
Additions	**2**	**100**	**-**	**121**	**1**	**224**
Disposals and write-offs	**(78)**	**-**	**-**	**(17)**	**-**	**(95)**
Amortisation for the year	**-**	**(4)**	**(3)**	**(146)**	**-**	**(153)**
Impairment charge	**(825)**	**(256)**	**-**	**(2)**	**-**	**(1,083)**
Other including foreign exchange movements	**32**	**2**	**-**	**(3)**	**-**	**31**
Net carrying amount at the end of the year	**13,491**	**3,654**	**38**	**519**	**158**	**17,860**
Year ended 30 June 2017						
Cost	16,468	3,836	68	1,331	157	21,860
Accumulated amortisation and impairment	(2,108)	(24)	(27)	(765)	-	(2,924)
Net carrying amount	14,360	3,812	41	566	157	18,936
Movement						
Net carrying amount at the beginning of the year	14,448	3,817	56	596	156	19,073
Additions	-	-	-	123	1	124
Disposals and write-offs	(48)	-	-	(12)	-	(60)
Amortisation for the year	-	(3)	(15)	(140)	-	(158)
Other including foreign exchange movements	(40)	(2)	-	(1)	-	(43)
Net carrying amount at the end of the year	14,360	3,812	41	566	157	18,936

[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*
Brand[1]	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

[1] Includes trade names and other intangible assets with characteristics of a brand.

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 brands have been assessed as having indefinite lives on the basis of strong brand strength, ongoing expected profitability and continuing support. The brand 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 2018

8. Goodwill and intangible assets (continued)

	Consolidated 2018 $m	2017 $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	**2,963**	2,962
Kmart	**368**	268
Target	**292**	531
	3,806	3,944
Allocation of goodwill to groups of cash generating units		
Carrying amount of goodwill		
Chemicals, Energy and Fertilisers	**2**	2
Home Improvement	**868**	1,692
Officeworks	**799**	799
Industrial and Safety	**686**	686
Coles	**10,377**	10,375
Kmart	**759**	759
Target	**-**	47
	13,491	14,360

Impairment

Refer to note 17 for details on impairment testing.

9. Provisions

	Consolidated 2018 $m	2017 $m
Current		
Employee benefits	**1,194**	1,150
Self-insured risks	**241**	277
Restructuring and make good	**54**	84
Lease provision	**2**	2
Off-market contracts	**5**	52
Other	**230**	178
	1,726	1,743
Non-current		
Employee benefits	**167**	180
Self-insured risks	**344**	339
Mine and plant rehabilitation	**45**	269
Restructuring and make good	**26**	147
Lease provision	**250**	233
Off-market contracts	**12**	182
Other	**189**	161
	1,033	1,511
Total provisions	**2,759**	3,254

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, other than employee benefits, 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 1.9 and 4.2 per cent (2017: between 2 and 4.5 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 2018

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 sheet 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 $623 million (2017: $606 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 stepped 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). Any reasonable change in these assumptions will not have a significant impact on the Group.

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 15 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 2016	221	271	663	278	298	350	2,081
Arising and acquired during the year	21	10	143	38	77	234	523
Utilised	(7)	(32)	(190)	(19)	(134)	(245)	(627)
Adjustments	-	(15)	-	(28)	(10)	-	(53)
Carrying amount at 30 June 2017 and 1 July 2017	**235**	**234**	**616**	**269**	**231**	**339**	**1,924**
Arising during the year	**22**	**5**	**201**	**22**	**40**	**322**	**612**
Utilised	**(5)**	**(33)**	**(232)**	**(1)**	**(74)**	**(229)**	**(574)**
Sale of business	**-**	**(189)**	**-**	**(245)**	**(117)**	**(13)**	**(564)**
Carrying amount at 30 June 2018	**252**	**17**	**585**	**45**	**80**	**419**	**1,398**

NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

For the year ended 30 June 2018

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 financial 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 while optimising its debt and equity structure. Wesfarmers aims to maintain a capital structure that is consistent with a stable investment grade credit rating.

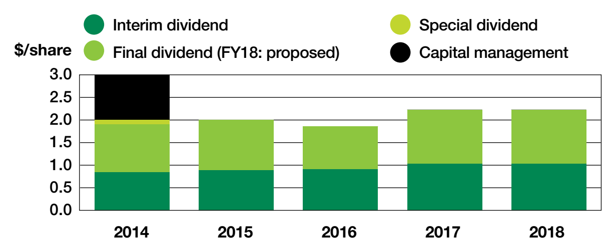
	Note	Consolidated 2018 $m	2017 $m
Equity and reserves			
Issued capital	12	**22,277**	22,268
Reserved shares	12	**(43)**	(26)
Retained earnings	12	**176**	1,509
Reserves	12	**344**	190
		22,754	23,941
Net financial debt			
Total interest-bearing debt	14	**4,124**	5,413
Less: Cash and cash equivalents	4	**(683)**	(1,013)
		3,441	4,400
Net capital		**26,195**	28,341

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.

Shareholder distributions



	Consolidated[1] 2018 $m	2017 $m
Cash interest cover		
Profit before income tax	**2,575**	4,138
Finance costs	**221**	264
Depreciation and amortisation	**1,283**	1,266
EBITDA (A)	**4,079**	5,668
Net cash interest paid (B)	**183**	226
Cash interest cover (times) (A/B)	**22.3**	25.0
Adjusted EBITDA[2] (C)	**5,571**	5,668
Cash interest cover (times) (C/B) (applying adjusted EBITDA)	**30.4**	25.0
Debt cover		
Total interest-bearing debt	**4,124**	5,413
Less: cash and cash equivalents	**(683)**	(1,013)
Net financial debt (D)	**3,441**	4,400
EBITDA (A)	**4,079**	5,668
Debt cover (times) (D/A)	**0.8**	0.8
Adjusted EBITDA[2] (C)	**5,571**	5,668
Debt cover (times) (D/C) (applying adjusted EBITDA)	**0.6**	0.8
Fixed charges cover		
EBITDA	**4,079**	5,668
Minimum lease payments	**2,490**	2,399
EBITDA plus minimum lease payments (E)	**6,569**	8,067
Finance costs (net of discount adjustment), and minimum lease payments (F)	**2,689**	2,636
Fixed charges cover (times) (E/F)	**2.4**	3.1
Adjusted EBITDA (C)	**5,571**	5,668
Minimum lease payments	**2,490**	2,399
Adjusted EBITDA plus minimum lease payments (G)	**8,061**	8,067
Fixed charges cover (times) (G/F) (applying adjusted EBITDA)	**3.0**	3.1
Group credit ratings		
Standard & Poor's	**A–(stable)**	A–(negative)
Moody's	**A3(stable)**	A3(stable)

[1] The income statement metrics include both continuing and discontinued operations.

[2] The 2018 adjusted EBITDA excludes Target's pre-tax impairment of $306 million and $1,186 million relating to discontinued operations which includes BUKI's pre-tax writedown of $861 million, store closure provision of $70 million, $375 pre-tax loss on disposal relating to BUKI and $120 million pre-tax gain on disposal of the Curragh coal mine.

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NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

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11. Dividends and distributions

	Consolidated 2018 $m	2017 $m
Declared and paid during the year (fully-franked at 30 per cent)		
Interim dividend for 2018: $1.03 (2017: $1.03)	**1,168**	1,165
Final dividend for 2017: $1.20 (2016: $0.95)	**1,361**	1,070
	2,529	2,235
Proposed and unrecognised as a liability (fully-franked at 30 per cent)		
Final dividend for 2018: $1.20 (2017: $1.20)	**1,361**	1,361
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	**978**	786
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	**(583)**	(583)

Wesfarmers' dividend policy considers availability of franking credits, current earnings and future cash flow requirements and targeted credit metrics.

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

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.

12. Equity and reserves (continued)

Movement in shares on issue	Ordinary Shares '000	Ordinary Shares $m	Reserved Shares '000	Reserved Shares $m
At 1 July 2016	1,126,131	21,937	(2,294)	(28)
Exercise of in-substance options	-	-	206	1
Dividends applied	-	-	-	1
Issue of ordinary shares under the Wesfarmers Dividend Investment Plan	5,471	236	-	-
Issue of ordinary shares under the Wesfarmers Employee Share Acquisition Plan	2,238	92	-	-
Transfer from other reserves	-	3	-	-
At 30 June 2017 and 1 July 2017	**1,133,840**	**22,268**	**(2,088)**	**(26)**
Acquisition of shares on-market for Key Executive Equity Performance Plan (KEEPP)	**-**	**-**	**(418)**	**(17)**
Exercise of in-substance options	**-**	**-**	**164**	**-**
Transfer from other reserves	**-**	**9**	**-**	**-**
At 30 June 2018	**1,133,840**	**22,277**	**(2,342)**	**(43)**

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.

