# Wesfarmers
# Annual Report 2010

## Creating value









Wesfarmers

**WESFARMERS LIMITED**
ABN 28 008 984 049

**The 200,000 people in our teams across our major business groupings of retail, industrial and insurance, reach millions of customers every day in every part of Australia and New Zealand, creating value for all our stakeholders, in particular, through generating satisfactory returns to our shareholders.**

We continue to make a vitally important contribution to the communities in which we live and work and do it all in a way which is sensitive to the environment in which we operate.

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# Highlights and summary

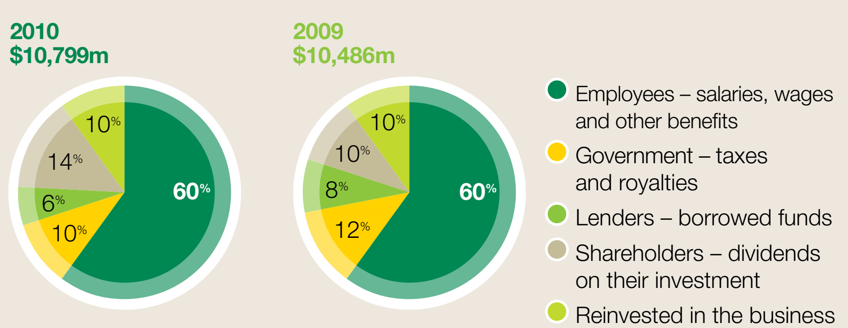
## A strong performance with higher profits and increased dividends to shareholders

## Results summary

| | | 2010 | 2009 |
|---|---|---|---|
| **Key financial data** | | | |
| Revenue | $m | **51,827** | 50,982 |
| Earnings before interest and tax* | $m | **2,869** | 2,947 |
| Net profit after tax (pre significant items)* | $m | **1,702** | 1,628 |
| Net profit after tax* | $m | **1,565** | 1,522 |
| Dividends | $m | **1,446** | 1,102 |
| Total assets* | $m | **39,236** | 39,062 |
| Net debt | $m | **4,035** | 4,435 |
| Shareholders' equity* | $m | **24,694** | 24,248 |
| Capital expenditure on property, plant and equipment and intangibles | $m | **1,656** | 1,503 |
| Depreciation and amortisation* | $m | **917** | 856 |
| **Key share data** | | | |
| Earnings per share* | cents | **135.7** | 158.5 |
| Dividends per share | cents | **125.0** | 110.0 |
| Net tangible assets per share* | $ | **3.61** | 3.13 |
| Operating cash flow per share | $ | **2.88** | 3.25 |
| **Key ratios** | | | |
| Return on average shareholders' equity*(R12) | % | **6.4** | 7.3 |
| Gearing (net debt to equity) | % | **16.3** | 18.3 |
| Interest cover (cash basis) | times | **6.8** | 5.0 |

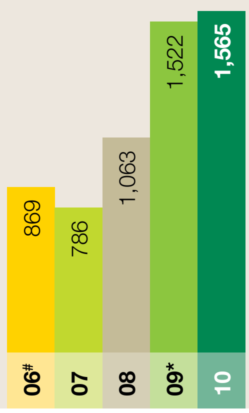
* 2009 restated for change in accounting policy for Stanwell royalty payment.

### VALUE GENERATED AND DISTRIBUTED BY WESFARMERS




### NET PROFIT AFTER TAX ($m)

**$1,565**




# Excludes earnings from the sale of ARG.

* Restated for change in accounting policy for Stanwell royalty payment.

## Financial highlights

- 2.8 per cent increase in net profit after tax to $1,565 million.
- 1.7 per cent increase in the Group's operating revenue to $51.8 billion and a 4.4 per cent increase across the retail divisions.
- Earnings before interest and tax (EBIT) of $2,869 million, down 2.6 per cent, whilst EBIT (excluding Resources) increased 31.1 per cent, with earnings improvements achieved across most divisions.
- Combined retail divisions EBIT was up 15.8 per cent despite challenging retail conditions, particularly in the second half of the year, highlighting encouraging performance in the Group's turnaround businesses.
- EBIT from the Resources division was $165 million compared with a record $885 million[1] in the previous corresponding period, resulting from a significant reduction in the March 2009 price settlements, following declines in global export coal prices between August 2008 and May 2009.
- Industrial and Insurance divisions reported a 37.3 per cent increase in combined earnings[2] on a return to more normalised trading conditions for the industrial businesses and a strong turnaround in underwriting profitability for Insurance.
- 9.3 per cent increase in operating cash flows to $3,327 million supported by a $415 million reduction in Group working capital.
- Earnings per share of $1.36, down 14.4 per cent, on the expanded share capital.
- $0.70 fully-franked final dividend per share declared, taking the full-year dividend to $1.25 per share.
- Balance sheet strengthened with net debt of $4.0 billion and further diversification and extension of the Group's debt maturity profile.

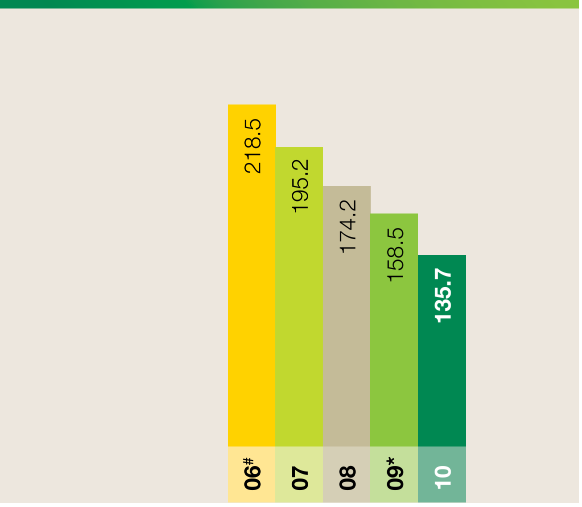
[1] Restated for change in accounting policy for Stanwell royalty payment.

[2] Excluding a $48 million non-cash impairment charge related to Coregas.

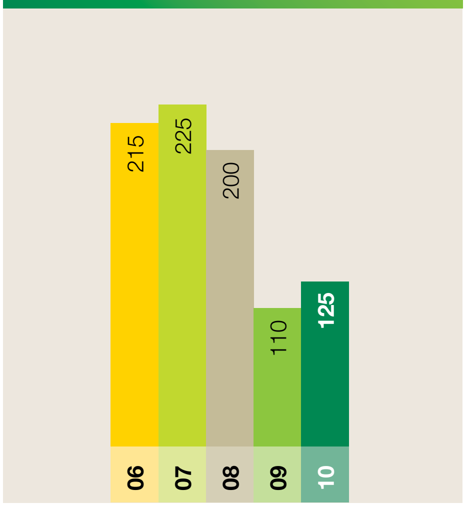
## Operational highlights

- Coles' new management team has established solid business foundations, with significant improvements made to the in-store offer and higher levels of customer trust established in the Coles brand.
- Home Improvement and Office Supplies both delivered robust growth across all business channels. Bunnings' network growth accelerated, with 22 new stores and trade centres opened during the year. Officeworks opened five new stores and 12 stores were fully upgraded.
- Target delivered a solid result, despite difficult trading conditions, driven by good inventory management and merchandise planning, a favourable shift in sales mix towards apparel and a focus on costs. Target opened seven stores (including one replacement store), closed three stores and refurbished 24 stores during the year.
- Kmart relaunched its offer during the year, moving to a low price everyday strategy. Good progress has been made to date, with strong customer response reflected in pleasing transaction growth and improved earnings from category management. Supply chain restructuring delivered further earnings benefits.
- Resources announced a $286 million expansion of the Curragh mine to 8.0 – 8.5 million tonnes annual export capacity, the early completion of the Blackwater Creek diversion project and a long-term contract with Thiess for overburden removal at Curragh.
- Insurance delivered strong earnings growth following portfolio and business unit restructuring and an ongoing focus on underwriting and claims management disciplines.
- Chemicals and Fertilisers merged with Energy from 1 July 2010 to form Wesfarmers Chemicals, Energy & Fertilisers division. These businesses benefited from a return to full gas supply for the year.
- Wesfarmers' Industrial and Safety division achieved a solid result in a challenging economic environment. The business delivered good sales momentum in a number of areas and upgraded its supply chain capabilities. As part of the divisional restructure Coregas became part of Industrial and Safety.

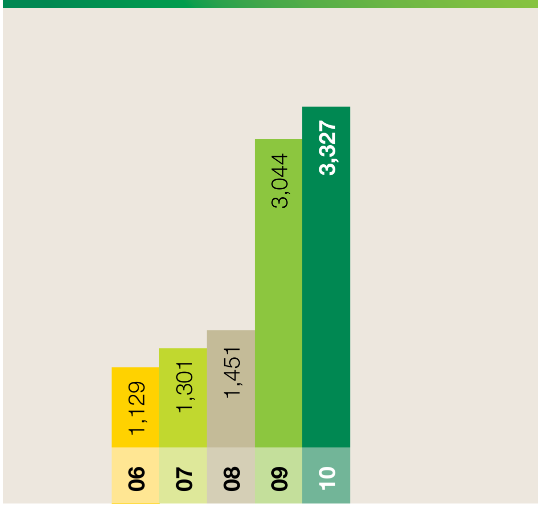
**EARNINGS PER SHARE (cents)**
**135.7**




**DIVIDENDS PER SHARE (cents)**
**125**




**OPERATING CASH FLOW ($m)**
**$3,327**



# Chairman's message

I am extremely pleased to present the 2010 Wesfarmers Annual Report to shareholders after what has been a milestone year for this great company.

During the 2009/10 financial year we celebrated the 25th anniversary of Wesfarmers' listing as a public company. We have indeed come a long way in that quarter of a century and the growth of the company is worthy of reflection.

At the time of the original stock market listing back in late 1984 when, after 70 years as a West Australian farmers' cooperative, Wesfarmers transformed itself into a publicly listed company, it had a market capitalisation of approximately $91 million. At listing there were 40.1 million shares on issue and approximately 21,000 shareholders in the company. If $1,000 was invested in Wesfarmers upon listing in 1984 and that investment was held, with dividends reinvested for more Wesfarmers shares, the original $1,000 investment would, at 16 September 2010, be worth more than $200,000. That's a pretty good return on investment and a very good reflection of the performance of the company over two and a half decades. A single shareholder from 1984 would now have not 21,000 fellow shareholders, but more than half a million of them. As at 16 September 2010, there were 1,157 million Wesfarmers shares on issue and the company had a market capitalisation of $38 billion.

We have grown into one of Australia's largest public companies and, I am proud to say, we are Australia's biggest private sector employer with about 200,000 employees. This success can be attributed to the sustained series of outstanding leaders the company has had, from John Bennison and Trevor Eastwood to Michael Chaney and now Richard Goyder.

### Creating value

Ever since Wesfarmers became a listed company, it has been our stated objective to provide a satisfactory return to shareholders and that remains, and will continue to remain, the central focus of our efforts. Wesfarmers also has a reputation as a company which operates according to the highest ethical standards and one which contributes strongly to the communities in which we operate. Over and above the direct benefit that flows from employment for about 200,000 people, and our mutually beneficial relationships with thousands of suppliers, we aim to create value in our communities in a sustained and responsible way.

Our strong sustainability agenda, comprehensively reported on since 1998, focuses on maintaining and enhancing the physical environment, providing safe workplaces, treating all our stakeholders with respect and dignity, and investing in communities through partnerships, programs and sponsorships.

We are major supporters of the arts in Australia, health and medical research, indigenous programs like the Clontarf Football Academy, and education programs from school to university and beyond. Last year we launched our Reconciliation Action Plan and we are committed to providing employment opportunities for Aboriginal people wherever we can. We firmly believe that to have a healthy business you must have strong and vibrant communities in which to live and work and we are enthusiastically meeting the challenges such an objective presents. Putting a dollar measurement on the benefit of our support for communities is an inexact science, but the London Benchmarking Group has assessed Wesfarmers' total community contributions, direct and leveraged from our support, at $50.6 million for the last financial year.

### Business performance

Wesfarmers has emerged in good shape from one of the most volatile and challenging times in our company's history, and, I believe, we have good reason to be confident about the future.

As I reported last year, the Board has been very focused on ensuring that the company is in a sound financial position and well-placed to prosper from a return to a strong economy, which was the impetus for the 2009 equity raising.

In my second year as Chairman, it was particularly pleasing to see a consolidation of our position through the strong performances of our divisions. We were able to report a net profit after tax of $1,565 million for the full-year ended 30 June 2010, up 2.8 per cent from the previous year. That result came despite the significant drop in earnings from the Resources division, due to much lower export coal prices in the first nine months of this financial year. The directors were able to declare an increase in the final dividend to 70 cents per share fully-franked, taking the full-year dividend to 125 cents per share, compared to 110 cents per share for the 2009 full-year.

The highlight for the year was the improvement in earnings across most divisions and, in particular, the encouraging performance in the Group's retail turnaround businesses. The positive commentary about the performance of these businesses was noteworthy and an indication that their potential value to the company over the longer term is now being more widely acknowledged. We have always said it would take time to see the improvement in the businesses coming through, but with the right people and the right strategies in place, Coles, Kmart and Officeworks would join Target, Bunnings and our Industrial, Resources and Insurance businesses in delivering long-term value to shareholders and growth opportunities for the company. We are confident the right people are now in place and the fruits of their approach are beginning to be seen.

**Wesfarmers has emerged in good shape from one of the most volatile and challenging times in our company's history, and, I believe, we have good reason to be confident about the future.**

Featured artwork:
*Kulama,* ochre on canvas 2008, Timothy Cook, Tiwi Islands NT, The Wesfarmers Collection of Australian Art

### Broader factors

Economic conditions in Australia remained challenging throughout the year, although any international comparison shows we escaped the worst effects of the global financial crisis felt by the rest of the world. Retail trading conditions during the year were mixed. Consumer spending showed signs of recovery, before being affected by higher interest rates and household bills in the second half. Performance was further affected, particularly in the second half of the year, by trading against last year's consumer demand fuelled by the Australian Government's stimulus package.

During the year, I took the opportunity of writing directly to all shareholders, sharing with you my very real concerns about the Federal Government's proposal to introduce a Resources Super Profits Tax.

It was the Board's strongly held view that the proposed super profits tax would not only have made Australia less competitive in the global resource industry, but also had significant, negative flow-on effects for the broader economy and society, and you, the Wesfarmers shareholder. Wesfarmers sought to take a constructive and cooperative role in debate about the tax and was pleased when the proposal was dropped.

In our judgement, the replacement proposal, the Minerals Rent Resource Tax, would not have the same negative impact on the company. We do not oppose – in fact, we welcome – genuine tax reform, but it must be done through a process of real dialogue with all stakeholders so that the best, most equitable model can result.

### The Board

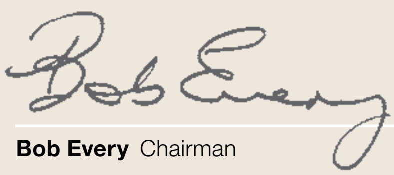
Wesfarmers has always been well-served by outstanding board members and I am confident our current members continue that tradition of excellence. There have been some significant changes to board membership in the last year. Regrettably, Patricia Cross resigned after seven years on the Board, including membership of the Remuneration and Nomination committees. Patricia's experience and expertise were invaluable to our deliberations and I want to thank her for her contribution to the company. In March, we appointed Wayne Osborn as a new director. Wayne is the former Chairman and Managing Director of Alcoa of Australia Ltd and has been a director of Thiess Pty Ltd since 2005.

We have also appointed Vanessa Wallace to the Board. Vanessa heads up Booz & Company's financial services practice and has held multiple governance roles at the highest level within that firm's global partnership. Finally, David White is stepping down from the Board at the conclusion of this year's Annual General Meeting, after 20 years of outstanding service to Wesfarmers. David has been Chairman and a member of the Audit and Nomination committees and is the longest-standing board member. David's knowledge, experience and humour will be missed, and I would like to sincerely thank him for his great contribution to the company.

### Into the future

Wesfarmers is well-placed to benefit from any further upturn in the Australian economy, but we remain cognisant of the fragility of global markets and cautious of the negative impact that any sign of a potential downturn, or added pressure on household budgets, would have on the Australian retail environment. Overall, the Board remains optimistic about the future performance of the Group, particularly given the opportunity to extract further improvements from the turnaround businesses over the longer-term.

On behalf of the Board, I want to sincerely thank Richard Goyder and his executive team for their unwavering focus on achieving the best results possible for our shareholders, as well as the tens of thousands of employees across the divisions who help deliver those results every day of the week. And finally, I would like to thank you, the shareholders, for your ongoing support of this great company.



**Bob Every** Chairman

# Managing Director's review

Reporting to you last year, I observed that Wesfarmers was in a strong position to capitalise on a return to more normal economic conditions. While a degree of global uncertainty continues, the most heartening feature of the last 12 months for our shareholders and employees has been the fact that the company has been able to deliver improved results.

Before going to the detail of those outcomes, I think it is worth reflecting briefly on some broader considerations.

As you would know, Wesfarmers is one of very few major companies that have consistently achieved success from owning and operating a diversified portfolio of businesses. The experience of the past year has, once again, underlined the strength and durability of our operating model. Most of the businesses we own produced higher profits.

The way in which Wesfarmers is different tends to defy conventional wisdom. We have always managed our businesses for the long-term and maintained the discipline of very deliberately marching to the beat of our own drum. The results over more than 25 years have been impressive, as the Chairman has outlined in his report. Of the key reasons for this record of success, I believe the most important, is that Wesfarmers has always been able to attract very talented people. And that was a critical part of the story going back well before the day we became a listed company in 1984. Additionally, we have maintained a financial focus which has enabled us to make informed decisions around our key objective of providing satisfactory returns to shareholders. Another central feature, heavily influenced, I believe, by our rural origins, is a disposition to patience and perseverance leading to future rewards.

### Values

Underlying all this, and the high quality systems and processes that make everything work, Wesfarmers adheres to four core values: integrity; openness; accountability; and boldness.

Without integrity an individual or a company has no worth. It's simply a non-negotiable aspect of everything we do as far as I am concerned.

Openness means that bad news travels at least as quickly as good news, and we have an environment which fosters discussion and debate. Accountability is all about our people being responsible for their actions and is incredibly important in a very diverse group like ours where divisional management gets a great deal of day-to-day autonomy. And boldness is about being creative and innovative in what we do and being prepared to take decisive steps after careful and considered evaluation.

The quality of our businesses, our people, supporting systems, processes and the cultural underpinning I've described, position Wesfarmers extremely well for continued strong performance into the future.

### Business divisions

The higher net profit after tax this year of $1,565 million, notwithstanding the significant $720 million fall in the Resources division earnings due to the foreshadowed fall in export coal prices was extremely pleasing. Very importantly, the turnaround of Coles, Kmart and Officeworks has continued to deliver improved results. We are most encouraged by progress to date, but everybody involved is fully aware that there is a lot more to be done. In each of these businesses we are seeing the benefits of disciplined management, customer-focused strategies, and a major process of renewal, revitalisation and expansion. The Coles, Kmart and Officeworks teams have every reason to be proud of the positive changes underway.

Coles supermarkets and the liquor and convenience businesses all had a good year and continued the strong improvement since our acquisition in 2007. In supermarkets, we've had strong growth on a store-on-store basis now for a year but, more importantly, we're getting our act together through better fresh products, better in-store service, better delivery to our customers and supply chain efficiency.

Bunnings had another very strong year, adding to its extraordinary performance over 16 years of revenue and profit growth. Once again, over the past 12 months we've seen robust sales growth, higher profits, 22 new sites opening and an impressive pipeline of stores to open in the future.

In Officeworks, we've had continuous sales growth and the format, in-store offer and customer service are in much better shape.

Target is a business with real underlying strength and it again performed well in a challenging retail environment. This says a lot about the brand itself and reflects great credit on the management team. The solid result was driven by good inventory management and merchandise planning, a favourable shift in sales mix towards apparel and a focus on costs.

The turnaround in Kmart is extremely impressive. The team there has done an enormous amount of work in getting its offer right, in taking out costs and in identifying and then delivering to customers what they're really looking for in the stores. It's exciting to be part of this transformation.

**Wesfarmers is very well placed with excellent businesses and people, and deliverable growth opportunities in each division.**

Featured artwork:
*Guyi Na Wugilli Bulawili: Fish and Reflections*, acrylic on canvas 1994, Lin Onus 1948-1996, The Wesfarmers Collection of Australian Art

The Insurance division had a much improved year despite very bad storms in Melbourne and Perth that caused major community disruption and significantly increased claims. Despite that, the underwriting businesses had a much stronger 12 months and delivered good results in broking. Everyone in the insurance division should be pleased about their performance and optimistic for the business outlook.

As mentioned earlier, we had a big, but not unexpected reduction in the Resources division earnings. Operationally the three coal mines performed well and we look forward to significantly better financial results this year. During the year, we announced a decision to proceed with a $286 million expansion of the Curragh mine in Queensland to 8.0 – 8.5 million tonnes annual export capacity which is indicative of the positive outlook we have for this division.

We merged the Chemicals and Fertilisers division with the Energy division on 1 July 2010. Both divisions had significantly better performance in the just-completed 12 months reflecting strong markets and the resumption of normal gas supply following the Varanus Island gas disruption that so badly affected results in 2008/09.

The Industrial and Safety division produced a very pleasing outcome given challenging trading conditions, particularly in the second half through revenue growth and profit performance exceeding budget. The outlook is good and the people in the business continue to refine the customer offer and the supply chain capabilities. We are now well positioned for growth in this division.

We've done a lot of work to ensure that the balance sheet of the company is strong. I want to thank those in the Corporate Office who've put in place new financing arrangements to ensure we've got the firepower to invest in growth for all our businesses into the future.