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12. Equity and reserves (continued)

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 2016	874	150	24	54	(105)	5	38
Net profit	2,873	-	-	-	-	-	-
Dividends	(2,235)	-	-	-	-	-	-
Remeasurement loss on defined benefit plan, net of tax	(3)	-	-	-	-	-	-
Net loss on financial instruments recognised in equity	-	-	-	-	(136)	-	-
Realised gains transferred to balance sheet/net profit	-	-	-	-	176	-	-
Tax effect of transfers and revaluations	-	-	-	-	(17)	-	-
Currency translation differences	-	-	-	(2)	-	-	-
Share-based payment transactions	-	-	-	-	-	-	3
Balance at 30 June 2017 and 1 July 2017	**1,509**	**150**	**24**	**52**	**(82)**	**5**	**41**
Net profit	**1,197**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	**(2,529)**	**-**	**-**	**-**	**-**	**-**	**-**
Remeasurement loss on defined benefit plan, net of tax	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
Net loss on financial instruments recognised in equity	**-**	**-**	**-**	**-**	**96**	**-**	**-**
Realised losses transferred to balance sheet/net profit	**-**	**-**	**-**	**-**	**143**	**-**	**-**
Share of associates and joint venture reserve	**-**	**-**	**-**	**-**	**(7)**	**-**	**-**
Tax effect of transfers and revaluations	**-**	**-**	**-**	**-**	**(72)**	**-**	**-**
Currency translation differences	**-**	**-**	**-**	**(7)**	**-**	**-**	**-**
Exchange differences recognised in the income statement on disposal of foreign operations	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**
Share-based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**3**
Balance at 30 June 2018	**176**	**150**	**24**	**43**	**78**	**5**	**44**

13. Earnings per share

	Consolidated 2018	2017
Profit attributable to ordinary equity holders of the parent ($m)	**1,197**	2,873
WANOS[1] used in the calculation of basic EPS (shares, million)[2]	**1,131**	1,128
WANOS[1] used in the calculation of diluted EPS (shares, million)[2]	**1,133**	1,130
- Basic EPS (cents per share)	**105.8**	254.7
- Diluted EPS (cents per share)	**105.6**	254.2

[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.

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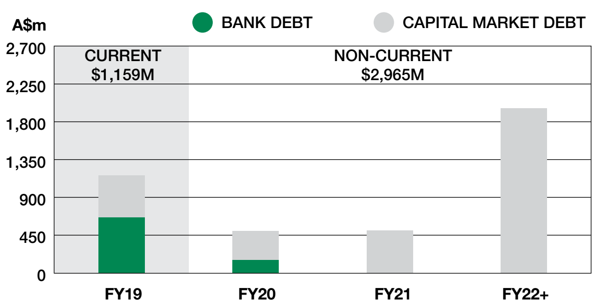
14. Interest-bearing loans and borrowings

	Consolidated 2018 $m	2017 $m
Current		
Unsecured		
Bank debt	**660**	378
Capital market debt	**499**	969
	1,159	1,347
Non-current		
Unsecured		
Bank debt	**150**	863
Capital market debt	**2,815**	3,203
	2,965	4,066
Total interest-bearing loans and borrowings	**4,124**	5,413

The illustration below provides details, including the principal repayment obligations, of all loans and borrowings on issue at 30 June 2018:

Outstanding loans and borrowings



Funding activities

Following the divestment of BUKI in June 2018, £705 million (A$1,240 million) of bank facilities were cancelled. During the year, NZ$50 million (A$46 million) of bank facilities were also considered surplus to requirements and were cancelled. The remaining bank facilities that matured during the financial year were renewed and extended, all for durations of approximately one year.

In March 2018, a US144A bond totalling US$750 million (A$728 million) matured. Combined with associated cross-currency interest rate swaps, the net amount to repay the bond was funded from existing bank facilities and available cash balances.

Recognition and measurement

Capital market debt includes foreign and domestic corporate bonds. All loans and borrowings are initially recognised at fair value, 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.

The table below sets out an analysis of net borrowings and the movements in net borrowings for the period presented:

	LIABILITIES FROM FINANCING ACTIVITIES			
	Borrowings due within 1 year $m	Borrowings due after 1 year $m	Assets held to hedge long-term borrowings $m	Total $m
Balance at 1 July 2017	1,347	4,066	(488)	4,925
Cash flows	(1,367)	150	-	(1,217)
Transfers	1,366	(1,366)	-	-
Foreign exchange adjustments	55	110	(110)	55
Fair value changes, including settlements	(243)	-	243	-
Other non-cash movements	1	5	2	8
Balance at 30 June 2018	1,159	2,965	(353)	3,771

NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2018

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 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 2018 $m	2017 $m
Total facilities		
Other bank loans	**2,999**	4,245
	2,999	4,245
Facilities used at balance date		
Other bank loans	**811**	1,244
	811	1,244
Facilities unused at balance date		
Other bank loans	**2,188**	3,001
	2,188	3,001

Assets pledged as security

A controlled entity has issued a floating charge over assets, capped at $80 million (2017: $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 cross-currency interest rate swaps and hedged commodity 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.

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NOTES TO THE FINANCIAL STATEMENTS: RISK

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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 2018										
Non-derivatives										
Trade and other payables	6,455	46	39	1	10	-	-	-	6,551	6,551
Loans and borrowings before swaps	-	316	845	500	500	1,026	1,131	-	4,318	4,124
Expected future interest payments on loans and borrowings	19	13	37	75	51	43	31	-	269	-
Total non-derivatives	6,474	375	921	576	561	1,069	1,162	-	11,138	10,675
Derivatives										
Hedge interest rate swaps (net settled)	-	(1)	(1)	(2)	(1)	-	-	-	(5)	(5)
Hedged commodity swaps	(1)	(1)	(7)	(13)	(6)	-	-	-	(28)	(28)
Cross-currency interest rate swaps (gross settled)										
– (inflow)	(3)	(3)	-	(41)	(42)	(1,070)	(1,162)	-	(2,321)	(348)
– outflow	4	11	43	86	86	931	786	-	1,947	-
Net cross-currency interest rate swaps	1	8	43	45	44	(139)	(376)	-	(374)	(348)
Hedge foreign exchange contracts (gross settled)										
– (inflow)	(1,142)	(959)	(959)	(448)	-	-	-	-	(3,508)	(120)
– outflow	1,110	927	932	424	-	-	-	-	3,393	-
Net foreign exchange contracts	(32)	(32)	(27)	(24)	-	-	-	-	(115)	(120)
Total derivatives	(32)	(26)	8	6	37	(139)	(376)	-	(522)	(501)
Year ended 30 June 2017										
Non-derivatives										
Trade and other payables	6,517	53	44	1	-	-	-	-	6,615	6,615
Loans and borrowings before swaps	-	100	1,256	1,366	350	500	997	1,100	5,669	5,413
Expected future interest payments on loans and borrowings	19	10	42	107	73	50	42	30	373	-
Total non-derivatives	6,536	163	1,342	1,474	423	550	1,039	1,130	12,657	12,028
Derivatives										
Hedge interest rate swaps (net settled)	-	(1)	(2)	(2)	(1)	(1)	-	-	(7)	(7)
Cross-currency interest rate swaps (gross settled)										
– (inflow)	(6)	(3)	(987)	(39)	(40)	(41)	(1,039)	(1,131)	(3,286)	(481)
– outflow	9	17	777	86	86	86	931	786	2,778	-
Net cross-currency interest rate swaps	3	14	(210)	47	46	45	(108)	(345)	(508)	(481)
Hedge foreign exchange contracts (gross settled)										
– (inflow)	(1,132)	(1,102)	(1,173)	(1,074)	(46)	-	-	-	(4,527)	173
– outflow	1,179	1,153	1,226	1,092	46	-	-	-	4,696	-
Net foreign exchange contracts	47	51	53	18	-	-	-	-	169	173
Total derivatives	50	64	(159)	63	45	44	(108)	(345)	(346)	(315)

NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2018

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, the Group's balance sheet can also be affected by movements in the AUD/NZD exchange rate. The Group mitigates the effect of its translational currency exposure by borrowing in NZ dollars in New Zealand.

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
2018		
Financial assets		
Cash and cash equivalents	15	1
Trade and other receivables	39	-
Cross-currency interest rate swap	-	348
Hedge foreign exchange derivative assets	120	-
Commodity derivative asset	28	-
Financial liabilities		
Trade and other payables	1,061	58
Interest-bearing loans and borrowings	35	1,969
2017		
Financial assets		
Cash and cash equivalents	12	5
Trade and other receivables	148	3
Cross-currency interest rate swap	242	239
Hedge foreign exchange derivative assets	-	1
Financial liabilities		
Trade and other payables	962	43
Interest-bearing loans and borrowings	1,026	1,854
Hedge foreign exchange derivative liabilities	174	-

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 has hedged a portion of its foreign currency sales for which firm commitments or highly probable forecast transactions existed. Such foreign currency sales arose 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 April 2020. The Group has also hedged 100 per cent of its 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 2018	0.73	0.63
+10%	0.80	0.69
–10%	0.66	0.57
Actual 2017	0.77	0.67
+10%	0.85	0.74
–10%	0.69	0.60

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 has 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 2018, 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.

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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 2018										
Financial assets										
Cash and cash equivalents	15	(1)	-	1	-	1	-	-	-	-
Trade and other receivables	39	(3)	-	3	-	-	-	-	-	-
Cross-currency interest rate swap	-	-	-	-	-	348	-	(137)	-	167
Hedge foreign exchange derivative assets	120	(51)	(145)	62	178	-	-	(2)	-	3
Commodity derivatives	28	-	(5)	-	6	-	-	-	-	-
Financial liabilities										
Trade and other payables	1,061	74	-	(74)	-	58	4	-	(4)	-
Interest-bearing loans and borrowings	35	2	-	(2)	-	1,969	-	179	-	(219)
Net impact		21	(150)	(10)	184		4	40	(4)	(49)
Year ended 30 June 2017										
Financial assets										
Cash and cash equivalents	12	(1)	-	1	-	5	-	-	-	-
Trade and other receivables	148	(10)	-	10	-	3	-	-	-	-
Cross-currency interest rate swap	242	(62)	(1)	76	1	239	-	(131)	-	160
Hedge foreign exchange derivative assets	-	-	-	-	-	1	-	(1)	-	2
Financial liabilities										
Trade and other payables	962	67	-	(67)	-	43	3	-	(3)	-
Interest-bearing loans and borrowings	1,026	62	-	(76)	-	1,854	-	169	-	(207)
Hedge foreign exchange derivative liabilities	174	(56)	(173)	68	211	-	-	-	-	-
Net impact		-	(174)	12	212		3	37	(3)	(45)

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 its 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 Group's Chief Financial Officer 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 2018, after taking into account the effect of interest rate swaps, economic hedging relationships and early repayment of a portion of core debt facilities, approximately 35 per cent of the Group's core borrowings are exposed to movements in variable rates (2017: approximately 40 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 Euro bonds, cross-currency swaps are in place that remove any exposure to 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 2018

15(c) Market risk (continued)

	2018 Balance $m	2018 Weighted average interest rate %	2017 Balance $m	2017 Weighted average interest rate %
Financial assets				
Fixed rate				
Finance advances and loans	71	3.94	88	3.93
Floating rate				
Cash assets	191	0.91	604	1.30
Total weighted average effective interest rate on financial assets at balance date		1.73		1.63
Financial liabilities				
Fixed rate				
Other bank loans	-	-	507	1.09
Corporate bonds	2,810	5.53	2,697	5.53
Weighted average effective interest rate on fixed rate liabilities		5.53		4.66
Floating rate				
Other unsecured bank loans	810	2.44	734	1.04
Corporate bonds	504	2.93	1,475	2.95
Weighted average effective interest rate on floating rate liabilities		2.63		2.31
Total weighted average effective interest rate on financial liabilities:				
at balance date		4.61		3.70
during the year		3.79		3.64
during the year, including bank and liquidity charges		4.18		4.04

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
2018		
Australian variable interest rate +100bps	(7)	42
Australian variable interest rate –100bps	7	(44)
2017		
Australian variable interest rate +100bps	(5)	53
Australian variable interest rate –100bps	5	(56)

Commodity price risk

The Group's exposure to commodity price risk is purely operational and arises from coal price fluctuations, which impact on its coal mining operation, and in relation to the purchase of inventory with commodity price as a significant input, such as natural gas and Brent oil.

- the Group has entered into a Brent oil future contract to hedge the variability in cash flows arising from movements in the natural gas price applicable to forecast natural gas purchases over three years.
- the Group does not enter into any financial instruments that vary with movements in other 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:

- a reasonable change in the Brent oil futures would not have had a material impact to the Group this financial year; and
- the Group's other commodity 'own use contracts' are outside the scope of AASB 9 *Financial Instruments.*

NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2018

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 and NZ dollars. Since the Group trades only with recognised third parties, no requests or requirement for collateral covering trade and other receivables balances have been made.

Exposure

The Group's maximum credit exposure to current receivables, finance advances and loans are shown below:

	2018 %	2017 %
Bunnings	20.0	23.7
Coles	34.7	27.4
Department Stores	2.7	2.8
Officeworks	2.7	2.5
Industrial and Safety	20.8	18.9
Chemicals, Energy and Fertilisers	15.2	11.4
Resources	1.9	11.4
Corporate	2.0	1.9
	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.

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	2018 $m	2017 $m
Capital market debt: carrying amount	3,314	4,172
Capital market debt: fair value	3,437	4,313

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 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 Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts, interest rate swap contracts, cross-currency interest rate swaps and commodity future contracts are all valued using forward pricing techniques. This includes the use of market observable inputs, such as foreign exchange spot and forward rates, yield curves of the respective currencies, interest rate curves and forward rate curves of the underlying commodity. Accordingly, these derivatives 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 which are dealt with above.

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 under $2 million (2017: $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 2018

16. Hedging

Types of hedging instruments

The Group is exposed to risk from movements in foreign exchange, interest rates and commodity prices. 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.

Brent oil future contract: to reduce the Group's exposure to price variability in its forecast purchase of natural gas.

	2018				2017			
	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$96	Asset: nil Liability: 0.75	-	(2)	US$335	Asset: 0.76 Liability: 0.81	3	(10)
Cash flow hedge - sales (GBP)	US$39	Asset: nil Liability: 1.34	-	(1)	US$0	Asset: nil Liability: nil	-	-
Cash flow hedge - purchases (AUD)	US$2,254	Asset: 0.77 Liability: 0.72	117	(5)	US$2,906	Asset: nil Liability: 0.74	-	(154)
Cash flow hedge - purchases (GBP)	US$41	Asset: 1.40 Liability: nil	3	-	US$65	Asset: nil Liability: 1.27	-	(2)
Cash flow hedge - purchases (NZD)	US$137	Asset: 0.71 Liability: nil	8	-	US$156	Asset: nil Liability: 0.69	-	(11)
Cash flow hedge - purchases (AUD)	€20	Asset: 0.64 Liability: 0.63	-	-	€15	Asset: 0.69 Liability: nil	1	-
Interest rate swap contracts								
Cash flow hedge	-	-	-	-	£300	1.09% fixed	-	(1)
Fair value hedge	A$300	BBSW +0.82% floating	5	-	A$300	BBSW +0.82% floating	7	-
Cross-currency interest rate swaps								
Fair value hedge	-	-	-	-	US$750	BBSW +1.24% floating	242	-
Cash flow hedge	€1,250	5.32% fixed	348	-	€1,250	5.32% fixed	240	-
Brent oil contracts								
Cash flow hedge	0.877m barrels	AU$64.88 per barrel	36	(8)	1.309m barrels	AU$68.52 per barrel	-	-
Total derivative asset/(liability)			517	(16)			493	(178)

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(e). 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 these 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 2018

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 or losses relate to the risk intended to be hedged. 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:

	2018		2017	
	Foreign bonds $m	Domestic bonds $m	Foreign bonds $m	Domestic bonds $m
Face value at inception	1,630	1,350	2,358	1,350
Change arising from revaluation to spot rates at 30 June	338	-	476	-
	1,968	1,350	2,834	1,350
Balance of unamortised discount/premium	(7)	(2)	(10)	(4)
Amortised cost	1,961	1,348	2,824	1,346
Accumulated amount of fair value hedge adjustment attributable to hedged risk	-	5	(6)	7
Carrying amount	1,961	1,353	2,818	1,353

There was no material ineffectiveness relating to financial instruments in designated fair value hedge relationships during the year (2017: 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 or natural gas price movements associated with some of our domestic borrowings or forecast natural gas purchases respectively.

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.

	2018				2017			
	Trade $m	Foreign bonds $m	Foreign debt $m	Commodity hedge $m	Trade $m	Foreign bonds $m	Foreign debt $m	Commodity hedge $m
Change in the fair value of the hedged item	294	108	1	28	15	(30)	1	-

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. 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 rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

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

In the first half of the year, the carrying values of both the Target and BUKI CGUs exceeded their respective recoverable amounts and a pre-tax impairment of $1,167 million ($1,253 million post-tax) was recognised in 'impairment expenses' for Target and as part of discontinued operations for BUKI.

The decrease in the recoverable amount of the Target CGU largely reflected the difficult trading conditions in an increasingly competitive market and a moderated outlook for the business. The impairment was recognised in respect of Target's goodwill ($47 million), brand name ($238 million) and other fixed assets ($21 million).

The decrease in the recoverable amount of the BUKI CGU was the result of a continued deterioration in the financial performance of the Homebase stores and a moderated long-term outlook for the broader business. The impairment was recognised in respect of BUKI's brand ($18 million) and goodwill ($777 million), both recognised as part of discontinued operations, a $92 million write-off of its deferred tax asset and $66 million writedown of stock.

Target's recoverable value as at 30 June 2018 continues to approximate its carrying value, while BUKI has been disposed of in the 2018 financial year (refer to note 20).

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 material reversals of impairment during the 2018 financial year.

BACK

NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2018

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 77 per cent of the Group's goodwill and intangible assets with indefinite useful lives at 30 June 2018) and Target CGU, are set out below. Both CGUs adopt the FVLCOD valuation 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, while the growth rates beyond the corporate plan are based on market estimates of the long-term average industry growth rate.