### Management changes

During the year, Keith Gordon left us after 10 years in a number of key roles with the company, including overseeing the integration of the Coles group of companies. Keith was an outstanding contributor and I would like to wish him all the best. Likewise, I would like to thank Mark Triffitt for his service to the company. Mark resigned as Executive General Manager, Corporate Affairs. I would like to wish Mark all the best. Alan Carpenter was appointed to replace Mark. Alan brings senior leadership experience, a very good understanding of the media and public policy issues and a capacity for clear thinking to the role. Paul Meadows was appointed to the new position of Group General Counsel earlier this year and we will benefit from his high level legal background. Vicki Krause resigned after 25 years of service to the Group in senior legal roles and I would like to thank Vicki for her very significant contribution to Wesfarmers.

## The challenge ahead

Wesfarmers is very well placed with excellent businesses and people, and deliverable growth opportunities in each division. Our challenge is to continue the hard work of the turnarounds and execute on the other growth strategies. We need to do this by providing first quality products and services to our customers, working with suppliers, valuing the efforts of all our employees, always being conscious of sustainability issues and making a contribution to the communities in which we live and work. Importantly, each of our 200,000 employees needs to do this with an unrelenting focus on safety, for their own benefit and out of consideration for all those with whom they interact.

One thing will never change at Wesfarmers. Our prime focus is delivering value to all our stakeholders, particularly our shareholders – our owners. Your ongoing support is absolutely essential and greatly valued.

The efforts of all our employees are most appreciated. It's what makes us successful and I thank everyone who has contributed to this great company over the past year. Finally, the Leadership Team and I value extremely highly the wise counsel and guidance we receive from Bob Every and the Board, and I thank them for their support.

**Richard Goyder** Managing Director

We have always had an exceptional leadership team and executive management group, and a very committed group of employees across all our divisions.

**Leadership Team**
Top row from left to right:
Richard Goyder, Terry Bowen, Ian McLeod, John Gillam, Launa Inman, Guy Russo, and Stewart Butel.
Bottom row from left to right:
Rob Scott, Tom O'Leary, Olivier Chretien, Tim Bult, Paul Meadows, Ben Lawrence and Alan Carpenter.

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

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

**Ian McLeod**
Managing Director, Coles
Ian joined Wesfarmers as Managing Director, Coles in 2008. He has extensive experience in British and European retailing, including senior executive roles at the United Kingdom retailer Asda where he played a key role in the recovery and turnaround program during the 1990s. Other senior retail roles included Chief Executive Officer for five years at Halfords Group plc, the UK's leading retailer of car parts, leisure and cycling products and Chief Merchandise Officer with Wal-Mart in Germany.










### John Gillam
Managing Director, Home Improvement and Office Supplies

John was appointed Managing Director of the Home Improvement division in 2004 and became the Managing Director of the expanded Home Improvement and Office Supplies division in 2007. John started at Wesfarmers in 1997, was appointed Chief Financial Officer of Bunnings in 1999, Wesfarmers Company Secretary in 2001 and Managing Director of CSBP in 2002.

### Launa Inman
Managing Director, Target

Launa was appointed Managing Director of Target in 2005 and prior to this was Managing Director of Officeworks. Launa has completed an Advanced Executive Program at Wharton Business School, holds a Bachelor of Commerce Honours, and a Masters of Commerce in Strategy and Economics.

### Guy Russo
Managing Director, Kmart

Guy was appointed Managing Director of Kmart in 2008. Prior to that, he was Managing Director and Chief Executive Officer of McDonald's Australia between 1999 and 2005, having held all key operational posts since 1974. Guy also served as President, McDonald's Greater China until 2007 and is currently President of the international Half the Sky Foundation for orphaned children in China.

### Stewart Butel
Managing Director, Wesfarmers Resources

Stewart joined Wesfarmers in 2000 following Wesfarmers' acquisition of the Curragh mine. In 2002 he was appointed Managing Director of Wesfarmers Premier Coal and in 2005 he became Director Coal Operations for Wesfarmers Energy. Stewart was appointed Managing Director of Wesfarmers Resources in 2006.

### Rob Scott
Managing Director, Wesfarmers Insurance

Rob started with Wesfarmers in 1993 before moving into investment banking where he had various roles in corporate finance and mergers and acquisitions in Australia and Asia. He rejoined Wesfarmers in business development in 2004 before being appointed Managing Director of Wesfarmers Insurance in 2007. He is a director of the Insurance Council of Australia.

### Tom O'Leary
Managing Director, Wesfarmers Chemicals Energy & Fertilisers

Tom joined Wesfarmers' Business Development team in 2000 and became General Manager of the team in 2002. He was appointed Executive General Manager, Business Development in 2006 before his appointment as Managing Director, Wesfarmers Energy in 2009. In July 2010, Tom became Managing Director of the newly formed Chemicals, Energy and Fertilisers division. Prior to joining Wesfarmers, Tom worked in finance law and investment banking.

### Olivier Chretien
Managing Director, Wesfarmers Industrial and Safety

Olivier joined Wesfarmers as General Manager Commercial, Wesfarmers Industrial and Safety in February 2006. Prior to this, he spent nine years in management consulting with The Boston Consulting Group in France and Australia. Olivier was appointed Managing Director of Wesfarmers Industrial and Safety in November 2007.

### Tim Bult
Executive General Manager, Business Development, Wesfarmers Limited

Tim joined Wesfarmers in 1999, working in commercial and business development roles within the Wesfarmers Energy division, before his appointment as General Manager of Wesfarmers Kleenheat Gas in 2005. He became Managing Director of Wesfarmers Energy in 2006. He was appointed Executive General Manager, Business Development in July 2009.

### Paul Meadows
Group General Counsel, Wesfarmers Limited

Paul was appointed Group General Counsel of Wesfarmers Limited in March 2010. Paul was admitted to practise as a barrister and solicitor in 1981 and was a partner of Allens Arthur Robinson in Melbourne from 1989 until February 2010. He worked at Linklaters in London in 1986 and 1987. Between 2006 and February 2010, Paul was also a senior adviser to UBS Australia.

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

Prior to joining Wesfarmers in 2008, Ben was the Chief Human Resources Officer for Foster's Group Limited from 2001. Ben has held a variety of senior roles in the United States, including Chief Human Resources Officer, Beringer Wine Estates; Vice President, International Human Resources, the Clorox Company; and Director Human Resources, FMC Gold Company.

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

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

# Finance Director's review

## Cash flow from operations increased by 9.3 per cent to $3,327 million and was driven by earnings growth and a continued focus on improving working capital management.

### Results overview

Net profit after tax for the Group in 2009/10 of $1,565 million was 2.8 per cent ahead of last year, despite a foreshadowed significant drop in earnings from the Resources division, due primarily to lower global export coal prices.

The Group's retail businesses delivered earnings growth of 15.8 per cent on last year, including solid performances from Bunnings and Target and encouraging results in the turnarounds of Coles, Kmart and Officeworks. The Insurance division achieved a 34.1 per cent improvement in earnings following significant business restructuring and strong focus on underwriting disciplines. Chemicals, Energy and Fertilisers recorded combined earnings improvement of 75.6 per cent, due to a return to full gas supply in June 2009, following the Varanus Island gas disruption. Industrial and Safety's earnings were down 2.6 per cent on last year, due to a difficult first half where industrial markets were soft.

Included in the earnings result were $170 million (before any associated tax impact) of significant one-off and non-trading expenses relating to supply chain, debt restructuring and non-cash impairments.

Earnings per share of 135.7 cents were down from 158.5 cents in the prior year reflecting the full year impact of the January 2009 equity raising which significantly increased the number of shares on issue. Average return on equity was similarly affected, reducing to 6.4 per cent from 7.3 per cent in the previous year.

### Cash flow

Strong cash generation was again a highlight in 2009/10, with free cash flow increasing to $1,671 million for the year compared to $1,541 million in 2008/09.

Cash flow from operations increased by 9.3 per cent to $3,327 million and was driven by earnings growth and a continued focus on improving working capital management.

Pleasingly, increased operating cash flows were able to support a $153 million increase in capital expenditure to $1,656 million. Increased capital expenditure was mainly due to land and building acquisitions by Coles and Bunnings, as these businesses strengthened their store networks. Investment in retail store infrastructure also increased, particularly in Coles, as work continues to improve store standards within the supermarket business.

The Group is forecasting continued strong capital investment expenditure, well ahead of depreciation, in order to drive future growth. Capital expenditure for 2010/11 is planned to include accelerating retail refurbishment activity, further retail network growth and investment required to expand Curragh's production capacity.

### Balance sheet

The Group's total debt at 30 June 2010 has reduced to $5,353 million from $6,169 million 12 months earlier. The Group also had available at this date $1,318 million in cash at bank and on deposit, and $1,260 million in committed but undrawn bank facilities.

The value of property, plant and equipment increased over the year, from $6,912 million to $7,542 million as at 30 June 2010, reflecting capital investment expenditure in excess of depreciation.

A strong focus on improving working capital management continued to deliver positive results, with a $415 million reduction in this area achieved over the year. The Group's retail businesses performed strongly in this area, particularly Coles and Kmart, while the industrial businesses benefited from lower fertiliser inventories compared to last year.

During the year, the Group elected to change its accounting policy in relation to the rebate payable to Stanwell Corporation for the right to mine the Curragh North deposit. This change better aligns the timing of the rebate expense to the actual contractual obligations, reflects industry practice and simplifies presentation of the financial statements. As the change has been adopted retrospectively, the Group is required to present a third balance sheet which reflects the effect of the accounting restatement from 1 July 2008.

Detailed impairment testing of non-current assets, including goodwill and other intangible assets recognised on business acquisitions, was carried out during the year. External experts were engaged to provide support on model inputs including discount rates and long-term growth rates. Non-cash impairment charges totalling $81 million were made during the year, which included a $48 million impairment of goodwill recognised on the acquisition of Coregas. The impairment of Coregas' goodwill reflects, in part, a challenging industrial gas market in Eastern Australia, post the global financial crisis. In all other cases, recoverable amounts determined for impairment testing exceeded the carrying values of non-current assets. Impairment testing of non-current assets will continue with results remaining sensitive to changes in general trading conditions and outlook, as well as discount rates.

### Debt management

We are committed to maintaining a strong investment-grade rating through strong cash flow and balance sheet management.

Wesfarmers' liquidity position was further strengthened during the year through proactive debt management aimed at diversifying funding sources and lengthening average maturities. Activity included issuing, in the first half of the financial year, $500 million in domestic five-year corporate bonds and, in March 2010, undertaking a $756 million European Medium Term Note issue. Proceeds from these issues, as well as free cash, were used to repay $2,177 million in shorter term debt over the year.

**Strong cash generation was again a highlight in 2009/10, with free cash flow increasing to $1,671 million for the year compared to $1,541 million in 2008/09.**

Featured artwork:
*Wannipa Spring Country,* ochre on canvas 2006, Patrick Mung Mung, Warmun, East Kimberley, Western Australia, The Wesfarmers Collection of Australian Art

Net debt reduced from $4,435 million to $4,035 million as at 30 June 2010 and the Group's gearing and liquidity ratios improved. Net debt to equity at year-end reduced to 16.3 per cent from 18.3 per cent the previous year, and cash interest cover increased to 6.8 times over the year from 5.0 times in 2008/09.

### Equity management

Over the year, shares on issue were stable with 1,157 million shares on issue at 30 June 2010, made up of 1,005 million ordinary shares and 152 million partially protected ordinary shares.

### Dividend policy

Wesfarmers' dividend policy seeks to deliver growing dividends over time, with the declared amount reflective of the Group's current and projected cash position, profit generation and available franking credits. Consistent with this policy, a fully-franked final dividend of 70 cents per share was declared which reflected the year's strong cash flow generation and outlook. The dividend, to be paid on 30 September 2010, is not provided for in the accounts. Given a preference by many shareholders to receive dividends in the form of shares, a decision was again made to leave the dividend investment plan in place for the 2010 final dividend.

No discount was applied to shares allocated under the plan. In recognition of our capital structure and strong balance sheet, all shares issued under the plan were acquired on-market by a broker and transferred to participants.

### Risk management

The Group maintains and adheres to clearly defined policies covering areas such as foreign exchange risk, interest rate risk and credit risk. We do not acquire or issue derivative financial instruments for speculative purposes.

The main sources of foreign exchange risk include:

- the sale of export coal, denominated in US dollars;
- purchases in foreign currency, mainly retail inventory in US dollars; and
- current US dollar and Euro denominated debt.

Businesses exposed to foreign exchange risk use forward contracts to minimise currency exposure. US dollar and Euro denominated debt and associated interest costs are fully hedged at the time the debt is drawn down. The Group uses interest rate and cross currency interest rate swaps to minimise interest rate risk. Following the domestic and European Medium Term Note debt raising and debt reduction during the year, the level of interest rate hedges exceeded outstanding floating rate debt. As a result, the Group recognised ineffective hedge close-out costs and additional debt establishment costs of $58 million. Interest rate swaps covering $2.5 billion of debt are currently in place for 2010/11. Our annual corporate planning process includes an established framework for assessing broad business risk as well as considering risk mitigation.

### Internal control and assurance

The Group maintains an internal audit function that is fully independent of business operations, to monitor and provide assurance to the Board as to the effectiveness of risk management and internal control systems. Internal audit plans are approved by the Board and ensure that businesses are assessed annually with a risk-based identification of key controls. During the year, the Group strengthened its internal control and assurance processes through the introduction of a combined assurance framework and the engagement of a single outsource audit provider, replacing what was previously a mix of internal and external auditors. As part of the annual operating cycle, we also require each business to review and report on: legal liabilities; financial controls; information systems; environment, health and safety planning; and risk assessment and mitigation.

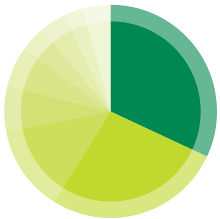
**Terry Bowen** Finance Director

# Review of operations

## RETAIL

### Coles

**Contribution to EBIT***



32%

**Activities**

- National full service supermarket retailer operating 742 stores
- Liquor retailer operating three brands through 766 liquor outlets, as well as 96 hotels
- National fuel and convenience operator managing 619 sites
- More than 17 million customer transactions each week
- Employing more than 106,000 team members

**Year in brief**

- Full-year revenue of $30.0 billion
- EBIT of $962 million
- Food and liquor store sales growth of 5.6 per cent, with comparable store sales growth of 5.0 per cent[1]
- Continued focus on quality, service and value
- 50 new supermarket format stores now complete
- Easy store ordering platform rolled out to over 200 stores
- More effective value promotion campaigns

**Future directions**

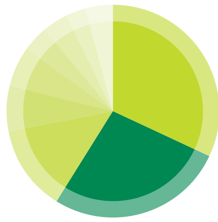
- Entering second phase of five year turnaround program
- Embed new store-first culture
- Improve customer service and fresh food offer
- Accelerate new store format roll-out
- Complete easy store ordering across the network
- Continue our commitment to deliver truly better value

**Businesses**

coles, coles express, coles.com.au, BI-LO, Choice Liquor Superstore, Liquorland, Vintage Cellars

### Home Improvement and Office Supplies

**Contribution to EBIT***



27%

**Activities**

- Bunnings: Retailing home improvement and outdoor living products and servicing project builders, commercial tradespeople and the housing industry
- Officeworks: Australia's leading retailer and supplier of office products and solutions for home, business and education

**Year in brief**

Home improvement

- 10.5 per cent increase in Bunnings' EBIT
- 9.7 per cent increase in Bunnings' revenue
- Growth across all regions and product ranges
- Significant improvements in the trade offer
- 11 new Bunnings Warehouse stores opened
- Two new Bunnings smaller format stores opened
- Nine new Bunnings trade centres opened

Office Supplies

- 9.0 per cent increase in retail store sales
- 13.8 per cent increase in EBIT
- Ongoing improvements to the merchandise offer and store formats
- Five new Officeworks stores opened, 12 full upgrades
- Good progress in Officeworks on actions to improve operational effectiveness

**Future directions**

- Bunnings: Enhancing service, merchandising and network expansion opportunities, trade presence in-store and via trade centres, lowering costs and improving operational effectiveness
- Officeworks: Driving the business forward by improving the customer offer, expanding and upgrading the network whilst lowering costs and removing operational complexity

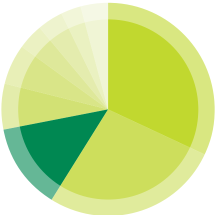
**Businesses**

Bunnings, Officeworks, Bunnings Warehouse, harris technology

*Operating divisional EBIT

[1] For the period 29 June 2009 to 27 June 2010.

## Target



13%

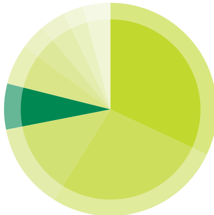
- Retailer of fashion clothing and homewares with broad customer appeal
- Extensive network of 290 stores in two formats (Target and Target Country) conveniently located throughout metropolitan and regional Australia
- Customer destination for ladieswear, childrenswear/nursery, intimate apparel and homewares, predominantly Target branded
- Promotionally driven through weekly catalogues and major in-store events

- Full year revenue of $3.8 billion
- $381 million in EBIT, with EBIT margin expansion to 10.0 per cent
- Comparable store sales decrease of 0.9 per cent[1]
- Four (net) new stores
- 24 stores upgraded or refurbished
- Efficiency improvements in supply chain network achieved
- Reduced more than 50 per cent of retail price points on like product from the previous year, across clothing, footwear and homewares
- Introduction of new processes to improve development of differentiated merchandise

- Continue store network investment (new and refurbished)
- Invest in product design and development capabilities
- Invest in technology to support product allocation and space planning in-store
- Explore alternative ways of communicating to customers, including online retailing

[1] For the period 28 June 2009 to 26 June 2010.

## Kmart



7%

- A discount department store retailer where families come first for lowest prices on everyday items, through a network of 186 stores in Australia and New Zealand
- Key categories for Kmart include menswear, childrenswear, womenswear, beauty, footwear, toys and sporting, events and food, entertainment, newsagency and home
- Kmart Tyre & Auto Service is one of Australia's largest retail automotive service, repair and tyre business with 251 centres and is Australia's largest employer of mechanics and apprentice mechanics

- 'Expect change' program launched, inviting customers back into the new look Kmart, with customer transactions increasing each week since the launch
- EBIT of $196 million[1]
- Comparable store sales declined 0.1 per cent[2] largely due to the exit of high value lines and moving away from a high/low promotional strategy
- Solid strategy in place now delivering improved results across the entire business
- The business has moved from the 'Renewal' to 'Growth' phase of its turnaround
- Progressive introduction of a low price everyday model
- Kmart opened two stores: Erina (New South Wales) and Wanneroo (Western Australia)

- Customer engagement remains Kmart's first priority
- Continue to invest in low prices and test and refine the product offer for customers
- Continue to invest in product, driving volume in everyday items, refresh stores, replacing floors and fitting rooms where required
- Continue fixing the underlying business model and build a successful platform for the future

[1] Includes $6 million earnings related to Coles Group Asia overseas sourcing operations.

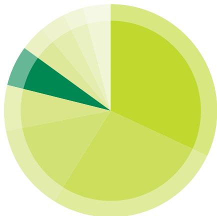
[2] For the period 29 June 2009 to 27 June 2010.

# Review of operations

## INDUSTRIAL AND OTHER BUSINESSES

### Resources

**Contribution to EBIT***



6%

*Operating divisional EBIT

**Activities**

- Significant Australian open-cut miner with investments in coal mines in Queensland (Curragh), New South Wales (Bengalla 40 per cent) and Western Australia (Premier Coal)
- Mine operation and development
- Supplier of metallurgical coal to export markets and steaming coal to both domestic and export markets

**Year in brief**

- Revenue down from $2.4 billion to $1.4 billion
- A significant reduction in export prices from the previous year's record levels affected the first three quarters of the year
- EBIT down 81.4 per cent to $165 million
- Strong cost control across the business. Nine per cent reduction in mine cash costs per tonne at Curragh
- Sales up 2.8 per cent to 6.6 million tonnes for the year at Curragh
- Export prices increased significantly in the fourth quarter
- Completion of Blackwater Creek diversion under budget and ahead of time

**Future directions**

- Strong business sustainability commitment
- Strong export market fundamentals and customer demand
- Maximise exports, addressing infrastructure constraints
- Curragh mine capacity expansion underway to 8.0 – 8.5 million tonnes annual exports; completion expected by December, 2011
- Bengalla expansion feasibility study nearing completion
- Focus on future growth

**Businesses**

Wesfarmers Resources

Curragh

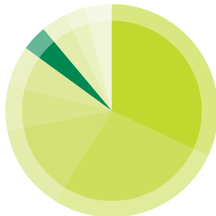
Premier Coal

Bengalla

Premier Power Sales

### Insurance

**Contribution to EBIT***



4%

**Activities**

- Key brands: Lumley, WFI, OAMPS and Crombie Lockwood
- Provision of general insurance products
- Insurance broking, risk management and financial services distribution
- Operations in Australia, New Zealand and the United Kingdom

**Year in brief**

- Earnings before interest, tax and amortisation increased by 27.2 per cent to $131 million
- 1.3 per cent decrease in revenue to $1.7 billion following the exit of unprofitable lines
- Positive turnaround in operating performance of Lumley Australia
- Continued growth in Lumley New Zealand profitability
- WFI affected by exposure to severe Perth and Melbourne weather events
- Broking operations affected by difficult economic conditions for small to medium enterprises
- Lower investment returns due to lower interest rates
- Successful launch of Monument Premium Funding
- Five bolt-on acquisitions across broking and underwriting operations

**Future directions**

- Strive to consistently deliver exceptional client service across all businesses
- Continue improvements in underwriting performance through disciplined claims and underwriting performance
- Pursue premium growth through a number of new initiatives
- Invest in capability and technology
- Further bolt-on acquisitions to enhance distribution platform

**Businesses**

Wesfarmers Insurance

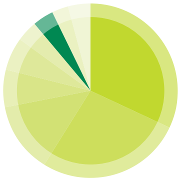
wfi

Lumley

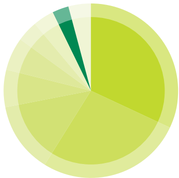
OAMPS

CROMBIE LOCKWOOD
New Zealand's Insurance Brokers

## Chemicals, Energy and Fertilisers[1]



4%
Chemicals and Fertilisers



3%
Energy

- Manufacture and marketing of chemicals for mining, minerals processing and industrial sectors
- Production, marketing and distribution of liquefied petroleum gas (LPG) and liquefied natural gas (LNG)
- Manufacture and marketing of broadacre and horticultural fertilisers
- Manufacture, marketing and distribution of industrial, medical and specialty gases
- Power generation for remote towns and mines

Chemicals and Fertilisers

- 8.8 per cent decrease in revenue to $1.1 billion
- 132.7 per cent increase in EBIT to $121 million
- Chemicals earnings increased due to higher sales tonnes and the recovery from the Varanus Island gas disruption in the previous financial year
- Australian Vinyls was affected by higher input costs relative to the PVC selling price
- Fertiliser earnings included a $25 million inventory writedown and ongoing adverse margin impact

Energy

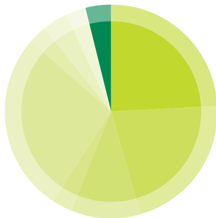
- 2.2 per cent increase in revenue to $611 million
- 36.0 per cent increase in EBIT to $102 million
- Increased earnings largely due to an increase in international LPG prices and a recovery from the previous year's Varanus Island gas disruption

- Meet demand for chemicals from the resources sector
- Complete the FEED study into the potential 260,000 tonne per annum expansion of ammonium nitrate production at Kwinana
- Extract operating benefits from the merger of LPG and LNG production and distribution
- Continue development of the LNG business
- Enhance fertiliser sales volumes through a market-focused customer offer

Wesfarmers Chemicals, Energy & Fertilisers

[1] Effective 1 July 2010, Wesfarmers Chemicals and Fertilisers and Wesfarmers Energy merged to create Wesfarmers Chemicals, Energy & Fertilisers. The merger also included Coregas becoming part of Wesfarmers Industrial and Safety. For the period to 30 June 2010, Coregas was reported as part of Wesfarmers Energy.