	Coles		Target	
	2018	2017	**2018**	2017
Discount rate (post-tax)	**8.6%**	8.9%	**11.8%**	11.0%
Growth rate beyond corporate plan	**3.0%**	3.0%	**1.7%**	2.5%
Headroom as a percentage of the CGU's net carrying value	**32.2%**	29.9%	**6.7%**	4.9%
Terminal value as a percentage of the Target CGU's recoverable value			**69.2%**	77.1%

As Target's recoverable amount is marginally above its carrying value, any adverse movements in key assumptions may lead to an impairment. Consistent with 30 June 2017, 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 12 per cent change in its forecast long-term EBIT approximates a $62 million change in recoverable value. Reversals of previously recognised impairment charges have been considered and given the marginal headroom under current valuations, an impairment reversal has not been recognised in respect of the Target CGU.

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 Target would result in a material impairment to the Group.

NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2018

18. Associates and joint arrangements

	Consolidated	
	2018 $m	2017 $m
Investments in associates	**731**	686
Interests in joint venture	**17**	17
	748	703
Net profits from operations of associates	**92**	117
Other comprehensive loss of associates	**(8)**	(7)
Profit from operations of joint venture	**5**	30
Other comprehensive income of joint venture	**1**	7
Total comprehensive income	**90**	147

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 its joint venture 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 arrangements 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

				Ownership	
Associates	*Principal activity*	*Reporting date*	*Country of incorporation*	**2018 %**	2017 %
Australian Energy Consortium Pty Ltd[1]	Oil and gas	31 December	Australia	**27.4**	27.4
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)
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 venture	*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: While 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: While 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

For the year ended 30 June 2018

19. Subsidiaries

The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table. Refer to page 135 for the respective legend.

Entity		2018 %	2017 %
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
Andearp Pty Ltd		**100**	100
ANKO Retail Incorporated	@ ◤	**100**	-
Australian Gold Reagents Pty Ltd		**75**	75
Australian Graphics Pty Ltd		**100**	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
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
Blackwoods 4PL Pty Ltd		**100**	100
Blackwoods Training Pty Ltd		**100**	100
Blackwoods Xpress Pty Ltd		**100**	100
BPI Management Pty Ltd		**100**	100
Brian Pty Ltd		**100**	100
BUKI (Australia) Pty Ltd	+	**100**	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
CGNZ Finance Limited	■	**100**	100
Charlie Carter (Norwest) Pty Ltd	*	**100**	100
Chef Fresh Pty Ltd		**100**	100
Chemical Holdings Kwinana Pty Ltd	+	**100**	100
CMFL Services Ltd	*	**100**	100
CMNZ Investments Pty Ltd		**100**	100
CMPQ (CML) Pty Ltd		**100**	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 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 Property Developments Ltd	*	**100**	100
Coles Group Superannuation Fund Pty Ltd		**100**	100
Coles Group Supply Chain Pty Ltd	*	**100**	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 Services Pty Ltd		**100**	100
Coles Stores (New Zealand) Limited	~ ■	**-**	100
Coles Supermarkets Australia Pty Ltd	*	**100**	100
ConsortiumCo Pty Ltd		**100**	100
Coo-ee Investments Pty Limited		**100**	100
Coregas NZ 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

NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2018

19. Subsidiaries (continued)

Entity		2018 %	2017 %
CTE Pty Ltd		**100**	100
Cuming Smith and Company Limited	+	**100**	100
Curragh Coal Sales Co Pty Ltd	~	**-**	100
Curragh Queensland Mining Pty Ltd	~	**-**	100
Dairy Properties Pty Ltd		**100**	100
Ditchburn Property Investments (UK) Ltd	▲	**100**	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
ENV.Australia Pty Ltd		**100**	100
Environmental and Licensing Professionals Pty Ltd		**100**	100
Eureka Operations Pty Ltd	*	**100**	100
FBP Awards Fund Pty Ltd		**100**	100
FIF Investments Pty Limited		**100**	100
Fifthgrange Limited	~ ▲	**-**	100
Fitzgibbons Hotel Pty Ltd		**100**	100
Fitzinn Pty Ltd		**100**	100
Focal Point (Lighting) Limited	~ ▲	**-**	100
Fosseys (Australia) Pty Ltd	+	**100**	100
GBPL Pty Ltd		**100**	100
GPML Pty Ltd		**100**	100
Greencap Holdings Limited		**100**	100
Greencap Pty Ltd		**100**	100
Grocery Holdings Pty Ltd	*	**100**	100
Hampden Group Limited	~ ▲	**-**	100
HHGL (ROI) Limited	~ ◘	**-**	100
HHGL Limited	~ ▲	**-**	100
Home Charm Group Limited	~ ▲	**-**	100
Home Charm Group Trustees Limited	~ ▲	**-**	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 Spend & Save 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
Hunter Property Investments	▽	**100**	100
Iconford Limited	~ ▲	**-**	100
Incorporatewear Limited	▲	**100**	100
Index Limited	~ ▲	**-**	100
J Blackwood & Son Pty Ltd	+	**100**	100
James Patrick & Co Pty Ltd (in liquidation)		**100**	100
KAS Direct Sourcing Private Limited	# ●	**100**	100
KAS Global Holdings Pty Ltd	+	**100**	100
KAS Global Trading Pty Limited	♦	**100**	100
KAS International Sourcing Bangladesh PVT Ltd	⊠	**100**	100
KAS International Trading (Shanghai) Company Limited	▶	**100**	100
KAS Pty Limited	♦	**100**	100
KAS Services India Private Limited	@ ●	**100**	-
Katies Fashions (Aust) Pty Limited		**100**	100
Kleenheat Gas House Franchising Pty Ltd	~	**-**	100
Kleenheat Pty Ltd		**100**	100
Kmart Australia Limited	+	**100**	100
Kmart Holdings Pty Ltd	@	**100**	-
Kwinana Nitrogen Company Proprietary Limited		**100**	100
Lawvale Pty Ltd		**100**	100
Lexden BH (Colchester) Limited	~ ▲	**-**	100
Lexden BH Limited	~ ▲	**-**	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
Mycar Automotive Pty Ltd		**100**	100
Neat N' Trim Uniforms Pty Ltd		**100**	100
Newmart Pty Ltd	*	**100**	100

NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2018

19. Subsidiaries (continued)

Entity		2018 %	2017 %
now.com.au Pty Ltd		100	100
NZ Finance Holdings Pty Limited	■	100	100
Officeworks Businessdirect Pty Ltd		100	100
Officeworks Holdings	@	100	-
Officeworks Ltd	+	100	100
Officeworks NZ Limited (formerly Officeworks Superstores NZ Limited)	■	100	100
Officeworks Property Pty Ltd		100	100
Pailou Pty Ltd	+	100	100
Patrick Operations Pty Ltd		100	100
Petersen Bros Pty Ltd		100	100
Powertrain Pty Limited	~	-	100
Premier Power Sales Pty Ltd		100	100
Procurement Online Pty Ltd		100	100
Protector Alsafe Pty Ltd		100	100
Protex Healthcare (Aus) Pty Ltd		100	100
PT Blackwoods Indonesia	❍	100	100
Quickinstant Limited	~ ▲	-	100
R & N Palmer Pty Ltd		100	100
Rapid Evacuation Training Services Pty Ltd		100	100
Relationship Services Pty Limited		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	100
Richmond Plaza Shopping Centre Pty Ltd		100	100
Ruissellement Limited	~ ▲	-	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
Sotico Pty Ltd		100	100
Target Australia Pty Ltd	+	100	100
Target Australia Sourcing (Shanghai) Co Ltd	# ▶	100	100
Target Australia Sourcing Limited	# ♦	100	100
Target Holdings Pty Ltd	@	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

Entity		2018 %	2017 %
Texas Services Limited	~ ▲	-	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 HK Limited	# ♦	100	100
The Workwear Group Holding Pty Ltd	+	100	100
The Workwear Group Pty Ltd	+	100	100
Tickoth Pty Ltd		100	100
Tooronga Holdings Pty Ltd		100	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
Validus Group Pty Ltd		100	100
Valley Investments Pty Ltd	+	100	100
Viking Direct Pty Limited		100	100
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	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
Wesfarmers Department Stores Holdings Pty Ltd	@	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 Limited	# ■	100	100
Wesfarmers Industrial & Safety NZ Limited	■	100	100

NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2018

19. Subsidiaries (continued)

Entity		2018 %	2017 %
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
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	100
WFPL Security SPV Pty Ltd		100	100
WFPL SPV 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
Yakka Pty Limited		100	100

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.	+
Entities removed from the Closed Group by way of a Revocation Deed during the period.	*

Refer note 24 for further details.

All subsidiaries are incorporated in Australia unless identified with one of the following symbols:

Bangladesh	⊠
Bermuda	◀
Cayman Islands	▽
China	▶
Hong Kong	♦
India	●
Indonesia	❍
Republic of Ireland	◻
New Zealand	■
Portugal	❖
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 and Target Australia Sourcing (Shanghai) Co Ltd, which utilise the Australian dollar and KAS International Trading (Shanghai) Company Limited, PT Blackwoods Indonesia and Wesfarmers Oil & Gas Pty Ltd, which utilise the US dollar.

NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2018

20. Discontinued operations

Sale of Wesfarmers Curragh Pty Ltd

On 22 December 2017, Wesfarmers entered into an agreement to sell its Curragh coal mine in Queensland to Coronado Coal Group for $700 million. The agreement also included a value share mechanism linked to future metallurgical coal prices.

Under the value share mechanism, Wesfarmers will receive 25 per cent of Curragh's export coal revenue generated above a realised metallurgical coal price of US$145 per tonne, paid quarterly over the next two years.

The transaction was completed on 29 March 2018 and represents the disposal of the Curragh coal mine business. The business was not considered a discontinued operation or classified as held-for-sale as at 30 June 2017 and the comparative consolidated income statement and the statement of comprehensive income have been restated to show the discontinued operation separately from continuing operations.

	Consolidated	
	2018 $m	2017 $m
Results of discontinued operation		
Revenue	**1,289**	1,459
Expenses	**(1,107)**	(1,151)
Profit before tax	**182**	308
Income tax expense	**(55)**	(94)
Gain on disposal after income tax	**123**	-
Profit after tax from discontinued operations	**250**	214
Assets and liabilities of controlled entities at date of disposal		
Assets		
Cash and cash equivalents	**-**	8
Trade and other receivables	**176**	151
Inventories	**113**	115
Property, plant and equipment	**547**	545
Other assets	**151**	166
Total assets disposed	**987**	985
Liabilities		
Trade payables	**155**	143
Other liabilities	**277**	264
Total liabilities disposed	**432**	407
Net assets disposed	**555**	578
Cash flows of discontinued operation		
Net cash from operating activities	**182**	356
Net cash used in investing activities	**(43)**	(76)
Net cash used in financing activities	**-**	-
Net cash flows for the year	**139**	280
Gain on disposal		
Total consideration received	**700**	-
Carrying amount of net assets disposed	**(555)**	-
Transaction costs and other items	**(25)**	-
Gain on disposal before income tax	**120**	-
Income tax benefit	**3**	-
Gain on disposal after income tax	**123**	-
Earnings per share - discontinued operation	**cents**	cents
Basic earnings per share	**0.22**	0.19
Diluted earnings per share	**0.22**	0.19

20. Discontinued operations (continued)

Sale of Bunnings UK and Ireland

On 25 May 2018, Wesfarmers entered into an agreement to divest the assets of the BUKI business to a company associated with Hilco Capital for a nominal amount.

The agreement included a value share mechanism whereby Wesfarmers will receive 20 per cent of any equity distributions from the business. This value share mechanism is not limited by time, allowing Wesfarmers to participate in any profitable divestment of the business in the long term. No value for this has been recognised as at 30 June 2018.

The transaction was completed on 11 June 2018 and represents the disposal of the BUKI business. The business was not considered a discontinued operation or classified as held-for-sale as at 30 June 2017 and the comparative consolidated income statement and the statement of comprehensive income have been restated to show the discontinued operation separately from continuing operations.

	Consolidated	
	2018 $m	2017 $m
Results of discontinued operation		
Revenue	**1,706**	2,072
Expenses	**(2,908)**	(2,171)
Loss before tax	**(1,202)**	(99)
Income tax expense	**(80)**	(2)
Loss on disposal after income tax	**(375)**	-
Loss after tax from discontinued operations	**(1,657)**	(101)
Assets and liabilities of controlled entities at date of disposal		
Assets		
Cash and cash equivalents	**133**	36
Trade and other receivables	**22**	27
Inventories	**479**	551
Property, plant and equipment	**269**	235
Goodwill and intangibles	**94**	874
Other assets	**25**	128
Total assets disposed	**1,022**	1,851
Liabilities		
Trade payables	**354**	388
Other liabilities	**384**	331
Total liabilities disposed	**738**	719
Net assets disposed	**284**	1,132
Cash flows of discontinued operation		
Net cash used in operating activities	**(230)**	(291)
Net cash used in investing activities	**(68)**	(96)
Net cash from financing activities	**395**	382
Net cash flows for the year	**97**	(5)
Loss on disposal		
Total consideration received	**-**	-
Carrying amount of net assets disposed	**(284)**	-
Transaction costs and other items	**(91)**	-
Loss on disposal before income tax	**(375)**	-
Income tax expense	**-**	-
Loss on disposal after income tax	**(375)**	-
Earnings per share - discontinued operation	**cents**	cents
Basic earnings per share	**(1.46)**	(0.09)
Diluted earnings per share	**(1.46)**	(0.09)

NOTES TO THE FINANCIAL STATEMENTS: UNRECOGNISED ITEMS

For the year ended 30 June 2018

21. Commitments and contingencies

Consolidated	**2018 $m**	2017 $m
Operating lease commitments		
Group as lessee (i)		
Within one year	**2,323**	2,417
Greater than one year but not more than five years	**7,618**	7,989
More than five years	**8,432**	9,159
	18,373	19,565
Group as lessor (ii)		
Within one year	**14**	18
Greater than one year but not more than five years	**27**	37
More than five years	**4**	7
	45	62
Capital commitments (iii)		
Within one year	**349**	272
Arising from agreements to invest in Gresham Private Equity Funds	**2**	2
	351	274
Other expenditure commitments (iv)		
Within one year	**108**	63
Greater than one year but not more than five years	**245**	59
More than five years	**187**	148
	540	270
Contingencies (v)		
Trading guarantees	**678**	946

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.

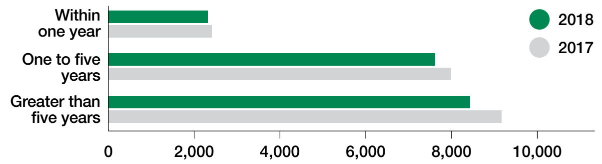
v. Contingent liabilities at balance date are not included in this financial report.

Key judgements: 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.

The reported lease commitments of the Group excludes rent that was considered contingent at lease inception. The effect of this exclusion on the reported lease commitments is not material.

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 less than $1 million (2017: $2 million). The fair value of these guarantees is not considered to be material and has not been recognised in this financial report.

The Group entered into warranties and a guarantee on disposal of BUKI, the fair value of which were provided for at 30 June 2018. The maximum exposure thereunder is not considered material to the Group. Refer to note 20 for further information on the BUKI divestment.

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.

22. Events after the reporting period

Dividends

A fully-franked final ordinary dividend of 120 cents per share resulting in a dividend of $1,361 million was declared for a payment date of 27 September 2018. The dividend has not been provided for in the 30 June 2018 full-year financial statements.

Sale of interest in Bengalla

On 7 August 2018, Wesfarmers announced that it had entered into an agreement with New Hope Corporation to sell its 40 per cent interest in Bengalla for $860 million subject to certain conditions including regulatory approval. On successful completion of the transaction, Wesfarmers expects to record a pre-tax profit on sale of between $670 and $680 million, subject to completion adjustments.

Sale of Kmart Tyre and Auto Service (KTAS)

On 13 August 2018, Wesfarmers announced that it had entered into an agreement with Continental A.G. to sell its KTAS business for $350 million subject to certain conditions including regulatory approval. On successful completion of the transaction, Wesfarmers expects to record a pre-tax profit on sale of between $270 and $275 million, subject to completion adjustments.

Sale of interest in Quadrant

On 22 August 2018, Wesfarmers announced it had agreed to sell its 13.2 per cent indirect interest in Quadrant Energy Holdings Pty Ltd (Quadrant) to Santos Limited for net proceeds of approximately US$170 million (A$231 million). On successful completion of the transaction, Wesfarmers expects to report a pre-tax profit on sale of approximately US$98 million (A$133 million).

The Group's interests in Bengalla, KTAS and Quadrant have not been classified as held-for-sale in these financial statements as the transactions did not meet the conditions for such classification at 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2018

23. Parent disclosures

	Parent 2018 $m	Parent 2017 $m
Assets		
Current assets	**6,687**	8,681
Non-current assets	**22,780**	22,639
Total assets	**29,467**	31,320
Liabilities		
Current liabilities	**1,945**	2,039
Non-current liabilities	**3,362**	4,017
Total liabilities	**5,307**	6,056
Net assets	**24,160**	25,264
Equity		
Equity attributable to equity holders of the parent		
Issued capital	**22,231**	22,239
Employee reserved shares	**1**	-
Retained earnings	**100**	2,482
Dividends reserve	**1,653**	314
Restructure tax reserve	**150**	150
Hedging reserve	**(19)**	37
Share-based payments reserve	**44**	42
Total equity	**24,160**	25,264
Profit attributable to members of the parent	**2,103**	2,474
Total comprehensive income for the year, net of tax, attributable to members of the parent	**2,102**	2,458
Contingencies		
Contingent liabilities at balance date, not included in this financial report, were as follows:		
Trading guarantees	**593**	860

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 was created 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 ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

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.

No entities joined the Closed Group by way of an Assumption Deed throughout the period. Entities that left the Closed Group by way of a Revocation Deed are identified with a ' * ' in note 19. The majority of these entities left the Closed Group effective 28 June 2018.