## Industrial and Safety



4%

- Market leading supplier of industrial and safety products and services in Australia and New Zealand
- Servicing customers across mining, oil and gas, retail, construction and infrastructure, manufacturing, health and government
- Strong focus on security of supply to customers of the broadest product range
- Cost efficiency to customers through local and global procurement, supply chain and eBusiness solutions
- Critical value-add services

- 1.3 per cent increase in revenue to $1.3 billion
- Strong recovery in second half: 11.0 per cent sales growth, operating EBIT 30.4 per cent up on last year
- Good sales momentum: project activity and contract successes, strong eBusiness and services growth, increasing industry diversification
- Full customer relationship management capability rolled out to sales force, supported by laptops with remote connectivity
- Strong delivery and customer service performance, with new distribution centres in Perth (Western Australia), Auckland (New Zealand) and Shenzhen (China)
- Strong cost and capital performance

- Increase share of customers' products and services spend
- Target resources and infrastructure projects
- Transition of Coregas, leveraging existing customer relationships
- Continue to improve supply chain and organisation effectiveness
- Strengthen leadership positions through acquisitions
- Ongoing commitment to safety, sustainability and employee development

Wesfarmers Industrial and Safety

## Other activities

Gresham

- 50.0 per cent interest in the investment bank, Gresham Partners; plus interests in Gresham's private equity funds

Wespine

- 50.0 per cent interest in a plantation softwood sawmill at Dardanup, Western Australia

Bunnings Warehouse Property Trust

- 23.1 per cent interest in the property trust which mainly owns Bunnings Warehouses tenanted by Bunnings Group Limited

Gresham

- The Gresham Private Equity Funds contributed $43 million of earnings, due to upward non-cash revaluations, compared to a loss of $57 million last year

Wespine

- Earnings up 50 per cent due to increased Western Australian housing activity and good sawmill productivity
- Completed dry mill upgrade for in-line treatment of structural timber

Bunnings Warehouse Property Trust

- Wesfarmers' share of profit from its investment in Bunnings Warehouse Property Trust was $27 million, compared to a loss of $8 million recorded last year

Gresham

- Continue focus on management of businesses and on identifying profitable equity opportunities for Fund 2

Wespine

- Sales and earnings are expected to remain strong in the coming months but with increasing import competition

Bunnings Warehouse Property Trust

- Improve portfolio through enhancements to existing properties and selective acquisitions

# Retail highlights

## We are experienced in adding value to retail operations

### Coles continuing to deliver quality, service and value

Coles employs more than 106,000 team members and manages more than 17 million customer transactions a week with its commitment to value and improving the fresh food offer across Australia.

**106,000** team members

### Bunnings and Officeworks

Bunnings is the leading retailer of home improvement and outdoor living products in Australia and New Zealand and a major supplier of building materials. Officeworks is Australia's leading retailer and supplier of office products and solutions for home, business and education.

**27** new trading locations opened


## Target delivered a solid result in a challenging environment

EBIT margin expansion to 10.0 per cent driven by good inventory management and merchandise planning, a favourable shift in sales mix and a focus on costs.

**10%** EBIT margin

## Expect change from Kmart

Kmart has embarked on a three stage turnaround – a strategy encompassing 'Discovery', 'Renewal' and 'Growth'. The business is now reset to achieve long-term success with an EBIT result of $190 million, an increase of 74.3 per cent on the previous year.

**74%** EBIT increase

# Coles

The Coles five year turnaround plan remains on track with a pleasing performance in 2010, built on improving the customer proposition through better quality, service and value. The business is now moving into the second phase of the plan, in which it will focus on 'Delivering Consistently Well'.


**The business**

Coles is a leading food, liquor and convenience retailer, with a presence in every Australian state and territory. The business operates 2,223 retail outlets across the Coles, BiLo, 1st Choice, Liquorland, Vintage Cellars, Coles Express and Spirit Hotel group.

Coles employs more than 106,000 team members and manages more than 17 million customer transactions a week.

**Strategy**

Coles seeks to give the people of Australia a shop they can trust, delivering quality, service and value.

The business is now moving into the second phase of its three phase strategy to meet this goal. Phase two will see Coles focus on 'Delivering Consistently Well'; by embedding the new store-first culture, improving customer service, continuing the commitment to value, improving the fresh food offer, accelerating the roll-out of new store formats, and completing easy store ordering across the network.

**Results**

The 2010 financial year saw Coles (supermarkets, liquor and convenience) deliver operating revenue of $30.0 billion, a rise of 4.2 per cent on the prior corresponding period. Earnings before interest and tax grew to $962 million, up 15.8 per cent on the previous year.

Food and liquor store sales for the year[1] rose 5.6 per cent with comparable store sales growth of 5.0 per cent.

The results were driven by a strong focus on building customer trust through quality, service and value in stores. Better in-store value was supported by more effective marketing and promotions, supply chain improvements and enhanced store operating standards. These initiatives lifted customer confidence and trust in Coles.

Like supermarkets, Coles Liquor has continued to invest in better value and service for customers, supported by improved customer communication. This has driven sales and lifted customer satisfaction levels.

Coles Express performance was driven by an improving convenience store offer and ongoing network improvement.

Coles Express recorded sales of $6.2 billion for the year, down 0.4 per cent on the previous year as a result of declining fuel prices. Fuel volumes for 2010[1] rose 0.7 per cent.

Convenience store sales rose 5.5 per cent for the year, with comparable store sales growth of 3.3 per cent[1].

[1] For the period 29 June 2009 to 27 June 2010.

**KEY FINANCIAL INDICATORS**
For the year ended 30 June

| | 08* | 09 | 10 |
|---|---|---|---|
| Revenue ($m) | 16,876 | 28,799 | **30,002** |
| Earnings before interest and tax ($m) | 475 | 831 | **962** |
| Capital employed (R12) ($m) | 14,952 | 15,163 | **14,830** |
| Return on capital employed (%) | nm | 5.5 | **6.5** |
| Capital expenditure ($m) | 351 | 606 | **683** |

* For the ownership period 23 November 2007 to 30 June 2008.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

**REVENUE ($m)**
**$30,002**

# Coles recorded a solid year of growth and we are focused on improving the customer proposition through quality, service and value.

**Ian McLeod** Managing Director, Coles with team members

**EBIT ($m)**
**$962**


## Growth strategies

**'Delivering Consistently Well'**

- Embed the new culture
- Team member development
- Improved customer service
- Appealing fresh food offer
- Stronger delivery of value
- Scale roll-out of new formats
- Improved efficiency
- Easy ordering completed

**Year in brief**

Coles recorded a solid year of business improvement and growth in 2010, and is now moving into the second phase of its five year transformation plan.

The Coles turnaround strategy focuses on improving the customer proposition through quality, service and value.

In 2010, Coles continued to deliver truly better value to customers in order to build customer trust in the Coles brand.

The introduction of uniform state-based prices in stores was a key initiative to showcase Coles' commitment to transparent pricing for customers. This commitment was supported by a program of lowering prices on preferred grocery items, reflected in annual price deflation of more than one per cent.

Coles' improved value and price transparency was communicated to customers through more effective marketing and promotions, including 'Feed Your Family for under $10', 'Down Down, Prices are Down' and 'Dollar Dazzlers'.

Improvements to supply chain and store operating standards saw faster product delivery to stores, better on-shelf availability, enhanced product quality and better service standards.

Coles continued to invest in the store network, expanding its new store format to 50 stores. The easy ordering platform was rolled out to 214 stores and self-scan check-outs to 75 stores.

**Business sustainability**

Coles stores and team members contribute to helping community groups in need and fundraising activities all over Australia. In 2010, Coles raised and contributed approximately $10 million for charity and community groups.

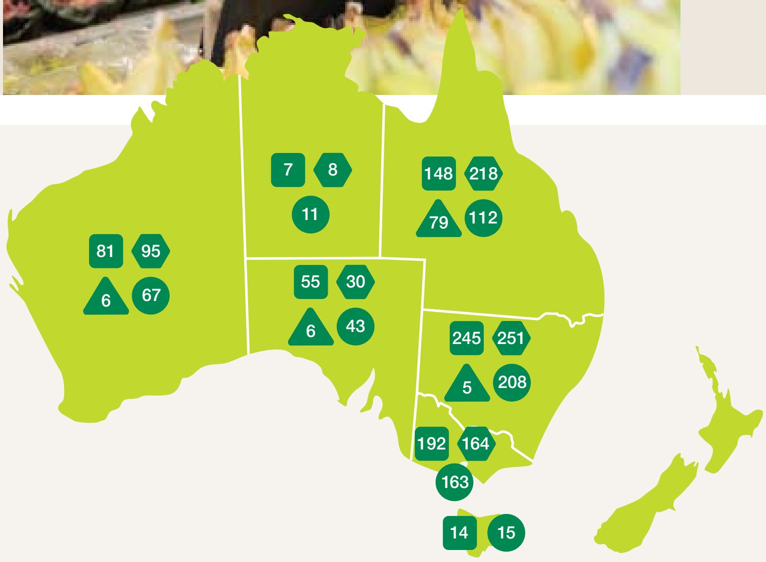
Customer fundraising helped to provide 800,000 breakfasts for Australian Red Cross Good Start Breakfast Clubs, 442 Coles School Garden Grants and more than $1.34 million to the Cancer Council Helpline.

In October 2009, Coles was recognised by Foodbank Australia and awarded the annual Leadership Award for many years of making food donations for people in need. Coles was the first Foodbank donor to donate more than a million kilograms of food in one year.

During the year, Coles undertook a range of initiatives to reduce energy use and emissions. More than 160 supermarkets have been fitted with night blinds to reduce the night-time energy use of refrigeration systems, with the balance of stores to be completed in 2011.

Coles also launched a program to better manage lighting for its supermarkets by automatically controlling lighting outside of trading periods. This initiative has been implemented in more than 100 stores.

More than 59 per cent of waste was recycled during the year, which included more than 130,000 tonnes of cardboard, paper, plastic, metals and organics.




**BUSINESS STATISTICS**

| | |
|---|---|
| Supermarkets | 742 |
| Liquor stores | 766 |
| Hotels | 96 |
| Convenience stores | 619 |
| Number of team members | 106,030 |


Team member health and safety remained a priority for us in 2010. More than 890,047 hours were invested in improving the health and safety skills and knowledge of Coles team members through formal training. The Lost Time Injury Frequency Rate fell to 12.8 from 15.9 and the All Injury Frequency Rate was higher at 97.51 compared with 95.28 at the same time last year.

For more information about community and sustainability initiatives, visit coles.com.au

**Outlook**

The Coles turnaround remains on track and the business is now moving into phase two of the program in which it will focus on 'Delivering Consistently Well' by embedding the new store-first culture, improving customer service, continuing the commitment to value, improving the fresh food offer, accelerating the roll-out of new store formats and completing easy store ordering across the network.

**Coles continued to deliver truly better value to customers in order to build customer trust in the Coles brand.**

**BUSINESS WEBSITES**

www.coles.com.au

www.colesonline.com.au

www.bilo.com.au

www.1stchoice.com.au

www.liquorland.com.au

www.liquorlanddirect.com.au

www.vintagecellars.com.au

# Home Improvement and Office Supplies

## Bunnings and Officeworks – leading retailers in home improvement and office supplies.


### Home Improvement

**The business**

Bunnings is the leading retailer of home improvement and outdoor living products in Australia and New Zealand and a major supplier of building materials.

Operating from a network of large warehouse stores, smaller format stores, trade centres and frame and truss manufacturing sites, Bunnings caters for do-it-yourself customers as well as builders and contractors.

**Strategy**

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

Bunnings continues to develop and improve its store network through ongoing investment in existing outlets, remerchandising initiatives and new store openings. Bunnings is developing a network of trade centres to support major builder customers, in conjunction with a network of frame and truss manufacturing plants, to ensure a full service offer is provided.

**Results**

Operating revenue from the Bunnings home improvement business increased by 9.7 per cent to $6.4 billion for the full-year, with trading revenue increasing by 10.4 per cent. Earnings before interest and tax grew 10.5 per cent to $728 million.

Cash sales growth in Bunnings of 10.3 per cent was achieved during the year, with underlying store-on-store cash sales increasing by 7.3 per cent, reflecting continued strong organic growth in the business. Trade sales were 10.8 per cent higher than the comparative period.

Pleasing results were achieved in all Australian states and New Zealand, across all product ranges, driven by good execution of merchandising and operational strategies.

**Year in brief**

During the year, 11 warehouse stores, two smaller format stores and nine trade centres were opened. At year-end there were 184 warehouses, 58 smaller format stores and 29 trade centres operating across Australia and New Zealand. Investment in bringing current merchandising standards into older parts of the network continued, together with category specific upgrade work across the whole network.

**Business sustainability**

Bunnings' commitment to environmental responsibility and supporting the community continued throughout the year. Work continued during the year to reduce energy use in stores and waste to landfill. Water savings were achieved through continued rainwater collection and innovative nursery irrigation techniques.

Over the year, Bunnings supported more than 33,000 community activities through community group sausage sizzles, hands on do-it-yourself projects and renovations, local fundraising activities, community workshops and other activities. Support included active team member engagement, product contributions and financial assistance. This involvement helped raise and contribute more than $20.1 million to local, regional and national charities and community organisations across Australia and New Zealand.

Safety continues to receive a very high profile in the business through the B.S.A.F.E. program, with the rolling 12 month All Injuries Frequency Rate improving to 35.9 from 42.8.

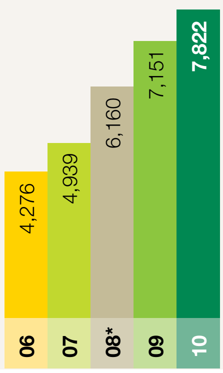
### KEY FINANCIAL INDICATORS

For the year ended 30 June

| | 06 | 07 | 08* | 09 | 10 |
|---|---|---|---|---|---|
| Revenue ($m) | 4,276 | 4,939 | 6,160 | 7,151 | **7,822** |
| Earnings before interest and tax ($m) | 421 | 528 | 625 | 724 | **802** |
| Capital employed (R12) – Home Improvement ($m) | 1,838 | 1,879 | 1,925 | 2,185 | **2,398** |
| Return on capital employed – Home Improvement (%) | 22.9 | 28.1 | 31.2 | 30.2 | **30.4** |
| Capital employed (R12) – Officeworks ($m) | nm | nm | 1,080 | 1,145 | **1,178** |
| Return on capital employed – Officeworks (%) | nm | nm | nm | 5.7 | **6.3** |
| Capital expenditure ($m) | 222 | 196 | 302 | 378 | **446** |

* Officeworks' contribution for the ownership period from 23 November 2007 to 30 June 2008.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

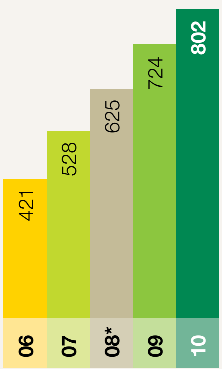
**REVENUE ($m)**
**$7,822**




# Pleasing results were achieved across all product ranges, driven by good execution of merchandising and operational strategies.

**John Gillam** Managing Director, Home Improvement and Office Supplies with team members

**EBIT ($m)**
**$802**




## Home Improvement – Strategic objectives

**Profitable sales growth:** Key growth drivers are stronger customer service, improving the offer, and investing in and expanding the network.

**Better stock flow and profitability:** Improving the end-to-end supply chain to lift in-stock levels and reduce costs.

**Stronger team engagement and development:** More effective delivery of safety, training and other team development programs.

**Improving productivity and execution:** Strong focus on reducing the cost of doing business through the continued development of systems and other business improvement and productivity projects.

**Sustainability:** Ongoing commitment to store-based community involvement work, reducing water and energy consumption and wastage, plus improved affordability of sustainability projects for customers.

### Outlook

The business is well positioned for continued sales growth. The strategic focus in the business remains on five growth drivers: service; category expansion; network expansion; commercial opportunities in-store and via trade centres; and achieving lower costs of doing business to underpin the provision of more value to customers.

## Office Supplies

### The business

Officeworks is Australia's leading retailer and supplier of office products and solutions for home, business and education. Operating through an Australia-wide network of stores plus the www.officeworks.com.au website and customer service centre, Officeworks has a broad range of customers, including small-to-medium businesses, large corporates, students, teachers, education institutions and everyday personal shoppers.

The Office Supplies portfolio also includes Harris Technology which caters predominantly for small-to-medium businesses and early adopter technology customers.

### Strategy

Officeworks aims to provide customers with the widest range of products and great service at the lowest price whilst being an employer of choice by providing a safe, rewarding and engaging place of work for all team members. Officeworks continues to grow and improve its business by improving its customer offer, enhancing its internet presence, opening more stores, refurbishing existing stores, and enhancing its customer service centre operations.

Harris Technology aims to provide customers with great service at fair value through its stores, call centre and via the internet.

### Results

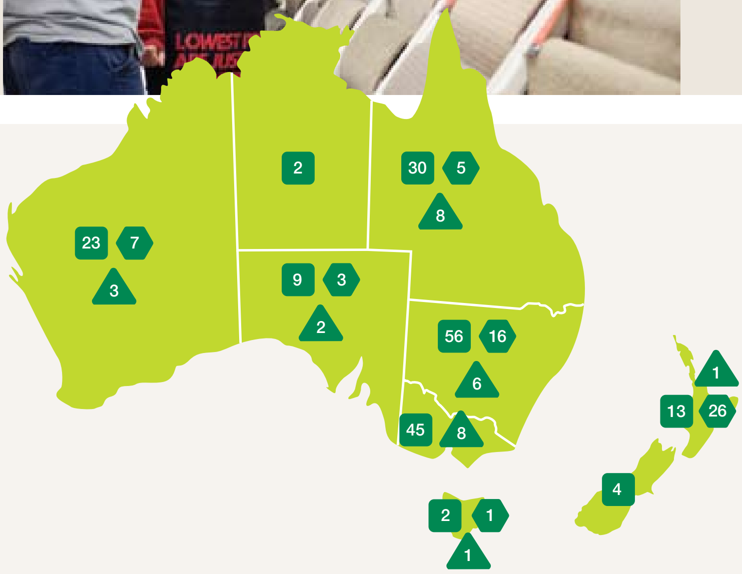
Operating revenue for the office supplies businesses was $1.4 billion for the full-year, which was 8.0 per cent higher than the previous year. Earnings before interest and tax grew 13.8 per cent to $74 million.

Headline sales growth across the Officeworks store network for the year was 9.0 per cent, which was underpinned by strong transaction growth. The Officeworks business channel experienced positive sales growth for the year and continues to gain momentum.

Harris Technology sales were adversely impacted by a lack of confidence amongst its core customer base of small-to-medium sized businesses, as well as being in the early stages of implementing a new business strategy.

### Year in brief

Over the year, Officeworks continued to focus on its strategic agenda. New product ranges were introduced into the offer and the special orders service was rolled out. A new point of sale system was implemented across all stores and the Officeworks website was further enhanced to make it easier for our customers to shop. The focus on improving inventory management processes and systems continued. A new cross-dock distribution centre provider was appointed during the year which is expected to yield both operational efficiencies and cost savings.