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 2018 $m	Deed 2017 $m
Profit from continuing operations before income tax	**1,424**	4,030
Profit from discontinued operations before income tax	**384**	308
Income tax expense	**(1,197)**	(1,227)
Net profit for the year	**611**	3,111
Retained earnings at beginning of year	**3,790**	4,049
Remeasurement gain on defined benefit plan, net of tax	**(1)**	1
Adjustment for companies transferred out of the Closed Group	**(1,699)**	(1,136)
Total available for appropriation	**2,701**	6,025
Dividends provided for or paid	**(2,529)**	(2,235)
Retained earnings at end of year	**172**	3,790

Consolidated statement of comprehensive income	Deed 2018 $m	Deed 2017 $m
Profit for the year	**611**	3,111
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Foreign currency translation reserve		
Exchange differences on translation of foreign operations	**-**	48
Cash flow hedge reserve		
Unrealised gains/(losses) on cash flow hedges	**96**	(143)
Realised losses transferred to non-financial assets/net profit	**143**	191
Share of associates and joint venture reserves	**(8)**	-
Tax effect	**(72)**	(17)
Items that will not be reclassified to profit or loss:		
Retained earnings		
Remeasurement loss on defined benefit plan	**(1)**	1
Other comprehensive income for the year, net of tax	**158**	80
Total comprehensive income for the year, net of tax		
Continuing operations	**848**	2,928
Discontinued operations	**(80)**	263
	768	3,191

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For the year ended 30 June 2018

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 2018 $m	Deed 2017 $m
Assets		
Current assets		
Cash and cash equivalents	**2,720**	1,788
Receivables - Trade and other	**897**	1,266
Inventories	**3,575**	5,536
Derivatives	**127**	247
Other	**174**	221
Total current assets	**7,493**	9,058
Non-current assets		
Receivables	**484**	548
Investment in controlled entities	**16,450**	4,579
Investments in associates and joint venture	**290**	262
Deferred tax assets	**370**	771
Property	**494**	1,556
Plant and equipment	**3,051**	6,374
Goodwill	**3,302**	13,725
Intangible assets	**966**	4,539
Derivatives	**391**	246
Other	**1**	27
Total non-current assets	**25,799**	32,627
Total assets	**33,292**	41,685
Liabilities		
Current liabilities		
Trade and other payables	**3,027**	5,850
Interest-bearing loans and borrowings	**993**	1,179
Income tax payable	**390**	240
Provisions	**1,007**	1,649
Derivatives	**16**	154
Other	**178**	306
Total current liabilities	**5,611**	9,378
Non-current liabilities		
Payables	**1,088**	1,307
Interest-bearing loans and borrowings	**2,965**	3,649
Provisions	**631**	1,125
Derivatives	**-**	24
Other	**90**	82
Total non-current liabilities	**4,774**	6,187
Total liabilities	**10,385**	15,565
Net assets	**22,907**	26,120
Equity		
Issued capital	**22,275**	22,268
Reserved shares	**(42)**	(26)
Retained earnings	**173**	3,790
Reserves	**501**	88
Total equity	**22,907**	26,120

25. Auditors' remuneration

Fees of the auditors of the company for:	Consolidated 2018 $'000	Consolidated 2017 $'000
Audit services		
Audit and review of financial reports		
Ernst & Young (Australia)	**5,761**	5,723
Ernst & Young (Overseas network firms)	**812**	702
Assurance-related services		
Ernst & Young (Australian and overseas network firms)	**942**	1,272
Other audit firms	**-**	218
	7,515	7,915
Non-audit services		
Ernst & Young (Australian and overseas network firms):		
– tax compliance	**683**	1,088
– other	**343**	1,219
	1,026	2,307
Total paid to auditors	**8,541**	10,222

The total non-audit services fees of $1,026 thousand represents 12.0 per cent (2017: 23.1 per cent) of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2018. The total non-audit services fees and assurance-related services fees was $1,968 thousand representing 23.0 per cent (2017: 35.8 per cent) of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2018.

26. Related party transactions

	Consolidated 2018 $'000	Consolidated 2017 $'000
Associates		
Management fees received	**12,817**	12,129
Operating lease rent paid	**141,660**	141,668
Financial advisory fees paid	**5,597**	2,356
Amounts receivable from associates	**13,957**	14,549
Reimbursement for lease upgrades	**569**	879
Amounts owing to associates	**39**	17
Other related party transactions	**452**	509
Joint arrangements		
Management fees received	**323**	318
Operating lease rent paid	**38,705**	57,598
Amounts receivable from joint venture	**6,293**	6,102
Amounts owing to joint venture	**66**	63
Other related party transactions	**1,558**	1,244

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 associates. Rent for retail stores and warehouses has been paid by the Group to an associated entity, BWP Trust, and to the ISPT and BPI No. 1 Pty Ltd joint arrangements. During the year, no amounts were paid by ISPT to the Group for the acquisition and development of rental properties (2017: $186,100 thousand). Other related party transactions include sales to associates and joint arrangements on normal commercial terms and conditions.

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NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2018

26. Related party transactions (continued)

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 advisory services to Wesfarmers and were paid fees of $5,596,377 in 2018 (2017: $2,356,069).

P M Bassat, a director of Wesfarmers, was a director of AFL Sportsready Limited (until 11 October 2017) which provided training services to Wesfarmers Group companies on an arm's length and normal commercial terms basis and were paid $107,710 during this period (2017: $449,350).

27. Other accounting policies

(a) New and amended accounting standards and interpretations adopted from 1 July 2017

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2017 to the Group have been adopted, including:

Reference	Description
The effects of the following Standards were not material:	
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.
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. This information is disclosed in note 14.
AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*	This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in their capacity as owners or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.*

(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:			
Amendments to AASB 9 *Financial Instruments* (December 2014) and 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). The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.	1 January 2018	1 July 2018
AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions*	This Standard amends AASB 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
AASB Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*	This interpretation clarifies the determination of the spot exchange rate on initial recognition of related assets, expenses or income on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance considerations.	1 January 2018	1 July 2018
AASB Interpretation 23 - *Uncertainty over Income Tax Treatments*	This interpretation clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation addresses whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit or loss, tax bases, unused tax losses or tax credits and tax rates and how an entity considers changes in facts and circumstances.	1 January 2019	1 July 2019

NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2018

27. Other accounting policies (continued)

Reference	Description	Application of Standard	Application by Group
AASB 15 *Revenue from Contracts with Customers (AASB 15)*	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. Revenue recognition streams are continually evolving across the Group. Management have assessed the impact of this Standard and, based on the revenue streams of the Group as at 30 June 2018, the Group does not expect the application of AASB 15 to have a material effect on the consolidated net income, balance sheet or cash flows of the Group. The Group has adopted this standard on 1 July 2018 using the modified transition approach.	1 January 2018	1 July 2018
AASB 2018-1 *Amendments to Australian Accounting Standards - Further Improvements 2015-2017 Cycle*	This Standard makes the following amendments: – AASB 3 *Business Combinations* - clarifies the requirement to remeasure previously held interest in a joint operation when an entity obtains control of a business; – AASB 11 *Joint Arrangements* - clarifies that there is no requirement to remeasure previously held interest in a joint operation when an entity obtains joint control of a business; – AASB 112 *Income Taxes* - clarifies the requirement for income tax consequences of dividend payments to be accounted for in accordance with the nature of past profits from which the dividends were derived; and – AASB 123 *Borrowing costs* - clarifies the treatment of borrowings originally obtained to develop a qualifying asset.	1 January 2019	1 July 2019
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: – a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and – 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. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.	1 January 2022	1 July 2022

NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2018

27. Other accounting policies (continued)

Reference	Description	Application of Standard	Application by Group
The effect of the following Standard is expected to be material:			
AASB 16 *Leases (AASB 16)*	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 the 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. Information on the undiscounted amount of the Group's operating lease commitments at 30 June 2018 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. The Group plans to adopt the modified retrospective transition approach whereby there is an option on a lease-by-lease basis to calculate the right-of-use asset as either equal to the lease liability or with respect to historical lease payments. Under this method, there is no requirement to restate comparatives. A project team has been working to manage transition as the Group continues to evaluate the implications of AASB 16. A quantitative assessment of the impact of the new standard is expected to be disclosed in the Group's FY2019 half-year results. The project team has focused on: – Implementing a new system for ongoing compliance with AASB 16; – Determining appropriate discount rates for calculating the present value of future lease payments on transition; – Judgements in determining if a decision to exercise options to extend, terminate or purchase the leased asset is reasonably certain; and – Judgements in assessing non-lease components that will be excluded from the right-of-use asset. The project team continues to report to the Audit and Risk Committee on the progress of implementation.	1 January 2019	1 July 2019

(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 2018

28. Share-based payments

The Group provides benefits to employees (including the executive director) 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 3,460,019 (2017: 482,356) at an average price of $42.79 (2017: $42.84) 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 employees' 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)

The last issue under the WLTIP was made in November 2016, where eligible executives were invited to receive performance rights in the company, subject to testing at the end of the applicable four-year performance period. Further details of the WLTIP including the terms of grants and the performance hurdles are provided in the remuneration report.

Key Executive Equity Performance Plan (KEEPP)

KEEPP was introduced in September 2016, and was the only variable remuneration plan the current executive KMP were invited to participate in during the 2018 financial year.

Under the plan in September 2017, eligible executives were invited to receive performance shares and restricted shares in the company.

Performance shares

For the Group Managing Director and the Group Chief Financial Officer, the performance hurdles are Wesfarmers' TSR relative to the TSR of the ASX 100 (50 per cent weighting), absolute ROE (20 per cent weighting) and strategic measures (30 per cent weighting). For the divisional managing directors, the performance hurdles are cumulative EBIT and ROC performance against the divisional corporate plan (80 per cent weighting) and Wesfarmers' TSR relative to the TSR of the ASX 100 (20 per cent weighting).

The fair value of the performance shares with a TSR hurdle is determined using an option pricing model with the following inputs:

Grant date	**25 Sept 2017**
Grant date share price ($)	**41.07**
Volatility (%)	**17.42**
Risk-free rate (%)	**2.27**
Fair value ($)	**27.36**

Equity-settled awards outstanding

Weighted average share price in 2018 was $42.93 (2017: $42.33). The following table includes shares subject to trading restrictions.

	WESP	WLTIP		KEEPP	WESAP	
	(options)	(shares)	(rights)	(shares)	(shares)	(rights)
Outstanding at the beginning of the year	450,482	497,553	1,497,659	256,472	7,725,868	172,621
Granted during the year	-	74,128	-	418,414	3,158,623	-
Exercised during the year	(223,619)	(306,817)	(304,086)	-	(2,566,667)	-
Lapsed during the year	-	-	(277,752)	-	(590,222)	-
Other adjustments	-	30,462	-	-	(23,268)	(172,621)
Outstanding at the end of the year	226,863	295,326	915,821	674,886	7,704,334	-
Exercisable at the end of the year	1,150,593	9,440,440	-	-	3,957,701	-

NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2018

28. Share-based payments (continued)

Key Executive Equity Performance Plan (KEEPP) (continued)

Restricted shares

Eligible executives also received a restricted shares award under the KEEPP. However, if an executive resigns or is terminated for cause within a year, 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. The grant date share price is the fair value of both the restricted share and the performance share with EBIT and ROC hurdles.

Further details of the KEEPP and of the terms of the grants during the year are provided in the remuneration report.

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 (2018 average: $42.89 (2017 average: $42.52)) is determined with reference to the share price on the date of grant.

Wesfarmers Employee Share Acquisition Plan (WESAP) - Executives

In November 2016, WESAP was introduced to eligible executives. Under this offer, eligible executives were invited to receive an award of Wesfarmers' fully-paid ordinary shares or an equivalent cash payment at the end of a three-year performance period. The Board has discretion to settle the award with shares or cash.

If an executive resigns or is terminated for cause within three years, the Board may decide whether to cancel the share allocation or cash payment.The fair value of the equity instruments granted (2018 average: $43.06 (2017 average: $42.52)) 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 77 to 96 of this annual report designated as audited and forming part of the directors' report.

	Consolidated	
	2018 $'000	2017 $'000
Short-term benefits	**19,334**	23,674
Long-term benefits	**199**	203
Post-employment benefits	**283**	1,271
Termination benefits	**1,919**	-
Share-based payments	**11,808**	16,828
	33,543	41,976

Other transactions with key management personnel

Refer to note 26 in relation to transactions with Gresham Partners Group Limited and AFL Sportsready Limited in which J P Graham and P M Bassat are directors respectively.

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. 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.

	Consolidated	
	2018 $m	2017 $m
Tax paid or payable reconciliation		
Accounting profit	**3,850**	3,929
Income tax at the statutory tax rate of 30%	**1,155**	1,179
Non-deductible items	**111**	9
Temporary differences: deferred tax	**29**	7
Associates and other	**(12)**	(8)
Current year tax paid or payable	**1,283**	1,187
Effective tax rate		
Effective tax rate for Australian operations	**32.5%**	29.9%
Effective tax rate for Australian operations (excluding Target impairment[1])	**30.0%**	29.9%
Effective tax rate for global operations	**32.4%**	29.7%
Effective tax rate for global operations (excluding Target impairment[1])	**30.0%**	29.7%

[1] The $306 million impairment of Target's goodwill and non-current assets recognised during FY2018 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 2018 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 2018 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 103 of the 2018 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 2018.

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 G Scott Managing Director

Perth

14 September 2018

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

Building a better working world

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Independent auditor's report to the Members of Wesfarmers Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Wesfarmers Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2018, 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 to the financial statements and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

1. Impairment of non-current assets including intangible assets in Target

Why significant	How our audit addressed the key audit matter
The determination of the recoverable amounts of property, plant and equipment ("PPE"), goodwill and other intangible assets requires significant judgement by the Group. As required by Australian Accounting Standards, the Group assesses at the end of each reporting period whether there are any triggers indicating that an asset may be impaired. Goodwill and indefinite life intangibles are assessed for impairment at least annually. Impairment assessments are typically complex and judgemental, as they include the modelling of a range of assumptions and estimates that will be impacted by future performance and market conditions. During the 2018 financial year, an impairment charge of $306 million was recognised in relation to Target, comprising goodwill ($47 million), brand name ($238 million) and other fixed assets ($21 million) as disclosed in Note 17 *Impairment of non-financial assets*. There were no material reversals of impairment charges from prior years during the 2018 financial year. Key assumptions, judgements and estimates applied in the Group's impairment assessment for Target, are set out in Note 17. Note 17 also includes a statement that Target's recoverable value is sensitive to changes in the discount rate and the terminal value. Based upon the disclosed sensitivity analysis, changes to the key assumptions applied in the impairment test could give rise to an impairment of the carrying value of the Target cash generating unit ("CGU"). Critical to supporting the recoverability of the Target CGU, is the business' ability to achieve its planned trading results.	Our audit procedures included an evaluation of the assumptions and methodologies utilised in the assessments, with emphasis on those relating to the determination of CGUs, forecast cash flows, growth rates, discount rates, comparative industry valuation multiples and other market evidence. We involved our valuation specialists to evaluate the appropriateness of key inputs, where relevant to the impairment tests, including: • Discount rates • Terminal growth rates • Market evidence of industry earnings valuation multiples • Long-term inflation and growth rate assumptions • Forecast exchange rate assumptions. We also considered the adequacy of the financial report disclosures regarding the impairment testing approach, key assumptions and sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

2. Supplier rebates

Why significant

Supplier rebates are rebates received by the Group from suppliers associated with its retail operations.

We determined this to be a key audit matter due to the quantum of supplier rebates recognised during the year and the judgement required to be exercised in relation to a number of factors, including:

- The commercial terms of each individual rebate
- The appropriate timing of recognition
- Consideration of the nature of the rebate and whether the amount should be applied against the carrying value of inventory or recognised in the income statement
- The accurate recognition and measurement of rebates in accordance with Australian Accounting Standards and the Group's related processes and controls.

Disclosures relating to the measurement and recognition of supplier rebates can be found in Note 6 *Inventories*.

How our audit addressed the key audit matter

Our audit procedures in respect of supplier rebates included the following:

- We gained an understanding of the nature of each material type of supplier rebate including assessing the significant agreements in place
- We assessed the effectiveness of relevant controls in place relating to the recognition and measurement of rebate amounts
- We performed comparisons of the various rebate arrangements against the prior year and budget, including analysis of aging profiles and where material variances were identified, obtained supporting evidence
- We selected a sample of supplier rebates and tested whether documentation existed supporting the recognition and measurement of the rebates in the 30 June 2018 financial statements
- We inspected a sample of material new contracts entered into, both before and after the balance date and assessed whether the treatment adopted by the Group was appropriate
- We inquired of legal counsel as to the existence of other rebate contracts or contracts with unusual terms and conditions
- We inquired of business representatives including product category merchandisers, supply chain managers and procurement staff as to the existence of any non-standard agreements or side arrangements.

3. Discontinued operations of Curragh

Why significant

During the period, the Group entered into an agreement to sell the Curragh coal mine for $700 million. The agreement also included a value share mechanism linked to future metallurgical coal prices.

Wesfarmers has recognised a $250 million profit after tax from the Curragh discontinued operation which incorporates both the trading result to the point of effective disposal and the gain on disposal. Refer to Note 20 *Discontinued operations* to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included the following:

- We obtained and read the sale and purchase agreements and related documents to assess the calculation of the post-tax gain on disposal recorded during the financial year
- We evaluated the key inputs of the post-tax gain on sale calculation, being the consideration received, transaction costs incurred and working capital adjustments recognised
- We assessed whether the Group accurately determined the value of assets and liabilities derecognised as at the transaction completion date and whether the operating result to the point of effective disposal was correctly recorded
- Our tax specialists considered the tax impacts of the divestment including considering external advice obtained by the Group
- We assessed the financial report disclosures, including the classification of both continued and discontinued operations in accordance with the requirements of Australian Accounting Standards.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

4. Discontinued operations of Bunnings UK and Ireland ("BUKI")

Why significant

During the six months to 31 December 2017, an impairment charge of $953 million after tax was recognised in relation to BUKI, comprising goodwill ($777 million), brand name ($18 million), stock ($66 million) and deferred tax assets ($92 million).

The related disclosures are included in the significant accounting policies and in Note 17.

On 25 May 2018, the Group agreed to divest the BUKI business for a nominal amount.

In the 2018 financial statements, the Group has recognised a $1.66 billion loss after tax from the discontinued operations of BUKI which incorporates the impairment charge recognised in the first six months of the year, the trading result to the point of effective disposal and the loss on disposal.