## BUSINESS STATISTICS – BUNNINGS

| | |
|---|---|
| Warehouses | 184 |
| Smaller format stores | 58 |
| Trade centres | 29 |
| Number of team members | 29,603 |

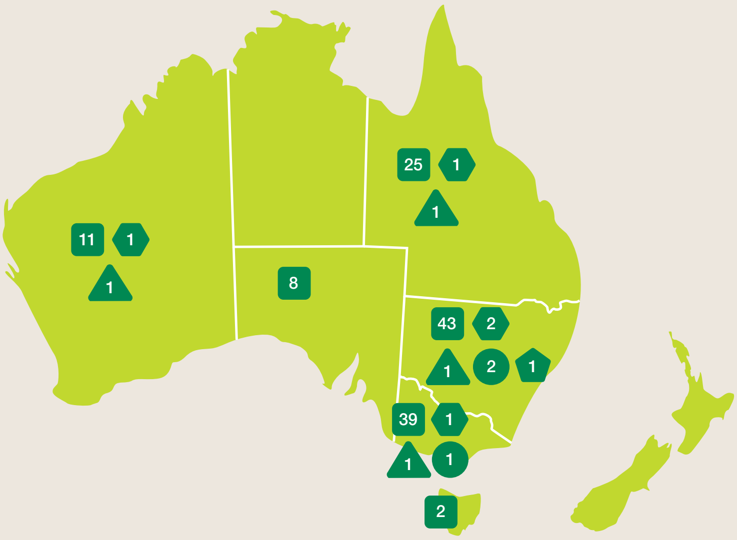
## BUSINESS WEBSITES

www.bunnings.com.au

www.bunnings.co.nz

During the year, five new Officeworks stores were opened and 12 Officeworks stores were fully upgraded. At year-end, there were 128 Officeworks stores and five Harris Technology business centres operating across the country.

The primary focus remains on reinvigorating the business through a range of strategic initiatives. Investment to further enhance the customer offer whilst expanding and renewing the network will continue, as will work to lower costs and remove operational complexity.




**Business sustainability**

Officeworks' commitment to environmental responsibility and supporting the community continued throughout the year.

A number of sustainability initiatives were progressed during the year to reduce energy usage in stores, increase recycling in the business, and to increase rainwater harvesting and reduce wastage. We continued our participation in the Cartridges for Planet Ark program and became an official partner of MobileMuster. The roll-out of dedicated recycling units in stores has made it easier for customers to recycle their used ink and toner cartridges as well as their mobile phones and accessories.

Officeworks supported the community in a variety of ways with donations and sponsorships in excess of $460,000. Contributions were made primarily via fundraising and direct donations of product and services which benefited kindergartens, schools and various not-for-profit organisations.

The All Injury Frequency Rate for the period reduced from 63.9 to 46.9. The StaySafe program introduced in February 2009 operated in conjunction with the StayHealthy program to ensure the health and wellbeing of Officeworks team members was treated as a priority.

**Outlook**

Moderate sales growth is expected in 2010/11 whilst the competitive pressure on margin and costs is expected to continue. The focus on executing the strategic agenda will continue by focusing on improving the customer offer, expanding and upgrading the network, and reducing operational complexity and the cost of doing business.

## Office Supplies – Strategic objectives

**Improve the customer offer:**
Enhance and expand the product range; help customers to be more environmentally conscious; roll-out more new products and services; provide customers with more useful information; and make it more exciting to shop with us.

**Improve customer service:**
Enhance service intensity through better rostering; provide appropriate tools, training and development to our team; implement a new point of sale system; and invest process efficiencies back into service.

**Team development and engagement:**
Continue to focus on improving safety and delivering team programs that support and enhance the business strategy and underlying culture.

**Reduce costs and complexity:**
Optimise inventory levels; and continue to work on removing costs, duplication and complexity.

**Drive sales and profitability:**
Lift product range authority; expand and refresh the store network; deliver a customer friendly website; and look after business customers better.

## BUSINESS STATISTICS – OFFICEWORKS

| | |
|---|---|
| **Retail Stores** | |
| Officeworks | 128 |
| Harris Technology | 5 |
| **Business** | |
| Fulfilment centres | 4 |
| Service centres | 3 |
| Print Hub | 1 |
| Number of team members | 5,558 |

## BUSINESS WEBSITES

www.officeworks.com.au

www.ht.com.au

# Target


Target's margin grew with an improvement in the merchandise mix by ensuring volumes reflected customer expectations, combined with tight management of expenses and inventory.

**The business**

Target is a mid-market retailer, appealing to a broad section of the Australian community across 290 Target and Target Country stores.

Target's core product ranges include ladieswear, intimate apparel, menswear, childrenswear and nursery, accessories and footwear, soft homewares, electrical, toys and other general merchandise.

The majority of clothing is Target branded, with national brands and licenses used to complement the Target range. Wherever possible Target seeks exclusive licenses and develops its own unique product to differentiate itself in the market.

The division employs more than 24,000 people and its stores can be found in metropolitan and regional areas in every state and territory. The stores range in size from Target branded selling floor areas of 2,200 to 8,800 square metre stores to Target Country branded selling floor areas of 400 to 1,700 square metre stores.

Target stores are typically located in suburban and large regional shopping centres. Target Country stores are located in rural and regional communities, offering a smaller range of Target merchandise with a focus on clothing for the family and soft homewares.

**Strategy**

Target's aim is to provide customers with a differentiated shopping experience that is easy and convenient, and a product offer that is great style, great quality and great value.

There is continued focus on reinvesting in price to provide the customer with increased value without compromising quality.

Through the recent implementation of disciplined processes, and in-house design and development capabilities, Target will strengthen its position as a leading customer destination for fashionable clothing and homewares. This new way of working will enable the business to have greater control and improve speed to market in the development of new and differentiated product, particularly in high margin categories.

This disciplined approach extends to buying merchandise for the space available, improving the ability to flow product as customers want to buy it, resulting in better in-store presentation and stock handling efficiencies for stores and ultimately customers.

Increasing the store footprint and investing in the existing store network is still a key priority for the business, as it underpins the focus on providing an easy and convenient shopping experience.

The business continues to explore alternative ways of communicating to customers with increased consumer use of technology.

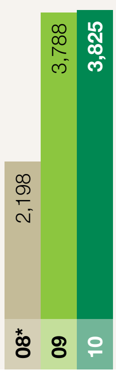
## KEY FINANCIAL INDICATORS

For the year ended 30 June

| | 08* | 09 | 10 |
|---|---|---|---|
| Revenue ($m) | 2,198 | 3,788 | **3,825** |
| Earnings before interest and tax ($m) | 221 | 357 | **381** |
| Capital employed (R12) ($m) | 3,352 | 3,441 | **3,264** |
| Return on capital employed (%) | nm | 10.4 | **11.7** |
| Capital expenditure ($m) | 60 | 91 | **91** |

* For the ownership period 23 November 2007 to 30 June 2008.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

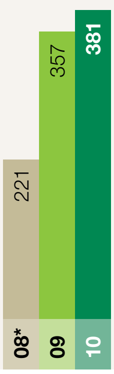
**REVENUE ($m)**
**$3,825**



New disciplines and processes across the business are the key to maintaining a leadership position, with a focus on core clothing categories.

**Launa Inman** Managing Director, Target with team members

**EBIT ($m)**
**$381**




## Growth strategies

**Profitable sales growth:**
- Continue investment in the store portfolio with new stores and refurbishments
- Continue to grow clothing and homewares in good, better, best product ranges
- Explore alternative ways of communicating to customers
- Invest in technology to improve space management and allocation of merchandise in-store

**Product leader:**
- Continue focus on core customer destination categories, supported by new and differentiated product development and speed to market improvements
- Invest in product design and development capabilities

**In-store environment:**
- Disciplined in-store presentation for customer ease of shopping

### Results

Operating revenue for Target was $3.8 billion, with comparable store sales declining 0.9 per cent[1]. Earnings before interest and tax (EBIT) were $381 million, with an EBIT margin of 10.0 per cent.

Target's margin grew with an improvement in the merchandise mix by ensuring volumes reflected customer expectations, combined with tight management of expenses and inventory.

Target's core destination departments – ladieswear, childrenswear and baby-related products – delivered positive growth for the year in a challenging and competitive environment. Sales of electrical items declined compared to the previous year as a result of sales in the previous period benefiting from the Australian Government's stimulus package. Consumer sentiment was also affected by increased interest rates, petrol and utility prices.

Inventory levels were below last year at 30 June and this ensured a clean move into new ranges for the 2011 financial year.

### Year in brief

During the past year seven stores were opened (including one replacement store) and three stores closed (two Target and one Target Country). At the year-end there were 171 full line Target stores and 119 Target Country stores.

Continued investment in the existing store network resulted in 24 store refurbishments reflecting new store design standards including layout, fixtures, flooring and signage.

Improvements in supply chain efficiencies were completed during the year, resulting in substantial cost savings, better service to stores and improvements in speed to market from point of manufacture.

Consumers continued to be cautious in their discretionary spend, with value a key priority. In response, Target reduced over 50 per cent of retail price points on like product from the previous year, across core categories of clothing, footwear and homewares, with no reduction in product quality.

The implementation of new product design and development capabilities commenced and will ensure Target's continued differentiation in the market.

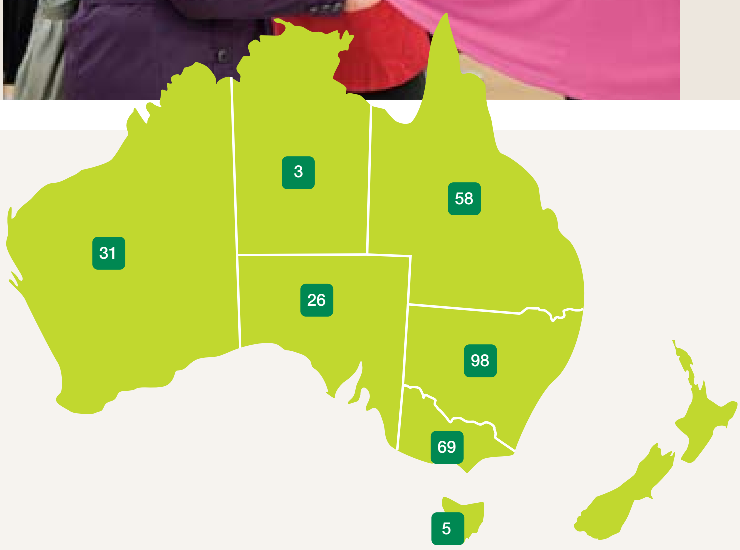
### Business sustainability

Target continued its commitment to improve the safety performance of team members, explored and measured energy saving opportunities and supported our community partners.

Team member safety remains a key focus area for Target. Equipment modification in conjunction with continued manual handling awareness has led to a reduction in workplace incidents, reducing our Lost Time Injury Frequency Rate from 9.2 to 8.0.

In February 2010 the business introduced a new Paid Parental Leave scheme to provide additional support to team members with family responsibilities. A new Diversity Strategy was launched with the key aim of developing a diverse workforce including a greater representation of Aboriginal Australians and women in non-traditional and senior management roles.

[1] For the period 28 June 2009 to 26 June 2010.




## BUSINESS STATISTICS

| | |
|---|---|
| Target stores (including 119 Target Country) | 290 |
| Number of employees | 24,390 |


New product design and development capabilities will ensure Target's continued differentiation in the market.

During the year EnTech USB was appointed to collect and analyse Target's gas, electricity and LPG usage data on a monthly basis. Through this partnership, consumption trends can be reported and investigated.

In 2009/10 we continued to promote and support our key community partners, raising more than $669,000 for The Alannah and Madeline Foundation's Buddy Bag Program by selling Target red bags. We extended the St John Ambulance Kids Safe first aid program nationally providing courses for 1,161 parents and carers of children during the year.

**Outlook**

Trading is expected to continue to be challenging, at least in the first half of the 2011 financial year, given the positive impact on consumer confidence in the same period last year of the Australian Government's stimulus package and comparatively lower interest rates. The challenging and competitive trading environment will continue to place pressure on margins and comparable store sales growth.

New disciplines and processes across the business are the key to maintaining a leadership position, with a focus on core clothing categories.

Continued investment in the network is planned with five new stores and 57 refurbishments in the 2011 financial year.

**BUSINESS WEBSITE**

www.target.com.au

# Kmart

## With a clear strategy in place Kmart invited customers back into store and asked them to ‘Expect Change’.

### The business

Established more than 40 years ago Kmart is one of Australia’s largest discount department store retailers with 186 stores throughout Australia and New Zealand, product sourcing offices in Hong Kong, Shanghai, Dongguan and Delhi, and more than 26,000 team members.

Key categories for Kmart include menswear, childrenswear, womenswear, beauty, footwear, toys and sporting, events and food, entertainment, newsagency and outdoor and home.

Kmart Tyre & Auto Service is one of Australia’s largest retail automotive service, repair and tyre business with 251 centres and is Australia’s largest employer of mechanics and apprentice mechanics with a team of more than 1,300 people.

### Strategy

To address the key issues within the business the Kmart management team has embarked on a three stage turnaround – a strategy encompassing ‘Discovery’, ‘Renewal’ and ‘Growth’.

The business is now moving from ‘Renewal’ to stage three – ‘Growth’, however all three stages continue as Kmart is reset to achieve long-term success.

The Kmart team is guided by one vision: Where families come first for the lowest prices on everyday items.

This past year was all about ‘Renewal’ and fixing the business model with a main focus on:

- exiting unprofitable products;
- exiting a high/low pricing model with excessive discounting;
- fixing a supply chain with too much capacity; and
- reducing administration costs.

The outcome from the changes within the business this year and the coming years will lead to a different Kmart than the one of the past. All decisions are driven by the desire to deliver satisfactory returns for shareholders and satisfy all families in Australia and New Zealand.

### Results

The changes have resulted in a more profitable business with an earnings before interest and tax result of $190 million[1], an increase of 74.3 per cent on the previous year. Comparable store sales growth declined 0.1 per cent for the year[2]. This was largely due to the business resetting itself by exiting unprofitable categories and moving away from a high/low promotional strategy.

### Year in brief

Kmart has undergone significant change throughout the year, with a focus on renewing the business. All components of the business were reviewed and changes implemented. A crucial element of the renewal of Kmart was inviting customers back into stores with the ‘Expect Change’ campaign.

The campaign launched in early 2010 was designed as an invitation to customers to come back and experience the changes that have occurred within the business.

Changes such as faster, friendlier check out experiences, cleaner stores with wider aisles to move around, engaged team members and more convenient shopping hours. Customers have responded well to the changes within the business.

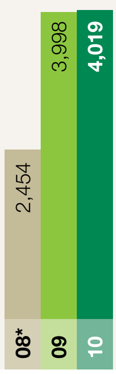
[1] Excludes $6 million earnings related to Coles Group Asia overseas sourcing operations.
[2] For the period 29 June 2009 to 27 June 2010.

### KEY FINANCIAL INDICATORS
For the year ended 30 June

| | 08* | 09 | 10 |
|---|---|---|---|
| Revenue ($m) | 2,454 | 3,998 | **4,019** |
| Earnings before interest and tax ($m) | 111 | 109 | **196**$^{\Delta}$ |
| Capital employed (R12) ($m) | 996 | 1,038 | **873** |
| Return on capital employed (%) | nm | 10.5 | **22.5** |
| Capital expenditure ($m) | 41 | 63 | **79** |

* For the ownership period 23 November 2007 to 30 June 2008.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.
$^{\Delta}$ Includes $6 million earnings related to Coles Group Asia overseas sourcing operations.

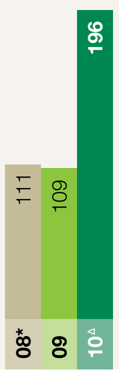
### REVENUE ($m)
**$4,019**




# Kmart has undergone significant change throughout the year, with a focus on renewing the business.

**Guy Russo** Managing Director, Kmart with team members

**EBIT ($m)**
**$196**[Δ]




## Growth strategies

Kmart is a discount department retailer where families come first for the lowest prices on everyday items.

We will grow by focusing on our strategy:

**Customers:** deliver an outstanding customer offer

**Product:** high velocity

**Price:** lowest price

**Promotion:** clear, simple and impactful

**Place:** every site a success

**People:** best people, great company

### Business sustainability

The safety of our team members, contractors and visitors received a renewed focus this year. The business spent 17,206 hours improving safety and injury service skills, as well as conducting programs including 'Move 4 Life', stay at work/return to work programs and introducing 'Safetyopoly' – a new game that targets safety leadership behaviours.

These initiatives have led to a reduction in our Lost Time Injury Frequency Rate (LTIFR) from 11.2 to 9.1 – a 19 per cent reduction for our total business. All injuries have also reduced from 3,010 to 2,443, a reduction of 19 per cent. A highlight for the year was Kmart Tyre & Auto Service reducing its LTIFR from 18.7 to 8.4.

Once again we received strong support for the Kmart Wishing Tree Appeal. The Appeal collected over 400,000 gifts for families in need at Christmas, as well as collecting over $295,000 in cash contributions – a substantial increase on previous years.

Our suppliers donated over $48,000 in gifts to the Appeal and an additional $50,000 was raised through the sale of Kmart Wishing Tree Appeal merchandise including Christmas wrapping paper, cards and Christmas bears.

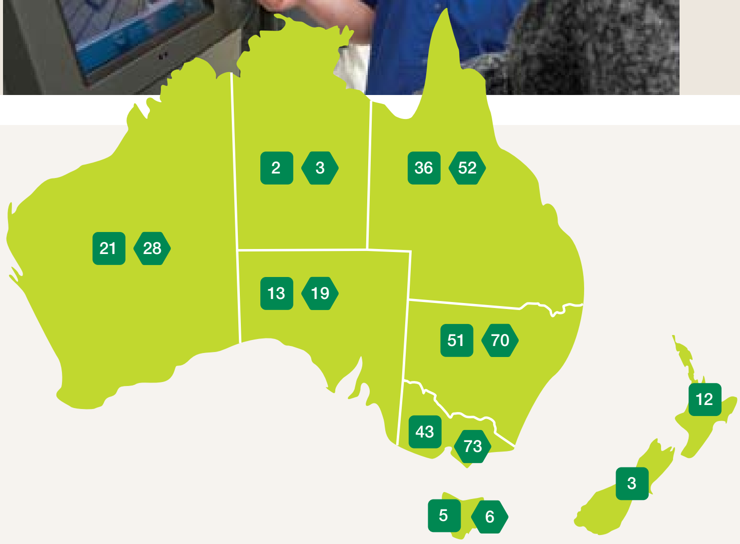
In March 2010, Kmart launched its coin collection program as part of our broader community strategy. This program allows Kmart customers to donate spare change to various charity groups throughout the year to help raise money for vital initiatives and projects. 'Variety – the children's charity' was the first charity to benefit from this initiative, receiving over $60,000 during the months of March and April. During May and June, Kmart collected coins on behalf of various women's hospitals across Australia and New Zealand and raised almost $50,000.

Kmart's Art of Giving competition is now in its second year and invites students from primary schools across the nation to draw, paint a picture or make a collage that represents the theme 'what family means to you'. Last year in its inaugural year, the competition attracted over 2,100 entries with students using a range of techniques to demonstrate what the 'spirit of giving' meant to them. This year the competition closed on 13 September and over $50,000 in cash and prizes will be awarded in two categories to finalists and their schools in each state and territory.

From an environmental perspective, Kmart has undertaken energy audits in stores and distribution centres. These audits have highlighted a range of opportunities to be implemented.

Kmart has also undertaken a review of building specifications for new stores and distribution centres, with the aim of improving their sustainability. A range of recommendations are currently being reviewed by the business prior to deciding which ones to introduce.

Commingled recycling to more than 100 metropolitan stores is being introduced to reduce the amount of waste going to landfill. The business has also partnered with the NSW Department of Climate Change Sustainability Advantage Program to identify areas where we can improve our resource use and divert more waste from landfill.




## BUSINESS STATISTICS

| | |
|---|---|
| Kmart stores | 186 |
| Kmart Tyre & Auto Service centres | 251 |
| Number of team members | 26,212 |


Our KTAS business has continued to roll-out the national collection of used tyres, batteries, workshop scrap, steel and oil for recycling. KTAS has also partnered with Planet Ark for the recycling of tyres.

In order to improve customer service in our stores, Kmart introduced a customer service training package to all store team members. This training focused on greeting, respecting, listening and really helping our customers. In addition, we launched five new programs for line managers specialising in leadership, performance management, managing people, our workplace agreement and working smarter.

### Outlook

As Kmart moves from the 'Renewal' to the 'Growth' phase of its strategic plan a number of challenges continue to exist. The key focus will remain the customer and delivering the lowest prices to families on everyday items. The lift in the in-store shopping environment will continue to deliver clean and tidy stores, fast and friendly check-outs and engaged team members.

Floors and fitting rooms in stores will continue to be refurbished. Efficiencies will be leveraged through an ongoing focus on reducing the cost of doing business.

While the business is focused on resetting for longer term success, it remains cautious of trading against the positive impact on consumer confidence in the first half of the last financial year of the Australian Government's stimulus package and comparatively lower interest rates.

**The lift in the in-store shopping environment will continue to deliver clean and tidy stores, fast and friendly check-outs and engaged team members.**

### BUSINESS WEBSITES

www.kmart.com.au

www.kmart.co.nz

www.ktas.com.au

# Industrial and other businesses highlights

## We create value through what we sell and the way we service our clients

### Resources expansion at Curragh increases capacity

A $286 million expansion of Curragh mine to 8.0 – 8.5 million tonnes annual export capacity and a decision in February 2010 to enter into a long-term contract with Thiess for overburden removal at Curragh.

**8.0 – 8.5 million tonnes**

### Insurance increases earnings by over 27 per cent

Wesfarmers Insurance achieved an increase in earnings of over 27.2 per cent to $131 million. This significant improvement was driven by a strong turnaround in our underwriting operations in difficult market conditions and solid performance across other businesses.

**$131 million**


## Energy increases its earnings

Earnings before interest and tax of $102 million is 36.0 per cent higher than last year and includes $3.4 million in insurance proceeds. The increase in earnings was largely due to higher international LPG prices and the recovery from the previous year's Varanus Island incident.

**$102 million**

## Chemicals and Fertilisers benefits from increased demand from the resources sector

Earnings before interest and tax of $121 million is substantially higher than the previous year's $52 million, which was affected by the Varanus Island incident.

**$121 million**

## Industrial and Safety continued to strengthen its supply chain

The division operates from an unrivalled network of 243 industrial and safety locations and 128 gas distribution points and is supported by large distribution centres, hundreds of external and internal sales resources, as well as eBusiness, websites and telesales channels.

**371** industrial and safety locations plus gas distribution points

# Resources


Earnings were down significantly on last year's record reflecting substantially lower export coal prices for the first three quarters of the year. Prices increased in the final quarter with improved global market conditions.