The related disclosures are included in the significant accounting policies and in Note 20.

How our audit addressed the key audit matter

Our audit procedures in respect of assessing the appropriateness of impairment recognised, included an evaluation of the assumptions and methodologies utilised in the assessments, in particular those relating to the determination of the CGU, forecast cash flows, growth rates, discount rates, comparative industry valuation multiples and other market evidence.

We involved our valuation specialists to evaluate the appropriateness of key inputs, including:

- Discount rates
- Terminal growth rates
- Market evidence of industry earnings valuation multiples
- Long-term inflation and growth rate assumptions
- Commodity price assumptions
- Forecast exchange rate assumptions
- Performing sensitivity analysis on the model forecasts and key assumptions.

Our audit procedures in respect of the discontinued operations included the following:

- We read the sale and purchase agreements and related documents to obtain an understanding of the key provisions of the sale and to assess the calculation of the post-tax loss on disposal recorded during the financial year
- We assessed whether the Group accurately determined the value of assets and liabilities derecognised as at the transaction completion date and whether the operating result to the point of effective disposal was correctly recorded
- Our tax specialists considered the tax impacts of the divestment including considering external advice obtained by the Group
- We assessed the financial statement disclosures, including the classification of both continued and discontinued operations in accordance with the requirements of Australian Accounting Standards.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Wesfarmers Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
14 September 2018

SHAREHOLDER INFORMATION

Substantial shareholders

As at the date of this report, the following shareholders are substantial shareholders for the purposes of Part 6C.1 of the *Corporations Act 2001*:

- BlackRock Group (BlackRock Inc. and subsidiaries) holding 5.00 per cent; and
- The Vanguard Group, Inc. holding 5.00 per cent.

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	386,776
1,001 – 5,000	88,077
5,001 – 10,000	9,668
10,001 – 100,000	4,844
100,001 and over	162

There were 10,889 shareholders that held less than a marketable parcel of Wesfarmers ordinary shares.

There were 1.17 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 14 September 2018 were:

Name	Number of shares	% of issued capital
HSBC Custody Nominees (Australia) Limited	260,736,213	23.00
J P Morgan Nominees Australia Limited	171,779,736	15.15
Citicorp Nominees Pty Limited	60,222,971	5.31
National Nominees Limited	38,105,751	3.36
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	16,462,225	1.45
BNP Paribas Noms Pty Ltd (DRP)	12,694,831	1.12
HSBC Custody Nominees (Australia) Limited (Nt-Comnwlth Super Corp A/C)	8,527,303	0.75
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	8,468,395	0.75
Australian Foundation Investment Company Limited	6,722,500	0.59
CPU Share Plans Pty Limited (WESAP DFE Control A/C)	5,880,537	0.52
Argo Investments Limited	5,040,027	0.44
AMP Life Limited	3,700,288	0.33
Milton Corporation Limited	2,856,375	0.25
CPU Share Plans Pty Limited (WES Exu Control A/C)	2,854,161	0.25
IOOF Investment Management Limited (IPS Super A/C)	2,615,201	0.23
HSBC Custody Nominees (Australia) Limited	2,198,105	0.19
HSBC Custody Nominees (Australia) Limited - GSCO ECA	1,953,290	0.17
Goldman Sachs Australia + Nominee Holdings Pty Ltd (WES Ltd Div Inv Plan A/C)	1,938,209	0.17
Navigator Australia Ltd (MLC Investment Sett A/C)	1,905,871	0.17
Netwealth Investments Limited (Wrap Services A/C)	1,749,370	0.15

The percentage holding of the 20 largest shareholders of Wesfarmers ordinary shares was 54.36.

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;
- view your transaction and dividend history; and
- generate a holding balance letter.

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

Telephone International (+61 3) 9415 4631

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.

FIVE-YEAR FINANCIAL HISTORY

All figures in $m unless shown otherwise	2018	2017[1] Restated	2016[2]	2015[2]	2014[2,3] Restated
Summarised income statement[4,5]					
Sales revenue	**66,608**	64,583	65,643	62,129	59,903
Other operating revenue	**275**	330	338	318	278
Operating revenue	**66,883**	64,913	65,981	62,447	60,181
Operating profit before depreciation and amortisation, finance costs and income tax	**5,259**	5,352	2,642	4,978	3,877
Depreciation and amortisation	**(1,198)**	(1,175)	(1,296)	(1,219)	(1,082)
EBIT	**4,061**	4,177	1,346	3,759	2,795
Finance costs	**(211)**	(248)	(308)	(315)	(346)
Income tax expense	**(1,246)**	(1,169)	(631)	(1,004)	(939)
Profit after tax from discontinued operations	**(1,407)**	113	-	-	1,179
Operating profit after income tax attributable to members of Wesfarmers Limited	**1,197**	2,873	407	2,440	2,689
Capital and dividends					
Ordinary shares on issue (number) 000's as at 30 June	**1,133,840**	1,133,840	1,126,131	1,123,753	1,143,275
Paid up ordinary capital as at 30 June	**22,277**	22,268	21,937	21,844	22,708
Fully-franked dividend per ordinary share declared (cents)	**223**	223	186	200	200
Capital management: capital return and fully-franked dividend components	**-**	-	-	100	50
Financial performance					
Earnings per share (weighted average) (cents)	**105.8**	254.7	36.2	216.1	234.6
Earnings per share growth	**(58.5%)**	603.6%	(83.2%)	(7.9%)	19.8%
Return on average ordinary shareholders' equity (R12) (excluding significant items[4])	**11.7%**	12.4%	9.6%	9.8%	10.5%
Fixed charges cover (R12, times) (excluding significant items[6])	**3.0**	3.1	2.7	3.0	3.2
Interest cover (cash basis) (R12, times) (excluding significant items[6])	**30.4**	25.0	16.8	20.5	15.9
Financial position as at 30 June					
Total assets	**36,933**	40,115	40,783	40,402	39,727
Total liabilities	**14,179**	16,174	17,834	15,621	13,740
Net assets	**22,754**	23,941	22,949	24,781	25,987
Net tangible asset backing per ordinary share	**$4.33**	$4.44	$3.45	$4.85	$6.14
Net debt to equity	**17.3%**	20.1%	31.0%	25.1%	13.1%
Total liabilities/total assets	**38.4%**	40.3%	43.7%	38.7%	34.6%
Stock market capitalisation as at 30 June	**55,966**	45,490	45,158	43,860	47,835

1 The 2017 numbers have been restated to reflect the disposal of BUKI and the Curragh coal mine as discontinued operations.
2 The 2016 to 2014 numbers have not been restated for classification of BUKI and the Curragh coal mine as discontinued operations.
3 The 2014 numbers have been restated to reflect the disposal of WesCEF's interest in Air Liquide WA Pty Ltd as a discontinued operation.
4 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.
5 The summarised income statement for 2018 includes significant items relating to the pre-tax $306 million ($300 million post-tax) non-cash impairment of Target.
6 The 2018 and 2016 numbers exclude the significant items outlined in footnotes 4 and 5 above.

CORPORATE DIRECTORY

Wesfarmers Limited ABN 28 008 984 049

Registered office

Level 14, Brookfield Place Tower 2
123 St Georges Terrace
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 director

Rob Scott
Group Managing Director and Chief Executive Officer

Non-executive directors

Michael Chaney AO
Chairman
Paul Bassat
The Right Honourable Bill English KNZM
Tony Howarth AO
Wayne Osborn
Diane Smith-Gander
Vanessa Wallace
Jennifer Westacott AO

Chief Financial Officer

Anthony Gianotti

Company Secretary

Linda Kenyon

Share registry

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067

Telephone Australia 1300 558 062
Telephone International (+61 3) 9415 4631
Facsimile Australia (03) 9473 2500
Facsimile International (+61 3) 9473 2500
Website www.investorcentre.com/wes

Financial calendar+

Record date for final dividend	21 August 2018
Final dividend paid	27 September 2018
Annual general meeting	15 November 2018
Half-year end	31 December 2018
Half-year profit announcement	February 2019
Record date for interim dividend	February 2019
Interim dividend payable	April 2019
Year-end	30 June 2019

+ Timing of events is subject to change.

Annual general meeting

The 37th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia on Thursday, 15 November 2018 at 10:30am (Perth time).

Website

To view the 2018 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**

BACK

WESFARMERS BRANDS

Bunnings

Bunnings Warehouse · Bunnings · Bunnings Trade

Coles

coles · coles.com.au · coles express · Vintage Cellars · first choice liquor

Liquorland · spirit hotels · coles Financial Services · flybuys

Department Stores

Kmart · Kmart Tyre & Auto Service · Target

Officeworks

Officeworks

Industrials

Wesfarmers Chemicals, Energy & Fertilisers · CSBP · Australian Vinyls · AGR · QNP · EVOL LNG · Kleenheat · MODWOOD · Quadrant Energy

Wesfarmers Industrial and Safety · Blackwoods · NZ Safety Blackwoods · WORKWEAR GROUP · coregas · GREENCAP

Wesfarmers Resources · BENGALLA

Other businesses

bwp TRUST · GRESHAM · wespine

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