**A major project began to further expand the metallurgical export capacity at the Curragh mine to 8.0 – 8.5 million tonnes per annum by December 2011.**

### The business

Wesfarmers Resources is a significant Australian open-cut miner, with interests spanning three coal mines.

The division's operations comprise the Curragh mine in Queensland's Bowen Basin (metallurgical and steaming coal for export and domestic markets), the Premier Coal mine at Collie in Western Australia's south-west (steaming coal for domestic markets) and a 40 per cent interest in the Bengalla mine in the Hunter Valley of New South Wales (steaming coal for both export and domestic markets).

### Strategy

Wesfarmers Resources' vision is to be a high performance resource company delivering shareholder value through initiative, innovation and growth.

The division seeks to achieve this on a sustainable basis through: excellence in mining operations and customer relationships; the safety and development of our people; making a positive contribution to the communities in which the division operates; the pursuit of growth in shareholder value through expansion of existing mines; and, subject to appropriate opportunities, expansion of the division's portfolio through acquisition of additional mines and/or development of greenfields projects.

### Results

Revenue of $1.4 billion for the year was 41.3 per cent below the $2.4 billion recorded in the preceding year. Earnings before interest and tax (EBIT) of $165 million was 81.4 per cent lower than the record $885 million* earned last year. Lower export coal pricing during the first three quarters of the year was the major factor in the decreased 2009/10 result. Earnings were also affected, as previously advised, by locked-in foreign exchange losses of $85 million. Curragh's Stanwell royalty cost (paid to the Queensland Government-owned Stanwell Corporation) of $156 million was affected by the previous year's record prices due to the calculation of that royalty. Additionally, the division paid ordinary government royalties in Queensland, New South Wales and Western Australia totalling $96 million for the year.

### Year in brief

Curragh (Qld): Total production of 9.1 million tonnes (6.6 million tonnes of metallurgical coal and 2.5 million tonnes of steaming coal) was down 5.7 per cent on last year. Coal sales volumes matched production volumes and were 7.0 per cent below the sales volumes achieved last year. EBIT was down significantly on last year's record for the reasons outlined above. Aggressive cost reduction programs delivered mine cash costs of nine per cent lower over the period compared to last year. Highlights of the year included the decision in November 2009 to proceed with the $286 million expansion of Curragh mine to 8.0 – 8.5 million tonnes annual export capacity and a decision in February 2010 to enter into a long-term contract with Thiess for overburden removal at Curragh.

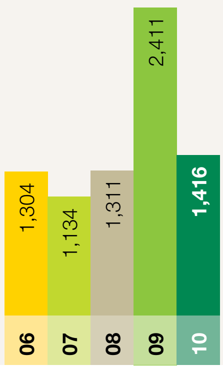
## KEY FINANCIAL INDICATORS

For the year ended 30 June

| | 06 | 07 | 08 | 09 | 10 |
|---|---|---|---|---|---|
| Revenue ($m) | 1,304 | 1,134 | 1,311 | 2,411 | **1,416** |
| Earnings before interest and tax ($m) | 578 | 338 | 423 | 885* | **165** |
| Capital employed (RI2) ($m) | 738 | 870 | 984 | 1,075* | **1,146** |
| Return on capital employed (%) | 78.3 | 38.8 | 43.0 | 82.4* | **14.4** |
| Capital expenditure ($m) | 237 | 178 | 146 | 252 | **228** |

* Restated for change in accounting policy for Stanwell royalty payment.

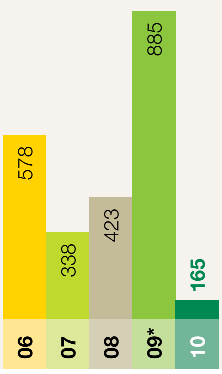
**REVENUE ($m)**
**$1,416**




Lower export coal pricing during the first three quarters was the major factor in the decreased 2009/10 result.

**Stewart Butel** Managing Director, Wesfarmers Resources (right) with team members

**EBIT ($m)**
**$165**




## Growth strategies

### Mine expansions

**Curragh:** A decision was taken in November 2009 to invest $286 million to expand the Curragh mine to 8.0 – 8.5 million tonnes annual export capacity; expansion is now underway and due for completion by December 2011. A feasibility study with respect to a further expansion of Curragh will commence in financial year 2011.

**Bengalla:** A feasibility study for the potential expansion of the Bengalla mine is nearing completion.

**Business optimisation:** Continuous improvement of operations including safety, sustainable cost control and marketing.

**Increase export sales:** Maximise metallurgical coal export sales from the Curragh mine through efficiencies and market growth.

**Portfolio growth:** Evaluation of acquisitions and other ‘step-out’ opportunities – as an established large-scale Australian open-cut miner, this includes coal, other carbon-steel raw materials and energy.

Premier Coal (WA): Total production of 2.8 million tonnes was down 17.4 per cent on last year and sales of 2.6 million tonnes was down 24.4 per cent. Both declines reflected a reduced demand from the mine's major customer, Verve Energy, during the year (coal demand from Verve Energy in the previous year had been higher due, in part, to Western Australian gas supply interruptions). EBIT was higher than the previous year, which had been affected by several non-recurring items. During the year, Premier Coal completed preparations to transition to sole supplier to Verve Energy from 1 July 2010 and continued to develop the Premier Power Sales business.

Bengalla (NSW): Production (Wesfarmers 40 per cent share) of 2.2 million tonnes was up 6.6 per cent on last year. Sales volumes of 2.1 million tonnes were up 2.2 per cent on last year. EBIT remained strong but was down on the previous year's record reflecting the lower export price environment. A highlight was continued progress with respect to the feasibility study to expand the Bengalla mine, which is now nearing completion.

**Business sustainability**

Throughout 2010, action was taken at our sites to improve the efficiency of mining processes, to develop our people capability, to support our local communities, to grow the business through expansion plans and to reduce our environmental footprint.

At the heart of our sustainability strategy is the safety and wellbeing of our employees. A focus for the year was on consolidating and improving upon the safety performance achieved in the previous year. The Lost Time Injury Frequency Rate (LTIFR) was reduced to 2.1 from 2.5. Curragh's safety performance was a highlight with a 38 per cent reduction in its LTIFR to 1.5. While this year's performance was positive, our aim remains to achieve zero workplace incidents.

Throughout the year diversity has been the subject of increased attention with Curragh implementing an Equity and Diversity Strategy, a division-wide survey of our diversity along with the development of an Aboriginal Employment and Engagement Strategy.

The success of our sustainability performance was recognised by industry and government during the year with the Curragh mine being awarded the Minerals and Energy Exporter of the Year at the National Export Awards and the Premier Coal mine winning the Western Australian Environment Award for Business Leading by Example for its indigenous aquaculture project.

## BUSINESS STATISTICS

| | |
|---|---|
| Premier Coal | |
| Curragh | |
| Bengalla (40%) | |
| Number of team members | 820 |

The division's community partnerships continued with extensions announced to our successful partnerships with Life Education Australia, Queensland Theatre Company, Blackwater International Coal Centre and The Smith Family. Curragh and Premier Coal continued to support numerous community-based organisations such as cultural and sporting associations, clubs, festivals and schools to help develop strong, vibrant and healthy communities in which they operate.

**Outlook**

Earnings are expected to increase significantly in the coming year due to improved export coal prices. Consistent with global trends, approximately 75 per cent of Curragh's metallurgical production is now subject to quarterly price resets, with the balance subject to reset in the fourth quarter of the year.

Metallurgical coal sales from the Curragh mine are expected to be in the range of 6.5 to 7.0 million tonnes for the full-year, subject to mine operating performance and infrastructure constraints.

Earnings are expected to increase significantly in the coming year due to improved export coal prices.

## BUSINESS WEBSITES

www.wesresources.com.au

www.curragh.com.au

www.premiercoal.com.au

# Insurance

Wesfarmers Insurance provides insurance and risk management solutions to corporates, small-to-medium sized businesses, not-for-profit organisations and individuals across Australia, New Zealand and the United Kingdom.

**The business**

The insurance underwriting operations include Wesfarmers Federation Insurance (WFI), Lumley Australia and Lumley New Zealand. The insurance broking operations are OAMPS Australia, OAMPS UK and Crombie Lockwood in New Zealand.

**Strategy**

In Australia, the underwriting operations serve both direct and intermediary distribution channels. WFI distributes its insurance products and services directly to clients in rural and regional Australia, whilst the Lumley operations focus on sales through brokers and other intermediaries with specialisation in the fleet and commercial motor, property and liability, engineering and marine sectors. Wesfarmers Insurance also provides personal motor and home insurance through retailers Coles and Kmart Tyre & Auto Service.

The broking businesses operate throughout Australia, New Zealand and the United Kingdom and service all aspects of clients' insurance and risk management needs. OAMPS and Crombie Lockwood are recognised as leaders in their respective markets, particularly to small and medium sized businesses and industry groups.

All activities are underpinned by the requirement to achieve satisfactory returns to shareholders in line with Wesfarmers' objective.

**Results**

Wesfarmers Insurance earnings before interest, tax and amortisation (EBITA) improved to $131 million, compared with $103 million for the previous year, an increase of 27.2 per cent. Operating revenue of $1.7 billion was a reduction of 1.3 per cent from the previous year and resulted from portfolio remediation and the exit from unprofitable arrangements. Adverse exchange rate movements on offshore earnings and reductions in investment earnings also contributed to the reduction in revenue from the previous year. The combined operating ratio for underwriting was 97.9 per cent and the EBITA margin for our broking businesses was 27.8 per cent.

Earnings before interest and tax for the year were $122 million. This included amortisation of intangibles of $9 million associated with the acquisition of insurance brokers.

Lumley Australia and WFI results were affected by higher claims costs from weather events in Melbourne and Perth during March 2010 and a lower interest rate environment compared to the previous year. Despite these factors, Lumley Australia achieved a strong turnaround in its result due to a focus on disciplined underwriting. WFI's result was lower than the prior year due to significant weather-related claims, including its exposure to the Perth and Melbourne hailstorms. There were also higher levels of claims than anticipated in its crop insurance portfolio.

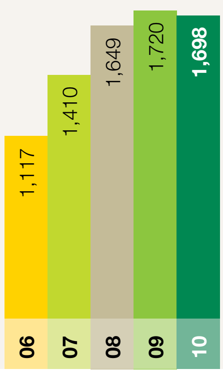
Lumley New Zealand recorded strong profit growth for the year, with underwriting profits continuing to improve due to the company's turnaround program, and generally benign weather conditions.

## KEY FINANCIAL INDICATORS

For the year ended 30 June

| | 06 | 07 | 08 | 09 | **10** |
|---|---|---|---|---|---|
| Revenue ($m) | 1,117 | 1,410 | 1,649 | 1,720 | **1,698** |
| Earnings before interest and tax and amortisation ($m) | 125 | 130 | 135 | 103 | **131** |
| Capital employed (R12) ($m) | 404 | 764 | 1,146 | 1,337 | **1,343** |
| Return on capital employed (%) | 30.9 | 15.8 | 11.5 | 6.8 | **9.1** |
| Capital expenditure ($m) | 21 | 15 | 18 | 26 | **26** |

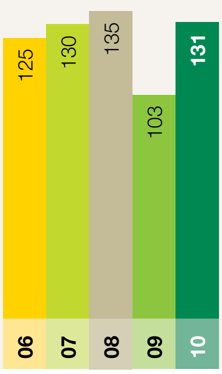
**REVENUE ($m)**
**$1,698**



## Lumley Australia's result improved substantially over last year following an organisational change program and a detailed portfolio review.

**Rob Scott** Managing Director, Wesfarmers Insurance with team members

**EBITA ($m)**
**$131**




### Growth strategies

**Performance improvement:** Strong focus on underwriting and claims disciplines and business process enhancement.

**Focus on customer needs:** Work with new and existing business partners to develop tailored insurance solutions and a point of difference for clients.

**Building the best team:** Invest in the development of employees as the key source of competitive advantage.

**Effective risk management:** Manage the business and portfolio risks effectively to facilitate sustainable and profitable growth.

**Selective acquisition growth:** Continue to pursue bolt-on acquisitions that meet investment criteria.

### Year in brief

Lumley Australia's result improved substantially over last year, following an organisational change program and a detailed portfolio review. Despite catastrophe events in March 2010, EBITA for this business unit improved by $29 million from the previous year.

Lumley New Zealand's result continued to show improvement due to an ongoing focus on strong underwriting and claims disciplines.

WFI was negatively affected by catastrophe events, particularly the Perth and Melbourne hailstorms in March 2010. The business also incurred higher levels of claims than anticipated in its crop insurance portfolio. Despite this, WFI achieved premium growth and strong client retention throughout the year. Results were in line with last year, but below expectations due to the higher claims costs.

The consolidation of the two Australian underwriting licences across the underwriting business in 2009, and subsequent investment in systems capabilities, are expected to drive further operational efficiencies.

Insurance broking revenues and earnings were lower than the previous year as a result of lower exchange rates on offshore earnings and lower investment income. The secondary effects of the global financial crisis affected new business, client cancellations and interest rates, but this was partly offset by growth in premium funding and cost savings.

Crombie Lockwood continued to strengthen its position in the New Zealand market and achieved growth in revenue and earnings in local currency.

OAMPS UK was negatively affected by a lower profit share as a result of claims experience in scheme business, but commission and fee revenue increased on the previous year in local currency.

OAMPS Australia achieved lower than expected revenues. This shortfall was partially offset by a focus on expense reduction and the successful launch of Monument Premium Funding. Overall EBITA was slightly below last year.

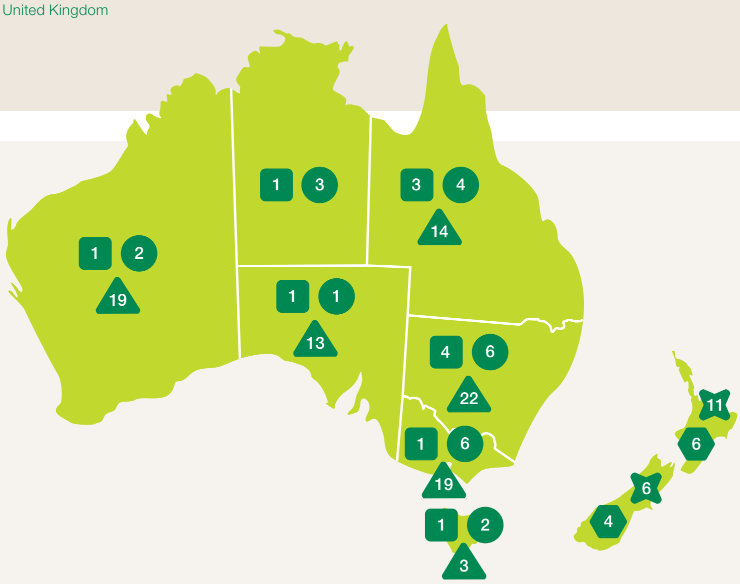
The business focused on several growth strategies and achieved important milestones this year, most notably:

- Lumley Australia's launch of the 'my.place' Electronic Data Interchange (EDI) system and the establishment of a new Corporate Solutions team;
- the launch of a new personal lines offer with Coles and Kmart Tyre & Auto Service underwritten by Wesfarmers Insurance;
- new management appointments in OAMPS and investments in technology to improve the performance of the broking system; and
- Lumley New Zealand commenced a major investment program to install a new best-in-class policy administration system.

### Business sustainability

At Wesfarmers Insurance we take seriously our commitment to upholding the highest standards of conduct within our operations. That includes our efforts to always do business the right way for our customers, clients, shareholders, and in the communities we serve; to provide leaders with the knowledge and tools they need to make sound decisions; and to help our employees clearly understand the values and standards that guide our business every day.


United Kingdom




### LOCATIONS

| | |
|---|---|
| Lumley Insurance Australia | 12 |
| Lumley General New Zealand | 10 |
| WFI | 90 |
| OAMPS[1] | 30 |
| Crombie Lockwood | 17 |
| Number of team members | 3,288 |

[1] OAMPS New Caledonia location not shown.

The underwriting and broking businesses will continue to make investments in capability and IT solutions to support growth initiatives.

We have continued to improve our management processes, structures and policies to help ensure compliance with regulations.

One way we build and protect our culture is by promoting our company's sustainability priorities. Through various initiatives aimed at reducing our carbon footprint, and through the purchase of carbon offsets, the business has achieved carbon neutral status for its Australian operations since 1 July 2009.

We continue to make progress as we work to serve our customers, clients, and communities, and generate returns for our shareholders. We understand that success is only meaningful when it is achieved the right way, with the right values. Our commitment to this principle is the key to sustaining public trust and confidence in our business, and the key to our long-term success.

**Outlook**

In 2011, the division will continue to focus on improvements in underwriting performance and also pursue premium growth through a number of new initiatives, including retail initiatives with Coles and Kmart Tyre & Auto Service.

Both the underwriting and broking businesses will continue to make investments in capability and IT solutions to support growth initiatives.

Lumley Australia and Lumley New Zealand will continue to build on the positive momentum from 2010 with a focus on disciplined underwriting and claims processes. WFI is well positioned to maintain the recent strong premium growth in its core rural and regional areas.

The broking businesses will continue to pursue a combination of organic growth and selective bolt-on acquisitions across Australia, New Zealand and the United Kingdom.

**BUSINESS WEBSITES**

www.wesfarmersinsurance.com.au

www.wfi.com.au

www.lumley.com.au

www.lumley.co.nz

www.oamps.com.au

www.crombielockwood.co.nz

www.oamps.co.uk

# Chemicals, Energy and Fertilisers

Our businesses are well positioned to benefit from improving economic conditions and market demand, particularly in the resources sector.

### The business

From 1 July 2010, Wesfarmers Chemicals and Fertilisers and Wesfarmers Energy merged to form Wesfarmers Chemicals, Energy & Fertilisers. In addition, Coregas became part of Wesfarmers Industrial and Safety. Up until 30 June 2010, the two former divisions reported separately, with Coregas a part of Wesfarmers Energy.

The Chemicals and Fertilisers division incorporates CSBP, Australian Vinyls, ModWood, the 50 per cent-owned Queensland Nitrates (QNP) and the 75 per cent-owned Australian Gold Reagents (AGR). The division is one of Australia's leading suppliers of chemicals, fertilisers and related services to the mining, minerals processing, industrial and agricultural sectors.

Wesfarmers Energy comprises gas and power generation businesses being: the production, marketing and distribution of liquefied petroleum gas (LPG) and liquefied natural gas (LNG) by Kleenheat Gas; the production and distribution of industrial, medical and specialty gases by Coregas and Air Liquide WA (40 per cent interest); and power generation for remote towns and mines by enGen.

### Strategy

The division's strategy is to invest in the capacity of its existing businesses to meet its customers' demands effectively and to evaluate opportunities to grow its businesses in existing and new markets.

### Results

*Chemicals and Fertilisers*

Chemicals and Fertilisers' operating revenue of $1.1 billion was 8.8 per cent lower than last year largely as a result of reduced net fertiliser selling prices.

Earnings before interest and tax of $121 million was substantially higher than the previous year's $52 million which was affected by the Varanus Island gas disruption incident in Western Australia. The result also includes insurance proceeds of $2 million and $4 million in profit from the sale of CSBP's Mt Weld phosphate rock assets.

*Energy*

Operating revenue for the Energy division increased to $611 million, 2.2 per cent above last year. Earnings before interest and tax of $102 million were 36.0 per cent higher than last year and include $3 million in insurance proceeds. The increase in earnings was largely due to higher international LPG prices and the recovery from the previous year's Varanus Island incident.

### Year in brief

*Chemicals and Fertilisers*

*Chemicals*

Strong demand continued for ammonium nitrate which, when coupled with good production performance, resulted in an increase in sales tonnes of 8.4 per cent, largely into the local resource sector and fertiliser manufacturing. Together with reductions in fixed costs, this resulted in a lift in earnings from the previous year.

The ammonia business experienced record production and improved sales performance during the year, recovering from the previous year's Varanus Island gas disruption when the business imported higher cost ammonia.

Demand for ammonium nitrate from Queensland Nitrates remained strong with the operation benefiting from a full year of expanded production capacity of 215,000 tonnes per annum.

### KEY FINANCIAL INDICATORS – CHEMICALS AND FERTILISERS

For the year ended 30 June

| | 06 | 07 | 08 | 09 | 10 |
|---|---|---|---|---|---|
| Revenue ($m) | 595 | 592 | 997 | 1,162 | **1,060** |
| Earnings before interest and tax ($m) | 81 | 101 | 124 | 52 | **121** |
| Capital employed (R12) ($m) | 540 | 604 | 946 | 1,214 | **1,103** |
| Return on capital employed (%) | 15.1 | 16.7 | 13.1 | 4.3 | **11.0** |
| Capital expenditure ($m) | 73 | 199 | 252 | 44 | **32** |

### KEY FINANCIAL INDICATORS – ENERGY

For the year ended 30 June

| | 06 | 07 | 08 | 09 | 10 |
|---|---|---|---|---|---|
| Revenue ($m) | 372 | 463 | 565 | 598 | **611** |
| Earnings before interest and tax ($m) | 49 | 75 | 90 | 75 | **102** |
| Capital employed (R12) ($m) | 184 | 422 | 782 | 808 | **780** |
| Return on capital employed (%) | 26.8 | 17.9 | 11.6 | 9.2 | **13.1** |
| Capital expenditure ($m) | 50 | 78 | 118 | 40 | **21** |

### Growth strategies

**Improve offers:** Ongoing development of product and service differentiation.

**Improve competitiveness:** Optimisation of cost base and operating efficiencies.

> **Earnings from most businesses across the division increased, due largely to strong market demand and the recovery from the previous year's Varanus Island incident.**

**Tom O'Leary** Managing Director, Wesfarmers Chemicals, Energy and Fertilisers with team members

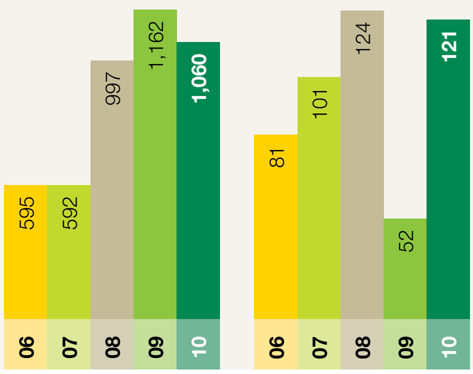
**Ammonium nitrate:** Progress evaluation of ammonium nitrate expansion plans.

**Growth opportunities:** Identify and evaluate further opportunities for existing businesses to grow in new markets.

## CHEMICALS AND FERTILISERS

**REVENUE ($m)**
**$1,060**

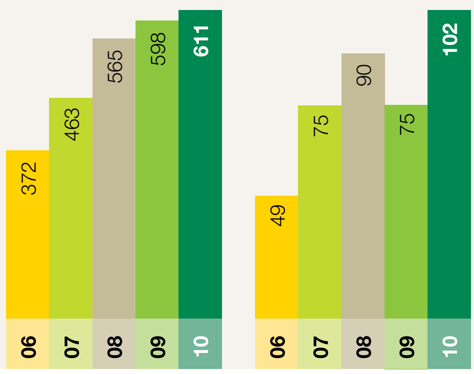
**EBIT ($m)**
**$121**




## ENERGY

**REVENUE ($m)**
**$611**

**EBIT ($m)**
**$102**



The Australian Gold Reagents business saw a recovery in demand from its Australian gold mining customers following the impact of the Varanus Island gas disruption in the previous year. The business also commissioned an 8,000 tonnes per annum production capacity expansion in June 2010.

Australian Vinyls increased its sales volumes by 10.5 per cent during the year as the housing market started to show signs of recovery, but this was more than offset by margin decline due to higher input costs relative to the PVC selling price.

*Fertilisers*
Following a return to more traditional levels of nutrient application and a reasonable break to the season in May, sales volumes increased 23.6 per cent on last year despite the change in distributor arrangements. Significant carryover of highly-priced inventory into the year resulted in a $25 million inventory writedown in December 2009 and low margin sales throughout the year. As a result, earnings were down significantly on the prior year.

*Energy*

*LPG and LNG*
Revenues from the LPG and LNG businesses were slightly ahead of last year due to higher international LPG prices and a full year of LNG sales, partially offset by a higher AUD:USD foreign exchange rate. Earnings increased significantly, as a result of higher production of both LPG and LNG and the recovery from last year's Varanus Island gas disruption. Growing demand for LNG from the heavy-duty vehicle market remains challenging.

*Industrial, medical and specialty gases*
Coregas: Conditions in key eastern Australian manufacturing and welding markets remain subdued contributing to the non-cash impairment charge in relation to Coregas of $48 million.

Air Liquide WA (ALWA): Economic conditions in Western Australia have contributed to a recovery in industrial gas markets and stronger earnings from the 40 per cent interest in ALWA.

*Power generation*
enGen: Earnings were higher than last year following a full year's operation of the LNG-fuelled power stations at Sunrise Dam and Darlot in Western Australia.

**Business sustainability**

*Chemicals and Fertilisers*

The division's focus continues to be the safe operation of its facilities in a way that minimises any adverse impact on employees, the environment or the communities in which it operates.

The division had 14 total recordable injuries during the year, nine less than last year. Six lost time injuries were recorded, the same as for last year.

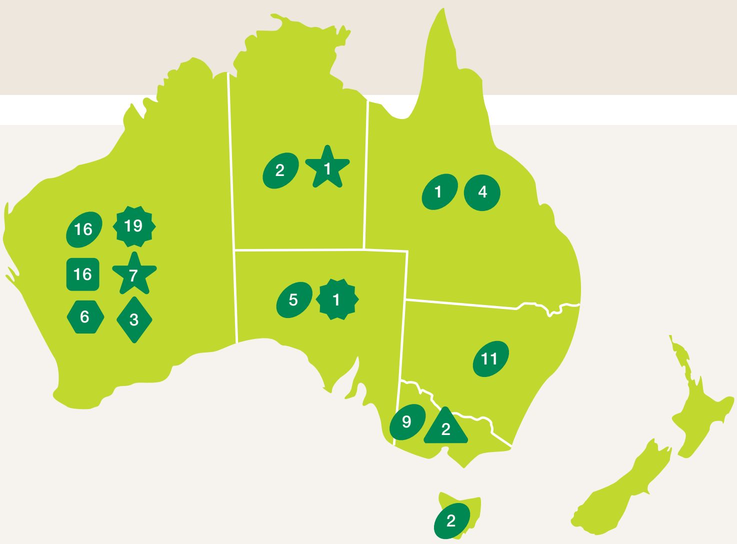
Approximately $2.2 million was invested in training and development, with primary focus on three areas – safety training, skills development and leadership development.

Australian Vinyl's $5.3 million water recycling plant at Laverton was officially opened by the Victorian Premier in February 2010. The water recycling plant reuses plant effluent to reduce potable water consumption by approximately 325 megalitres per year, a reduction of approximately 50 per cent.

During the year there were 19 reportable environmental events, a decrease of eight on last year. Of these 19 reportable events, six were potential non-compliances. The division has a dedicated environment team to support manufacturing activities and continuously improve compliance with environmental standards.

The division supported a range of community organisations through either direct financial support or through the donation of goods. CSBP continued its partnership at Kwinana with Youth Focus, a not-for-profit organisation which assists young people at risk of suicide or self-harm.

In October 2009, CSBP approved an investment of $5 million in a regenerative thermal oxidiser (RTO) to broaden phosphate rock supply options for its superphosphate manufacturing operation at Kwinana. The investment in the RTO is to enable the oxidisation of waste gas to address odour issues associated with processing phosphate rock from new sources.




## BUSINESS STATISTICS

| | |
|---|---|
| CSBP fertilisers | 16 |
| CSBP chemicals | 6 |
| AGR (75%) | 3 |
| Australian Vinyls | 2 |
| QNP (50%) | 4 |
| ALWA (40%) | 8 |
| Kleenheat Gas | 46 |
| enGen | 20 |
| Number of team members | |
| Chemicals and Fertilisers | 765 |
| Energy | 745 |


The division's strategy is to invest in the capacity of its existing businesses to meet its customers' demands effectively and to evaluate opportunities to grow its businesses in existing and new markets.

*Energy*

During the year the division focused on improvements in the safety of its operations.

The division had 71 total recordable injuries during the year, nine more than last year. Ten lost time injuries were recorded, five more than last year, with ALWA and enGen maintaining zero lost time injuries for the year.

Kleenheat has instigated an Energy Efficiency Opportunities program with 23 identified projects being evaluated.

The division continued its support of a range of community organisations and initiatives during the year, including support of the Salvation Army, the Sydney Children's Hospital Foundation and sponsorship of a Bangladesh school.

**Outlook**

Strong demand for ammonium nitrate and sodium cyanide is expected to continue. Increased gas input costs in sodium cyanide production will offset some of this expected benefit. Continued pressure on margins at Australian Vinyls is expected until the relativity between its raw material costs and PVC pricing returns to more typical levels.

Finalisation of the FEED study into the potential expansion of ammonium nitrate capacity at Kwinana is expected by the third quarter of the 2011 financial year.

LPG earnings will be affected by increased domestic gas prices in Western Australia and continue to be dependent on international LPG prices and LPG content in the Dampier to Bunbury natural gas pipeline.

With reduced volatility in global fertiliser prices, an increase in earnings is anticipated albeit dependent upon a good seasonal break in the second half of the year and farmers' terms of trade.

Savings of $5 million per annum are expected following the divisional merger.

**BUSINESS WEBSITES**

www.wescef.com.au

www.csbp.com.au

www.av.com.au

www.modwood.com.au

www.airliquidewa.com.au

www.kleenheat.com.au

www.engen.com.au

# Industrial and Safety


## We improve the efficiency and safety of workplaces by providing our customers with security of supply of the broadest range of industrial and safety products and services.

**The business**

Wesfarmers Industrial and Safety is the leading market supplier of industrial and safety products and services in Australia and New Zealand. It services large and small customers across mining, oil and gas, retail, construction and infrastructure, manufacturing, health and government.

The division comprises 11 businesses, including Blackwoods, the leading industrial supplier in Australia. Blackwoods has an extensive national network and broad product range. Protector Alsafe, Bullivants, Total Fasteners and Motion Industries are the specialist businesses that complement Blackwoods broad market offer. Additionally, Coregas joined the division on 1 July with an industrial, medical and specialty gases offering. In New Zealand, Blackwoods Paykels, a generalist maintenance, repair and operations supplier, hose and conveyor business is complemented by four specialists: Protector Safety, NZ Safety, Packaging House and Safety Source.

The division operates from an unrivalled network of 243 industrial and safety locations and 128 gas distribution points. The network is supported by large distribution centres, hundreds of external and internal sales resources, as well as eBusiness, websites and telesales channels.

**Strategy**

The businesses in the division support a diverse range of customer needs by providing security of supply of the broadest range of products, with strong delivery performance and customer service. They deliver cost efficiency through local and global procurement, supply chain and eBusiness solutions, as well as critical value-add services such as Vendor Managed Inventory, testing of lifting and rigging equipment and occupational health and safety accredited training.

The division continues to strengthen its relationships with large customers by enhancing sales force effectiveness, broadening its product range and continuously improving its delivery performance. A key priority continues to be the expansion into higher growth sectors, complementing organic growth with value-creating acquisitions.

Focusing on improving the use of working capital and business process enhancements will continue to lower the cost of doing business, for our customers and our businesses.

The division is committed to safety, sustainability and community support, while investing in its people.

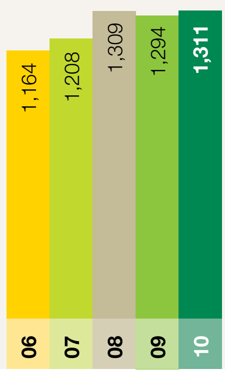
**Results**

Industrial and Safety delivered a solid result in a challenging economic environment. Operating revenue increased by 1.3 per cent to $1.3 billion. Revenue performance in the second half improved significantly, being 11.0 per cent higher than last year.

### KEY FINANCIAL INDICATORS
For the year ended 30 June

| | 06 | 07 | 08 | 09 | 10 |
|---|---|---|---|---|---|
| Revenue ($m) | 1,164 | 1,208 | 1,309 | 1,294 | **1,311** |
| Earnings before interest and tax ($m) | 97 | 115 | 130 | 114 | **111** |
| Capital employed (R12) ($m) | 769 | 734 | 775 | 808 | **799** |
| Return on capital employed (%) | 12.6 | 15.6 | 16.8 | 14.1 | **13.9** |
| Capital expenditure ($m) | 16 | 26 | 20 | 25 | **25** |

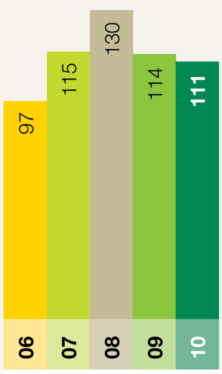
### REVENUE ($m)
**$1,311**



A key priority continues to be the expansion into higher growth sectors, complementing organic growth with value-creating acquisitions.

**Olivier Chretien** Managing Director, Wesfarmers Industrial and Safety with team members

**EBIT ($m)**
**$111**




## Growth strategies

Increase share of customers' products and services spend through strong delivery performance and customer service, broadening product range, strengthening value proposition and improved sales effectiveness.

Target resources and infrastructure projects.

Transition of Coregas, leveraging existing customer relationships.

Improve metropolitan sales penetration through a multi-channel offering.

Continue to improve supply chain and organisation effectiveness through process enhancements and technology investments.

Strengthen leadership positions into existing and new markets through acquisitions.

Ongoing commitment to safety, sustainability and employee development.

Sales growth was strongest in businesses and regions exposed to resources activity, however most areas of Australia delivered sales growth with industrial activity improving in most regions. The New Zealand businesses also showed improvement in the second half, albeit less than experienced in Australia.

Earnings before interest and tax was $111 million. Strong operating earnings were achieved in the second half of the year and were 30.4 per cent higher than last year.

The rolling 12 month return on capital of 13.9 per cent compares to 14.1 per cent last year and 12.1 per cent at the end of the first half. The improvement over the second half was driven by strong earnings performance and capital management.

**Year in brief**

The year was marked by a strong recovery over the second half, with good sales momentum across a number of areas due to: sustained project activity, particularly in mining and oil and gas; contract successes; pleasing eBusiness and services growth; and increasing industry diversification.

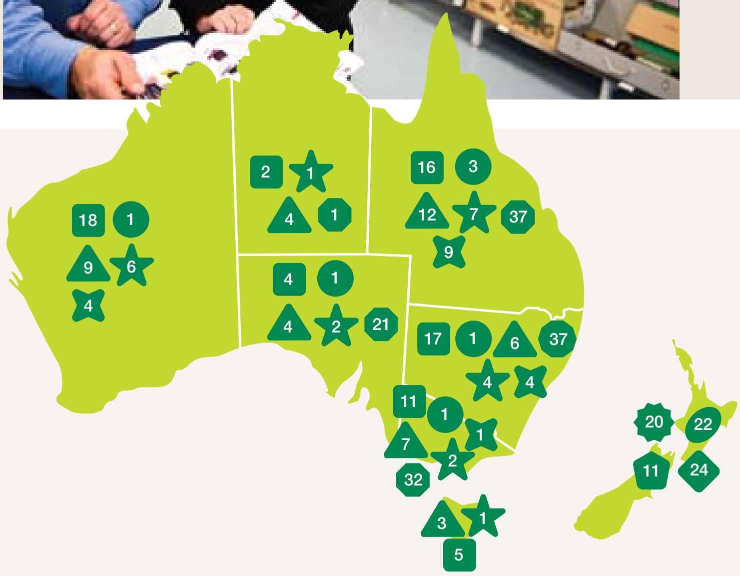
Over the year, the division continued to strengthen its capabilities, including the roll-out of a full Customer Relationship Management capability to the Blackwoods and Protector Alsafe sales forces, supported by laptops to all external sales personnel with remote connectivity.

Upgrading supply chain capabilities continued with the completion of the Blackwoods Perth and Blackwoods Paykels Auckland distribution centres. The international supply chain, including sourcing, quality assurance and logistics, was further enhanced, highlighted by the opening at the end of the year of a multi-country consolidation distribution centre in Shenzhen, China.

The combination of strong relationships with key suppliers and expanding direct sourcing capability has supported the continued development of the range of products and services offered. Blackwoods launched a new catalogue and Protector Alsafe significantly expanded its training offer.

Operational improvements delivered strong cost and capital performance.

Finally, Coregas joined the division on 1 July 2010, extending the division's offer to industrial, medical and specialty gases.


## BUSINESS STATISTICS

| | |
|---|---|
| Blackwoods[1] | 73 |
| Protector Alsafe | 45 |
| Bullivants | 23 |
| Total Fasteners | 18 |
| Motion Industries | 7 |
| Coregas[2] | 128 |
| Blackwoods Paykels (NZ)[3] | 20 |
| Protector Safety (NZ)[3] | 22 |
| NZ Safety | 24 |
| Packaging House (NZ) | 11 |
| Number of team members[4] | 3,519 |

1 Includes Bakers Construction and Atkins Electrical.
2 Includes 10 Coregas owned branches and 118 gas distribution points.
3 Includes 13 co-located Blackwoods Paykels and Protector Safety branches.
4 Includes Coregas employees.


The combination of strong relationships with key suppliers and expanding direct sourcing capability has supported the continued development of the range of products and services offered.

**Business sustainability**

Safety continues to be a major focus, with a number of initiatives targeting key risk activities, resulting in improvements on injury severity and reduction of the Lost Time Injury Frequency Rate from 2.4 to 1.6.

Other sustainability initiatives focused on paper use, as well as energy and water efficiency.

The businesses remained focused on attracting, retaining and developing quality employees, while labour retention challenges increased with the upturn of business activity, especially in the resource sector.

Community support included ongoing employee involvement, donations and financial contributions, including national support for the Fred Hollows Foundation and its indigenous health program. The year also saw the launch of the division's Aboriginal and Torres Strait Islander strategy.

**Outlook**

The strong platforms the division has built over recent years position it well to take advantage of any further economic recovery. While improved market conditions may be dampened by margin pressures and the growing labour retention challenge, resources and infrastructure-based activity and an increasing customers' spend are expected to provide good growth opportunities. Additionally, business expansion and the transition of Coregas to the division are expected to strengthen its leadership positions in existing and new markets.

**BUSINESS WEBSITES**

www.blackwoods.com.au
www.protectoralsafe.com.au
www.bullivants.com
www.totalfasteners.com.au
www.motionind.com.au
www.coregas.com
www.blackwoodspaykels.co.nz
www.nzsafety.co.nz
www.packaginghouse.co.nz
www.protectorsafety.co.nz
www.safetysource.co.nz

# Other activities

Wesfarmers' other business activities include investment in Gresham Partners Group Limited, Wespine Industries and the Bunnings Warehouse Property Trust.

### Gresham Partners

Wesfarmers has a 50 per cent shareholding in Gresham Partners Group Limited, the ultimate holding company for the Gresham Partners investment house group. Gresham's principal business activities are the provision of investment banking advisory and structured finance services and the management of investment funds in private equity and property.

During the year opportunities to facilitate further industry consolidation of client businesses in a more cautious economic environment underpinned the group's performance.

Gresham maintained its position as a leading provider of independent advice to a broad range of domestic and international clients across a variety of merger and acquisition and corporate restructuring assignments. Gresham also expanded its asset finance capabilities during the year increasing its engagement with both corporate and government clients through the provision of placement and structured finance services.

In addition to its interest in the Gresham Group, Wesfarmers has direct investments in each of Gresham's private equity funds and maintains active engagement with those operations through its representation on the funds' boards and investment committees.

The Gresham Private Equity funds manage a portfolio of investments across a range of businesses which include: Barminco, Australia's largest underground hard rock mining company; Witchery, a leading apparel and accessories retailer; and Silk Logistics Group, an Australian transport and distribution logistics operator. Gresham Private Equity Funds contributed $43 million of earnings, due to upward non-cash revaluations, compared to a loss of $57 million last year.

Through its property funds management business, Gresham is an active provider of debt finance to the property development industry, currently managing more than $240 million of capital on behalf of institutional and other sector investors. A new fund was launched during the year which aims to increase funds under management by a further $200 million. This business continues to perform well and maintains a track record of delivering satisfactory returns to its investors through the economic cycles.

### Wespine Industries

The 50 per cent-owned Wespine Industries, which operates a plantation softwood sawmill in Dardanup in Western Australia, contributed earnings of $6.3 million after tax, a 50 per cent increase on last year. After a slow first quarter, sales recovered strongly in response to increased housing market activity to reach a record annual timber sales volume. This sales performance was supported by good productivity in both the green mill and dry mill, made possible by the capital improvements in recent years and a focus on cost control. High natural gas costs remained a constraint on profitability.

A dry mill upgrade for in-line treatment of timber was completed during the year to satisfy increasing market demand for higher value pest resistant structural timber.

The good safety performance of recent years was maintained, with no Lost Time Injuries (LTI) recorded during the year for employees or contractors. The last LTI having occurred in August 2008.

Sales and earnings are expected to remain strong in the coming months, although import competition is likely to remain a significant factor with the high Australian Dollar and subdued housing construction in overseas markets.

### Bunnings Warehouse Property Trust

Wesfarmers' investment in the Bunnings Warehouse Property Trust contributed earnings of $27 million, compared to a loss of $8 million recorded last year.

The Trust was established in 1998 with a focus on warehouse retailing properties and, in particular, Bunnings Warehouses leased to Bunnings Group Limited. Bunnings Property 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, 23.1 per cent of the total units issued by the Trust.

The Trust's current portfolio consists of a total of 60 properties: 53 established Bunnings Warehouses; one Bunnings distribution centre; one development site for a Bunnings Warehouse; four office/warehouse industrial properties; and one retail/bulky goods showrooms complex.

# Sustainability

Wesfarmers has identified five key areas of focus as part of its commitment to a sustainable future.


We recognise that our employees are crucial to our success and as such we focus on continuously improving our talent management systems, and people-related policies and processes.

**Sustainability priorities**

When it became a public company in 1984, Wesfarmers adopted the objective of delivering satisfactory returns for its shareholders. Over the past 25 years, the responsibilities of business – particularly large companies such as Wesfarmers – have changed significantly. Financial success is no longer the only measure that matters. Increasingly, companies are assessed on how they manage a wide range of factors that contribute to a strong bottom line.

For many years, Wesfarmers has accepted the need to ensure that sustainability policies and practices across the Group meet the high standards expected of modern corporations by the communities in which its businesses operate and by the company's employees, customers, suppliers and shareholders.

In the context of its commitment to sustainable outcomes, Wesfarmers has nominated five key areas of focus that will contribute towards delivering satisfactory returns for its shareholders in 2010 and beyond. Each of the Group's businesses – while providing different goods and services and making its own particular economic and social contributions – has oriented its sustainability efforts in 2010 around these priorities:

- the importance of people;
- carbon emissions reduction and energy management;
- community investment;
- a reduced overall environmental footprint; and
- a strong economic contribution.

This approach helps provide a structure under which consistent sustainability outcomes can be delivered across the Wesfarmers Group in which a very wide and diverse range of sustainability activities are pursued by the various businesses.

A full account of the company's sustainability policies, practices and performance will be available in the 2010 Sustainability Report to be published in November of this year. This will be the thirteenth such stand-alone, comprehensive document produced by Wesfarmers since it began reporting publicly on issues related to sustainability in 1998/99.

**People**

Wesfarmers is one of Australia's largest private sector employers, employing about 200,000 employees, largely in Australia and New Zealand. We recognise that our employees are crucial to our success and as such we focus on continuously improving our talent management systems, and people-related policies and processes.

While each of our businesses is operated autonomously and is ultimately responsible for the management and development of its people, there are a number of overarching principles and practices across the Group. These include a consistent performance based remuneration system for senior executives and talent management systems that focus on increasing the talent pipeline and capacity of our high potential people.

Further, systems that drive continuous improvement in safety performance continue to be of paramount importance to Wesfarmers and our overall results for the key safety indicators display a pleasing improvement in 2009/10, but there is a lot more to be done. Employment and promotion decisions are focused on merit, considering the performance of the individual against key role requirements as well as the demonstrated level of skill, qualification and ability. Ongoing investment in the development of our employees and provision of effective performance management systems are critical in enabling individuals to achieve their potential and for our businesses to deliver results.

Wesfarmers recognises the significant social and commercial value of diversity at all levels of its workforce, and seeks to leverage each individual's unique skills, background and perspectives. Gender diversity has been and continues to be a priority for the Group. As at 30 June 2010, approximately 57 per cent of our employees are female. Two of our 11 board members (18 per cent), one of the 11 Wesfarmers leadership team members (9 per cent) and 23 of 121 Wesfarmers executive team members (19 per cent) are female.

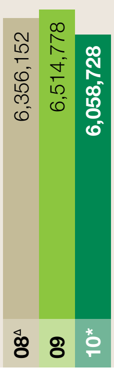
Wesfarmers has recently increased its focus on ensuring that Aboriginal people have access to employment opportunities in our businesses. Recent surveys of our employees show that 0.8 per cent of respondents identify themselves as Aboriginal or Torres Strait Islander people. Each division is investigating and pursuing opportunities to increase the representation of Aboriginal people in our workforce.

**Carbon and energy management**

As the world confronts an increasingly carbon-constrained future, reducing the company's carbon footprint and enhancing our energy efficiency is both a commercial priority and an environmental imperative. Wesfarmers is vigorously pursuing energy efficiency in our facility design, construction, maintenance and redevelopment practices across our businesses. We are investing in new technologies and systems that will contribute to the transition to a lower carbon economy through a focus on the efficient and sustainable use of energy by the Group's businesses.

Wesfarmers submitted our second report under the Energy Efficiency Opportunities Act (EEO) in December 2009 and is pursuing a wide range of energy efficiency and conservation initiatives across the Group as part of an overall approach to the pending constraints on carbon emissions. The company also further developed our system for monitoring and recording energy use and greenhouse emissions to comply with the National Greenhouse and Energy Reporting Act (NGERs) to create a management information system covering energy use and greenhouse emissions. Our first report under this Act was submitted in October 2009, and both the 2009 EEO and NGERs Act reports are available at www.wesfarmers.com.au and the 2010 Sustainability Report will contain more detail on our actions in these areas.

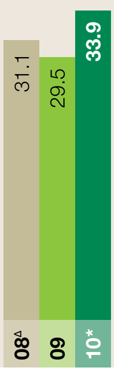
**GREENHOUSE GAS EMISSIONS**
(tonnes $CO_2e$)




* The reduction in FY10 is primarily due to more accurate measurement of refrigerant gas emissions in Coles, and nitrous oxide emissions in WesCEF.

Δ Includes the former Coles group except Officeworks.

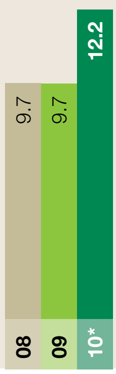
**ENERGY USE**
(million Gj)




* The increase in FY10 is primarily due to the full year availability of gas supplies to our Western Australian industrial businesses.

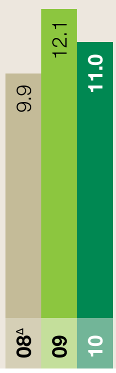
Δ Includes the former Coles group except Officeworks.

**WATER USE**
(megalitres)




* Increase due to improved reporting.

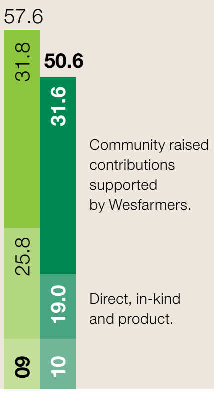
**LOST TIME INJURY FREQUENCY RATE**




Δ Excludes Coles and Officeworks.


**Wesfarmers is vigorously pursuing energy efficiency in our facility design, construction, maintenance and redevelopment practices across our businesses.**

**COMMUNITY CONTRIBUTIONS**
($m)




### Community investment

From its earliest days, Wesfarmers has been close to the communities in which it operates and on whose support it depends. The company recognises and invests in areas of community endeavour which it believes are necessary to contribute to building long-term cohesion, leadership and innovation. There is particular focus on the arts, indigenous development, medical research and education.

In 2009/10 Wesfarmers again used the external verification process of the London Benchmark Group and our existing Sustainability Report external assurance process to assess the extent of the company's community contributions. In 2009/10 Wesfarmers supported the community through cash, in-kind and product support of $19.0 million. In addition, a further $31.6 million was raised through the active community involvement of the Wesfarmers Group of businesses. More details will be included in the 2010 Sustainability Report to be published in November this year. Our total contribution reduced this year because thankfully Australia did not suffer another disaster on the scale of the 2009 Victorian bushfires.

Wesfarmers supports a number of Australia's leading arts companies through the award-winning Wesfarmers Arts sponsorship program. This involvement stems from a belief that a vibrant cultural sector makes a positive contribution to the life of the community. The company's nationally-recognised collection of Australian art is shared with the public through exhibitions and loans to galleries. During the year works from the collection were lent to several major institutions around Australia for display.

### Environmental footprint

Wesfarmers' business operations have both direct and indirect environmental impacts, including water usage, packaging, emissions to air, solid and liquid waste, and land rehabilitation. Planning and management of these issues is directed at reducing the company's overall environmental footprint.

Some of our key initiatives during the year included commissioning of the Australian Vinyls water recycling plant at its Laverton site, in Victoria, to reduce scheme water use; the significant progress made in Bunnings moving towards sourcing only timber from accredited sources for its stores; marked reductions in waste to landfill and enhancing recycling systems in several of our retail operations; the protection of a 643 hectare area of brigalow woodland by our Resources division in Queensland to offset the 220 hectares cleared for mining operations; the commencement of the program to install night blinds on upright freezers in Coles supermarkets as an energy efficiency initiative, which will be concluded in 2010/11; and a significant reduction in dust emissions due to the full year operation of the new ammonium nitrate prilling plant at Kwinana, in Western Australia.

### A strong economic contribution

A strong business sector and a strong economy go hand in hand. Wesfarmers seeks to maximise its contribution to the economy through long-term growth that increases overall economic activity and its capacity to generate additional direct and indirect employment. Through the taxes it pays, the company plays its part in enabling governments to invest in better development-focused infrastructure and social support networks. By providing dividends and other investment returns to the company's owners – its shareholders – Wesfarmers contributes to individual wealth generation and to a more prosperous general community.

The company's businesses all continue to improve information systems and their verification and auditing of suppliers, particularly in Asia, to ensure that our sourcing of products and services is responsible and our procurement systems operate to contemporary standards.

# Board of Directors






## Bob Every, age 65

Chairman

**Status and term:** Appointed in 2006 as a non-executive director (independent) and appointed Chairman in November 2008. Chairman of the Remuneration and Nomination committees and member of the Audit Committee.

**Skills and experience:** Bachelor of Science degree, Doctorate of Philosophy (Metallurgy) from the University of New South Wales and Fellow of the Australian Academy of Technological Sciences and Engineering. Bob was the Chairman of the New Zealand-based listed company Steel and Tube Holdings Limited and a director of OneSteel Limited. Other executive positions previously held by Bob include Managing Director of Tubemakers of Australia Limited, President of BHP Steel and Managing Director and Chief Executive Officer of OneSteel Limited, a position from which he retired in May 2005.

**Directorships of listed entities (last three years)**
- Chairman of Boral Limited (appointed May 2010, previously Deputy Chairman with initial appointment in September 2007)
- Chairman of Iluka Resources Limited (appointed March 2004 – resigned May 2010)
- Sims Group Limited (appointed October 2005 – resigned November 2007)

**Other directorships/offices (current and recent)**
- Director of Malcolm Sargent Cancer Fund for Children in Australia Limited (Redkite)
- Director of O'Connell Street Associates Pty Limited
- Director of OCA Services Pty Limited

## Richard Goyder, age 50

Managing Director

**Status and term:** Appointed in 2002 as an executive director (non-independent). Attends committee meetings by invitation.

**Skills and experience:** Bachelor of Commerce degree from the University of Western Australia. Completed the Advanced Management Programme at the Harvard Business School in 1998. Richard joined Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He has held a number of commercial positions in Wesfarmers' Business Development Department including General Manager. In 1999 Richard was Managing Director of Wesfarmers Dalgety Limited, which subsequently became Wesfarmers Landmark Limited, a position he retained until his appointment as Finance Director of Wesfarmers Limited in 2002. He was appointed Deputy Managing Director and Chief Financial Officer of Wesfarmers Limited in 2004 and assumed the role of Managing Director and Chief Executive Officer in July 2005.

**Directorships of listed entities (last three years)**
- Nil

**Other directorships/offices (current and recent)**
- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- Director of Fremantle Football Club Limited
- Member of the University of Western Australia Business School Advisory Board
- Chairman of Scotch College Council
- Director of the Business Council of Australia
- Advisory Council Member of the Juvenile Diabetes Research Foundation

## Terry Bowen, age 43

Finance Director

**Status and term:** Appointed in 2009 as an executive director (non-independent). Attends committee meetings by invitation.

**Skills and experience:** Bachelor of Accountancy degree and Certified Practising Accountant. Terry has held a number of finance positions with Tubemakers of Australia Limited, culminating in his appointment as General Manager Finance. Terry joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark Limited, where he was appointed Chief Financial Officer, until its acquisition by AWB Limited in 2003. He was then appointed the inaugural Chief Financial Officer for Jetstar Airways, prior to rejoining Wesfarmers as Managing Director, Wesfarmers Industrial and Safety in November 2005. Terry became Finance Director, Coles in 2007, prior to his appointment as Finance Director, Wesfarmers Limited in May 2009.

**Directorships of listed entities (last three years)**
- Nil

**Other directorships/offices (current and recent)**
- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- Member of the National Executive of the Group of 100 Inc
- Member of the Curtin University School of Accounting Advisory Board
- Director of the Western Australian Institute for Medical Research Incorporated
- Director of the Western Australian Opera Company Incorporated

## Colin Carter OAM, age 67

**Status and term:** Appointed in 2002 as a non-executive director (independent). Member of the Remuneration and Nomination committees.

**Skills and experience:** Bachelor of Commerce degree from Melbourne University and a Master of Business Administration from Harvard Business School. Colin has had extensive experience advising on corporate strategy and corporate governance and his consultancy career has included major projects in Australia and overseas.

**Directorships of listed entities (last three years)**
- SEEK Limited (appointed March 2005)
- Foster's Group Limited (appointed March 2007 – resigned September 2007)

**Other directorships/offices (current and recent)**
- Director of Indigenous Enterprise Partnerships
- Director of World Vision Australia
- Director of the Ladder Project
- Director of the Geelong Football Club Limited
- Member of the Board of the Cape York Institute
- Ambassador to the Federal Government Business Action Group – Help Close the Gap
- Chairman of the AFL Foundation
- An adviser to, and former Senior Partner of, the Boston Consulting Group

## James Graham AM, age 62

**Status and term:** Appointed in 1998 as a non-executive director (non-independent). Member of the Remuneration and Nomination committees.

**Skills and experience:** Bachelor of Engineering in Chemical Engineering with Honours from the University of Sydney, a Master of Business Administration from the University of New South Wales and a Fellow of the Australian Academy of Technological Sciences and Engineering. James has had an active involvement in the growth of Wesfarmers since 1976 in his roles as Managing Director of Gresham Partners Limited since 1985 and previously as Managing Director of Rothschild Australia Limited and a director of Hill Samuel Australia Limited.

**Directorships of listed entities (last three years)**
- Nil

**Other directorships/offices (current and recent)**
- Managing Director of the Gresham Partners Group
- Chairman of the Advisory Council of the Institute for Neuroscience and Muscle Research
- Director of Wesfarmers General Insurance Limited
- Trustee of the Gowrie Scholarship Trust Fund
- Former Chairman of the Darling Harbour Authority in New South Wales
- Former Chairman of Rabobank Australia Limited and Rabobank New Zealand Limited

## Tony Howarth AO, age 58

**Status and term:** Appointed in 2007 as a non-executive director (independent). Chairman of the Audit Committee and member of the Nomination Committee.

**Skills and experience:** Senior Fellow of the Financial Services Institute of Australia. Tony has more than 30 years experience in the banking and finance industry. He has held several senior management positions during his career, including Managing Director of Challenge Bank Limited and Chief Executive Officer of Hartleys Limited. Tony is also Adjunct Professor (Financial Management) at the University of Western Australia Business School.

From left to right: Bob Every, Richard Goyder, Terry Bowen, Colin Carter, James Graham,
Tony Howarth, Charles Macek, Wayne Osborn, Diane Smith-Gander, Vanessa Wallace and David White.

Directorships of listed entities (last three years)
- Chairman of Mermaid Marine Australia Limited
- Chairman of Home Building Society Limited (delisted December 2007) (appointed June 2003 and resigned July 2010)
- Deputy Chairman of Bank of Queensland Limited (appointed December 2007 – resigned July 2010)
- AWB Limited (appointed March 2005)

Other directorships/offices (current and recent)
- Chairman of St John of God Health Care Inc
- Senator of the University of Western Australia
- Chairman of the Committee for Perth Limited
- Member of the Rio Tinto WA Future Fund
- Member of the University of Western Australia Business School Advisory Board
- President of the Australian Chamber of Commerce and Industry
- Director of the Chamber of Commerce and Industry of Western Australia (Inc)
- Director West Australian Rugby Union Inc

## Charles Macek, age 63

Status and term: Appointed in 2001 as a non-executive director (independent). Member of the Audit, Nomination and Remuneration committees.

Skills and experience: Bachelor of Economics degree and a Master of Administration from Monash University.

Directorships of listed entities (last three years)
- Telstra Corporation Limited (appointed November 2001 – retired November 2009)

Other directorships/offices (current and recent)
- Chairman of Orchard Funds Limited
- Chairman of the Sustainable Investment Research Institute Pty Limited
- Chairman of the Racing Information Services Australia Pty Limited
- Vice-Chairman of the IFRS Advisory Council (formerly the Standards Advisory Council of the International Accounting Standards Board)
- Director of Orchard Capital Investments Limited
- Director of Thoroughbred Trainers Service Centre Limited
- Member of the Investment Committee of Unisuper Limited
- Member of the Marsh and McLennan Companies, Inc. Australian Advisory Board
- Member of the Research Advisory Council of Glass, Lewis & Co LLC
- Member of the ASIC External Advisory Panel
- Member of the AICD Corporate Governance Committee

## Wayne Osborn, age 59

Status and term: Appointed in 2010 as a non-executive director (independent). Member of the Remuneration and Nomination committees.

Skills and experience: Diploma of Engineering (Electrical) from the Gordon Institute of Technology, a Master of Business Administration from Deakin University and is a Member of the Institution of Engineers, Australia. Wayne started his career in telecommunications and moved to the iron ore industry in the mid-1970s. He joined Alcoa in 1979 and worked in a variety of roles and locations across the Australian business, including accountability for Alcoa's Asia Pacific operations, prior to being appointed Managing Director in 2001. Wayne was appointed Chairman of the Australian Institute of Marine Science in 2010. He has an interest in whale conservation and wildlife photography and was elected an International Fellow of the New York-based Explorers Club in 2004. His work in support of the arts through the Australian Business Arts Foundation was recognised with the 2007 WA Business Leader Award.

Directorships of listed entities (last three years)
- Director of Leighton Holdings Limited
- Director of Iluka Resources Limited
- Chairman and Managing Director of Alcoa of Australia Ltd (retired in February 2008)

Other directorships/offices (current and recent)
- Chairman of Thiess Pty Ltd
- Trustee of the Western Australian Museum Board
- Member of the Australian Institute of Company Directors
- Fellow of the Australian Academy of Technological Sciences and Engineering

## Diane Smith-Gander, age 52

Status and term: Appointed in 2009 as a non-executive director (independent). Member of the Audit and Nomination committees.

Skills and experience: Bachelor of Economics degree from the University of Western Australia and a Master of Business Administration from the University of Sydney. Diane has over 11 years experience as a banking executive which culminated in her appointment as the head of Westpac Banking Corporation's Business & Technology Solutions & Services Division. Before rejoining Westpac, she was a Partner with McKinsey & Company in the USA where she led major transformation projects and had exposure to a wide variety of businesses in areas such as financial services, pharmaceuticals and retail.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Director of the NBN Co Limited (National Broadband Network)
- Chair of Basketball Australia
- Chair of the NBL Commission
- Former Chair of the Australian Sports Drug Agency

## Vanessa Wallace, age 47

Status and term: Appointed in 2010 as a non-executive director (independent). Member of the Audit and Nomination committees.

Skills and experience: Bachelor of Commerce degree from the University of New South Wales and a Master of Business Administration from the IMD Switzerland. Vanessa currently leads Booz & Company's financial services practice and previously led the strategy practice. She has held multiple governance roles at the highest level within Booz's global partnership. She is an experienced management consultant who has been with Booz & Company for over 20 years. She is actively involved in the firm's customer, channels and markets activities which focus on areas such as customer experience, offer design and channels to market across a number of industries. She has had hands on experience in mergers and acquisitions and post merger integration.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Member of Board of Directors Booz & Company (2008 – 2010)
- Director of Booz & Company (Australia) Ltd a number of group subsidiaries and related companies in Australia, New Zealand, Indonesia and Thailand
- Chairman's Council of the Australian Chamber Orchestra Pty Ltd
- Member of the Australian Institute of Company Directors

## David White, age 62

Status and term: Appointed in 1990 as a non-executive director (independent). Member of the Audit and Nomination committees.

Skills and experience: Bachelor of Business degree from Curtin University, a Fellow of CPA Australia and a member of the Australian Institute of Company Directors.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Chairman of Regional Development Australia Wheatbelt (Inc), formerly the Wheatbelt Area Consultative Committee
- Formerly the Treasurer of the Royal Agricultural Society of Western Australia (Inc)
- Formerly a Member and Treasurer of the Board of Parkerville Children and Youth Care (Inc)

# Corporate governance statement

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.

The Board is a strong advocate of good corporate governance as evidenced by the policies, systems and processes outlined below.

## Introduction

The Board has established a corporate governance framework comprising a number of policies and charters under which the company operates. Copies or summaries of the corporate governance documents mentioned in this statement are publicly available on the company's website at www.wesfarmers.com.au.

The Board reviews and updates these policies and charters on a regular basis by reference to corporate governance developments in Australia and overseas to ensure they remain in accordance with best practice.

Wesfarmers' corporate governance practices for the year ended 30 June 2010, and at the date of this report, are outlined in this corporate governance statement. The Board believes that Wesfarmers' policies and practices comply with corporate governance best practice in Australia, including the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASX Principles').

Wesfarmers acknowledges the Council's amendments to the ASX Principles released on 30 June 2010 which take effect for the first financial year of listed entities beginning on or after January 2011. The company complies with most of the revised ASX Principles and intends to further develop key areas, including gender diversity and board member selection processes, with a view to implementing recommendations prior to the changes taking effect.

A checklist cross-referencing the ASX Principles to the relevant sections of this statement and elsewhere in the Annual Report is published in the corporate governance section of the company's website.

## Role of the Board

**Relevant governance documents**

- **Board Charter**

The role of the Board is to oversee and guide the management of Wesfarmers and its businesses with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

The Board has a Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities.

The responsibilities of the Board include:

- oversight of the Wesfarmers Group, including its control and accountability systems;
- appointing (and removing) the Group Managing Director;
- where appropriate, ratifying the appointment (and the removal) of senior executives;
- providing input into and final approval of senior executives' development of corporate strategy and performance objectives;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior executives' performance and implementation of strategy;
- ensuring appropriate resources are available to senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments;
- approving and monitoring financial and other reporting;
- reviewing and approving the remuneration of the Group Managing Director and senior executives;
- appointing, re-appointing or removing the company's external auditors (on recommendation from the Audit Committee); and
- monitoring and overseeing the management of shareholder and community relations.

The Group Managing Director is responsible to the Board for the day-to-day management of the Wesfarmers Group.

## Structure and composition of the Board

The Board is currently comprised of 11 directors, with nine non-executive directors, including the Chairman, and two executive directors.

The Board appointed Mr Wayne Osborn and Ms Vanessa Wallace as non-executive directors of the company in March and July 2010 respectively.

Mr Osborn is a former Chairman and Managing Director of Alcoa of Australia Ltd and has been a director of Thiess Pty Ltd since 2005. Ms Wallace leads Booz & Company's financial services practice and has held multiple governance roles at the highest level within that firm's global partnership.

In September 2010 the company announced the resignation of Mr David White from the Board effective from the conclusion of the company's Annual General Meeting scheduled for 9 November, 2010.

The skills and experience of the company's directors are detailed on pages 56 and 57 of this Annual Report.

### Director independence

Directors are expected to bring independent views and judgement to the Board's deliberations.

Under the Charter, the Board must include a majority of non-executive independent directors and have a non-executive independent Chairman (with different persons filling the roles of Chairman and Group Managing Director).

The Board has reviewed the position and associations of all directors in office at the date of this report and considers that a majority (eight of eleven) of the directors are independent. In considering whether a director is independent, the Board has had regard to the relationships affecting independent status and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, annually and as appropriate.

The test of whether a relationship could, or could be perceived to, materially interfere with the independent exercise of a director's judgement is based on the nature of the relationship and the circumstances of that director. Materiality is considered from the perspective of the company, the director, and the person or entity with which the director has a relationship.

The three directors who are not considered to be independent are:

- Mr Richard Goyder, Group Managing Director;
- Mr Terry Bowen, Finance Director; and
- Mr James Graham, a non-executive director, who is Managing Director of Gresham Partners Limited.

Mr Graham is technically deemed not to be independent by virtue of his professional association with Gresham Partners Limited, which acts as an investment adviser to the company. Details of Mr Graham's association with the company are set out in note 34 on page 139 of this Annual Report.

The Board has determined that the relationship does not interfere with Mr Graham's exercise of independent judgement and believes that his appointment is in the best interests of the Group because of the substantial knowledge and expertise he brings to the Board.

### Retirement and re-election

The company's Constitution requires one third of the directors, other than the Group Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the Board during the year (as a casual vacancy or as an addition to the Board) are required to retire from office at the next annual general meeting.

Directors cannot hold office for a period in excess of three years or beyond the third annual general meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

Board support for directors retiring by rotation and seeking re-election is not automatic. The Board Charter and the company's letter of appointment for a non-executive director require a non-executive director to take into account the views of the other non-executive directors of the company when making a decision to stand for re-election.

Wesfarmers expects directors to voluntarily review their membership of the Board from time to time, taking into account other commitments, length of service, age, qualifications and expertise relevant to the company's business.

Under the Board Charter, the Chairman must retire from this position at the expiration of 10 years unless the Board decides otherwise. In addition, the appointment is formally reviewed at the end of each three year period.

### Nomination and appointment of new directors

Recommendations of candidates for appointment as new directors are made by the Board's Nomination Committee for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is considered. In some cases, external consultants are engaged to assist in the selection process.

If a candidate is recommended by the Nomination Committee, the Board assesses the qualifications of the proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board, and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director (as noted previously) must retire at the next annual general meeting and will be eligible for election by shareholders at that meeting.

### Induction of new directors

New directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement with committee work.

As part of a comprehensive induction program, the new director meets with the Chairman, the Audit Committee Chairman, the Group Managing Director, Divisional Managing Directors, and other key executives. The program also includes site visits to some of Wesfarmers' key operations.

### Knowledge, skills and experience

All directors are expected to maintain the skills required to discharge their obligations to the company.

Directors are provided with papers, presentations and briefings on Group businesses and on matters which may affect the operations of the Group. Directors are also encouraged to undertake continuing education and training relevant to the discharge of their obligations as directors of the company. Subject to prior approval by the Company Secretary, the reasonable cost of continuing education and training is met by the company.

To assist directors to maintain an appropriate level of knowledge of the operations of the company directors undertake site visits each year to a number of Wesfarmers' businesses.

During the year, the Board met with the Coles leadership team in Melbourne and visited a number of Coles operations. Since their appointment, both Mr Osborn and Ms Smith-Gander have visited the Group's key operations and Ms Wallace has commenced her site visits in accordance with her induction program.

### Board access to information and independent advice

All directors have unrestricted access to employees of the Group and, subject to the law, access to all company records and information held by Group employees and external advisers.

Each director may obtain independent professional advice at the company's expense, to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board committee.

Directors are entitled to reimbursement of all reasonable costs where a request for reimbursement of the cost of such advice is approved by the Chairman. In the case of a request made by the Chairman, approval is required from the Chairman of the Audit Committee.

### Conflicts of interest

Directors are required to avoid conflicts of interest and immediately inform their fellow directors should a conflict of interest arise. Directors are also required to advise the company of any relevant interest that may result in a conflict.

The Board has adopted the use of formal standing notices in which directors disclose any material personal interests and the relationship of these interests to the affairs of the company. A director is required to notify the company of any new material personal interest or if there is any change in the nature or extent of a previously disclosed interest.

Where a matter in which a director has a material personal interest is being considered by the Board, that director must not be present when the matter is being considered or vote on the matter, unless all of the other directors have passed a resolution to enable that director to do so or the matter comes within a category of exception under the *Corporations Act 2001*.

| | Audit Committee | Remuneration Committee | Nomination Committee | Gresham Mandate Review Committee |
|---|---|---|---|---|
| **Members** | • Mr Tony Howarth (Chairman)<br>• Dr Bob Every<br>• Mr Charles Macek<br>• Ms Diane Smith-Gander (effective 27 August 2009)<br>• Ms Vanessa Wallace (effective 6 July 2010)<br>• Mr David White | • Dr Bob Every (Chairman)<br>• Mr Colin Carter<br>• Mr James Graham<br>• Mr Charles Macek (effective 9 July 2010)<br>• Mr Wayne Osborn (effective 24 March 2010) | • Dr Bob Every (Chairman)<br>• Mr Colin Carter<br>• Mr James Graham<br>• Mr Tony Howarth<br>• Mr Charles Macek<br>• Mr Wayne Osborn (effective 24 March 2010)<br>• Ms Diane Smith-Gander (effective 27 August 2009)<br>• Ms Vanessa Wallace (effective 6 July 2010)<br>• Mr David White | Any two of:<br>• Mr Colin Carter<br>• Mr Charles Macek<br>• Ms Diane Smith-Gander (effective 13 May 2010)<br>• Mr David White |
| **Composition** | The Committee must comprise:<br>• only non-executive directors;<br>• at least three members;<br>• a majority of non-executive directors who satisfy the criteria for independence;<br>• members who have an understanding of financial statements and general accounting principles; and<br>• at least one member who has financial experience. | The Committee must comprise:<br>• only non-executive directors; and<br>• at least three members. | The Committee must comprise all non-executive directors. | The Committee must comprise such members as the Board determines from time to time. |
| **Responsibilities include** | • Reviewing all published financial accounts of the Company which require approval by the Board of Directors, and discussion of the accounts with the external auditors and management prior to their submission to the Board;<br>• Reviewing any changes in accounting policies or practices and subsequent effects on the financial accounts of the Company;<br>• Reviewing with management the terms of the external audit engagement in order to make recommendations to the Board;<br>• Reviewing and assessing non-audit services to be provided by the external auditor;<br>• Monitoring and assessing the systems for internal compliance and control, legal compliance and risk management;<br>• Advising on the appointment, performance and remuneration of the external auditor; and<br>• Reviewing and monitoring the company's continuous disclosure policies and procedures. | • Reviewing and making recommendations to the Board on:<br>– the remuneration of non-executive directors (including fees, travel and other benefits); and<br>– the level of remuneration of executive directors and direct reports to the Group Managing Director (including equity grants and plan participation); and<br>• Determining, on the recommendation of the Group Managing Director, the level of remuneration of other executives;<br>• Assisting the Chairman of the Board in the annual performance review of the Group Managing Director;<br>• Implementing any new executive and employee incentive plans and amendments to existing plans; and<br>• Overseeing preparation of the annual remuneration report and recommending the report to the Board for approval. | • Reviewing Board and committee composition and recommending new appointments to the Board and the committees;<br>• Ensuring an effective induction program for directors;<br>• Reviewing Board succession plans;<br>• Reviewing and making recommendations to the Board on the operation and performance of the Board and its Committees; and<br>• Making recommendations for the removal of Directors. | • Considering and approving the mandate agreement terms and all fees payable to Gresham Partners Limited group of companies where they are to be appointed advisers to the company; and<br>• Reporting on the approved mandate terms and fees to the Board. |
| **Attendance** | Details of meeting attendance for members of each committee are set out in the directors' report on page 146 of this Annual Report. | | | |

## Operation of the Board

**Relevant governance documents**

- **Board Charter**
- **Audit Committee Charter**
- **Nomination Committee Charter**
- **Remuneration Committee Charter**
- **Gresham Mandate Review**

### Committees of the Board

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Gresham Mandate Review Committee as standing committees to assist the Board in the discharge of its responsibilities. All directors have a standing invitation to attend committee meetings.

These committees review matters on behalf of the Board and (subject to the terms of the relevant committee's Charter):

- refer matters to the Board for decision, with a recommendation from the committee (where the committee acts in an advisory capacity); or
- determine matters (where the committee acts with delegated authority), which it then reports to the Board.

Details of the membership, composition and responsibilities of each committee are detailed on page 61.

### Performance evaluation

The Board undertakes an evaluation process to review the performance of the Board and its committees on a regular basis. The last Board performance review was conducted in May 2009 which was facilitated by an external consultant. Board committee performance reviews are currently underway and are scheduled to be completed by December 2010.

Details of the performance review process for executive directors and senior executives are set out in the remuneration report, which forms part of the directors' report on pages 150 to 165 of this Annual Report.

### Remuneration

Full details of the remuneration paid to non-executive and executive directors and senior executives are set out in the remuneration report on pages 150 to 165 of this Annual Report.

### Wesfarmers Leadership Team

In November 2009, the Group Managing Director formed the Wesfarmers Leadership Team. The Leadership Team is chaired by the Group Managing Director and comprises his direct reports, together with divisional managing directors and the Executive General Manager, Business Development. The Group is focused on matters of critical strategic and business importance to the company.

The profile of each member is detailed on page 8 and 9 of this Annual Report.

### Executive Committee

The Executive Committee is chaired by the Group Managing Director and comprises the Wesfarmers Leadership Team, the Company Secretary, the General Manager Finance and Tax and the General Manager Group Accounting. The meetings are also attended by the Manager Investor Relations and Planning.

## Ethical conduct and responsible decision-making

**Relevant governance documents**

- **Board Code of Conduct**
- **Code of Ethics and Conduct**
- **Board Charter**
- **Share Trading Policy**
- **Group Whistleblower Policy**

### Conduct and ethics

The Board has adopted a Board Code of Conduct to guide the directors and promote high ethical and professional standards and responsible decision-making. In addition, the company has adopted a Code of Ethics and Conduct for all employees (including directors). The Code was subject to a review during the year. The managing directors and chief financial officers of each division are required to report annually to the Audit Committee on their division's compliance with the Code.

### Whistleblower protection

In May 2010, Wesfarmers adopted a comprehensive Group Whistleblower Policy to promote and support a culture of honest and ethical behaviour, corporate compliance and good corporate governance. The Policy encourages employees and contractors to raise any concerns and report instances of unethical, illegal, fraudulent or undesirable conduct. Wesfarmers commits to absolute confidentiality and fairness in all matters raised and will support and protect those who report violations in good faith. The Audit Committee is responsible for overseeing compliance with this Policy.

### Minimum shareholding requirement for directors

The company's Board Charter requires a director to hold, directly or indirectly, a minimum of 1,000 ordinary shares in the company within two months of their appointment and at all times during the director's period of office.

### Share Trading Policy

The company's Share Trading Policy reinforces the requirements of the *Corporations Act 2001* in relation to insider trading. The policy states that all employees and directors of the company, and its related companies, are expressly prohibited from trading in the company's securities, or securities in other entities in which Wesfarmers has an interest, if they are in possession of 'inside information'.

A director of Wesfarmers or member of the Executive Committee who intends to buy or sell shares must:

- advise the Company Secretary in advance of their intention to trade;
- confirm that they do not hold unpublished inside information; and
- have been advised by the Company Secretary that there is no known reason to preclude the proposed trading.

The directors of Wesfarmers and members of the Executive Committee must also advise the Company Secretary if they intend to enter into, or have entered into, a margin lending or other security arrangement affecting the company's securities. The Company Secretary, in consultation with the Chairman, determines if such arrangements are material and therefore require disclosure to the market. In addition, directors and members of the Executive Committee are prohibited from entering into transactions or other hedging arrangements to transfer the risk of share price fluctuations.

The company's Share Trading Policy prohibits Wesfarmers directors and members of the Executive Committee from trading in the company's securities during 'black out' periods, being the periods from books close to the announcement of the full-year or half-year results, other than in exceptional circumstances (such as severe financial hardship) and with the prior approval of the Chairman of the Board and then only if the director or the Executive Committee member is not in possession of price sensitive information.

### Sustainability

The Board is committed to ensuring that all Wesfarmers operations work to sustainable business practices. Further information on the company's approach to sustainability is set out on page 53 to 55 of this Annual Report and the company's Sustainability Report which will be published in November 2010.

## Integrity in financial reporting

### Role of the Audit Committee

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

The Finance Director, Group General Counsel, the General Manager Group Accounting, the General Manager Group Assurance, the Company Secretary, the external auditor (Ernst & Young), and any other persons considered appropriate, attend meetings of the Audit Committee by invitation. The committee also meets from time to time with the external auditor in the absence of management.

### Independence of the external auditor

*Appointment of auditor*

The company's external auditor is Ernst & Young. The effectiveness, performance and independence of the external auditor is reviewed by the Audit Committee.

If it becomes necessary to replace the external auditor for performance or independence reasons, the Audit Committee will formalise a procedure and policy for the selection and appointment of a new auditor.

*Independence declaration*

The *Corporations Act 2001* requires the external auditor to make an annual independence declaration, addressed to the Board, declaring that the auditor has maintained its independence in accordance with the *Corporations Act 2001* and the rules of the professional accounting bodies.

Ernst & Young has provided an independence declaration to the Board for the financial year ended 30 June 2010.

The independence declaration forms part of the directors' report and is provided on page 149 of this Annual Report.

*Rotation of lead external audit partner*

Mr Greg Meyerowitz is the lead audit partner for Ernst & Young in relation to the audit of the company. Mr Meyerowitz was appointed on 3 June 2009.

*Restrictions on the performance of non-audit and assurance related services by the external auditor*

The Audit Committee monitors the level of non-audit and assurance services provided by the external auditor for compatibility in maintaining auditor independence. In May 2010, the Audit Committee approved revised guidelines to assist in identifying the types of services that may compromise the independence of the external auditor. Examples of such services include valuation services, recruitment and remuneration services and internal audit services.

The Board has considered the nature of the non-audit and assurance related services provided by the external auditor during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of fees paid (or payable) to Ernst & Young for non-audit and assurance related services provided to the Wesfarmers Group in the year ended 30 June 2010 are set out in the directors' report on page 148 of this Annual Report.

### Attendance of external auditors at annual general meetings

The lead audit partner of Ernst & Young attends and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report at the company's annual general meeting.

## Continuous disclosure

**Relevant governance document**

- **Market Disclosure Policy (summary entitled 'Continuous Disclosure Policy' is available on the company's website)**

The company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the securities market and has adopted a comprehensive Market Disclosure Policy.

Under the Market Disclosure Policy, the Company Secretary, as the nominated disclosure officer, has responsibility for overseeing and coordinating the disclosure of information by the company to the ASX and for administering the policy and the Group's continuous disclosure education program.

The Company Secretary, as the disclosure officer, is also responsible for referring matters to the Board's Disclosure Committee. Matters referred to the Disclosure Committee, and decisions made by the committee, are recorded and referred to the Board at its next meeting. The Disclosure Committee is comprised of the Group Managing Director and the Finance Director.

The Market Disclosure Policy, and the associated training and education program, are reviewed and monitored by the Audit Committee. Compliance with the policy is also monitored by the Board.

During the year, a continuous disclosure online training program was developed to complement face-to-face training on the Market Disclosure Policy conducted throughout the Group.

In September 2009, the Board approved amendments to the Group's Market Disclosure Policy to strengthen the practices and protocols governing investor/analyst briefings, major announcements and media communications.

### Compliance with the continuous disclosure requirements of the Singapore Exchange (SGX)

Wesfarmers has issued bonds under its Euro Medium Term Note Program that are listed on the SGX. The SGX Listing Rules require disclosure to the SGX of any announcements made to the ASX that may have a material effect on the price or value of these notes or on an investor's decision whether to trade in the notes, as well as disclosure of any redemption or cancellation of the notes, any amendments to the trust deed or the appointment of a replacement trustee. In addition, Wesfarmers is required to provide copies of its annual report to the SGX.

## Communications with shareholders

**Relevant governance document**

- **Communications Policy**

The Board represents the company's shareholders. The Board has developed a strategy for engaging and communicating with shareholders, key aspects of which are set out below.

Wesfarmers' Communications Policy promotes the communication of information to shareholders through the distribution of an annual report and announcements through the ASX and the media regarding changes in its businesses, and the Chairman's address at the annual general meeting.

The company produces an annual shareholder review, an easy to read summary of the annual report. A number of shareholders have elected to receive the review in place of the annual report, or have elected to receive electronic communications in respect of their shareholdings.

Wesfarmers conducts live webcasts of major institutional investor and analyst briefings, which are available on the company's website. From July 2010, the company commenced the practice of providing advance notice of these briefings to shareholders by way of an ASX release.

The company provides shareholders with the opportunity to receive email alerts of significant announcements and advises of the availability of reports on the company's website.

### Annual general meeting

The company's annual general meeting is a major forum for shareholders to ask questions about the performance of the Wesfarmers Group. It is also an opportunity for shareholders to provide feedback to the company about information provided to shareholders.

The company welcomes and encourages shareholder participation at general meetings to continue to improve the company's performance and shareholder communication.

## Risk management

**Relevant governance documents**

- **Risk Management Policy**

### Risk oversight and management

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

The Board is responsible for reviewing, ratifying and monitoring systems of risk management. The Audit Committee overseas the internal controls, policies and procedures which the company uses to identify business risks and ensure compliance with relevant regulatory and legal requirements.

The company has embedded in its management and reporting systems a number of overarching risk management controls which include:

- guidelines and limits for approval of all expenditure inclusive of capital expenditure and investments;
- a Group compliance program supported by approved guidelines and standards covering safety, the environment, legal liability, risk identification, quantification and reporting, and financial controls;
- a comprehensive risk financing program, including risk transfer to external insurers and reinsurers;
- policies and procedures for the management of financial risk and treasury operations, including exposures to foreign currencies and movements in interest rates;
- a formal dynamic planning process of preparing five year strategic plans each year for all businesses in the Group;
- annual budgeting and monthly reporting systems for all businesses, which enable the monitoring of progress against performance targets and the evaluation of trends;
- directors' financial due diligence questionnaires to management;
- appropriate due diligence procedures for acquisitions and divestments; and
- crisis management systems for all key businesses in the Group.

On an annual basis a consolidated key risk report is provided to the Audit Committee for review. To complement this review in May 2010, a risk management workshop was conducted with the full Board and management to review and discuss the Group's key risks. It is proposed that this practice will form part of the risk management framework.

### Divisional autonomy and responsibility to the Board

Where practical, the company manages the diverse nature of its operations across the Group under an autonomous division model. The management of each division is required to have in place effective risk management policies, programs and internal control systems to manage the material business risks of the division in accordance with the company's group risk management framework.

Divisional management is ultimately responsible for the division's internal control and risk management systems and is required to regularly report to the Board on the effectiveness of the processes and systems in identifying and managing the division's material business risks.

In addition, the Insurance division's Australian Licensed insurers are subject to the Australian Prudential Regulatory Authority reporting obligations. These reporting obligations include a requirement to lodge Risk Management Strategies and Insurance Liability Valuation Reports.

### Role of the Audit Committee

The Audit Committee assists the Board in relation to risk management. The Audit Committee executes this function through a compliance reporting program developed to encompass the areas identified as most sensitive to risk.

### Group Assurance

The Group Assurance function is independent of the external audit function and during the year this function was outsourced to an external service provider. The General Manager Group Assurance, who reports to the Finance Director, reviews the internal control framework of the Group and provides reports to the Audit Committee. The Audit Committee approves the internal audit charter and the annual internal audit plan to ensure that planned audit activities are aligned to material business risks. The Audit Committee also reviews internal audit reports issued by the General Manager Group Assurance and monitors progress with recommendations made in those reports to ensure the adequacy of the internal control environment.

### Financial reporting

*CEO and CFO declaration and assurance*

The Group Managing Director and the Finance Director provided a written statement to the Board in accordance with section 295A of the *Corporations Act 2001*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Group Managing Director and the Finance Director that the Declaration was founded on a sound system of risk management and internal control and that the system was operating effectively in all material aspects in relation to the reporting of financial risks. This statement was also signed by the General Manager, Group Accounting.

# Financial statements

## CONTENTS



## Notes to the financial statements

# Income statement

for the year ended 30 June 2010 – Wesfarmers Limited and its controlled entities

| | Note | CONSOLIDATED 2010 $m | Restated[1] 2009 $m |
|---|---|---|---|
| REVENUE | | | |
| Sale of goods | | **49,865** | 49,023 |
| Rendering of services | | **1,620** | 1,618 |
| Interest – other | | **149** | 146 |
| Other | | **193** | 195 |
| | | **51,827** | 50,982 |
| EXPENSES | | | |
| Raw materials and inventory | | **(34,411)** | (33,735) |
| Employee benefits expense | 4 | **(6,828)** | (6,535) |
| Net insurance claims, reinsurance and commissions | | **(1,165)** | (1,203) |
| Freight and other related expenses | | **(822)** | (802) |
| Occupancy-related expenses | 4 | **(2,077)** | (2,008) |
| Depreciation and amortisation | 4 | **(917)** | (856) |
| Other expenses | 4 | **(2,982)** | (3,015) |
| | | **(49,202)** | (48,154) |
| Other income | 4 | **149** | 169 |
| Finance costs | 4 | **(654)** | (951) |
| Share of profits/(losses) of associates | 14 | **95** | (50) |
| **Profit before income tax** | | **2,215** | 1,996 |
| Income tax expense | 5 | **(650)** | (474) |
| **Profit attributable to members of the parent** | | **1,565** | 1,522 |
| Earnings per share (cents per share) | 6 | | |
| – basic for profit for the period attributable to ordinary (including partially protected) equity holders of the parent | | **135.7** | 158.5 |
| – diluted for profit for the period attributable to ordinary (including partially protected) equity holders of the parent | | **135.5** | 158.2 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of the income statement, and notes to the restated amounts.

# Statement of comprehensive income

for the year ended 30 June 2010 – Wesfarmers Limited and its controlled entities

| | Note | CONSOLIDATED 2010 $m | Restated [1] 2009 $m |
|---|---|---|---|
| **Profit attributable to members of the parent** | | **1,565** | 1,522 |
| **Other comprehensive income** | | | |
| **Foreign currency translation reserve** | | | |
| Exchange differences on translation of foreign operations | | **(32)** | (10) |
| **Available-for-sale financial assets reserve** | | | |
| Changes in the fair value of available-for-sale financial assets | | **3** | (3) |
| Tax effect | | **(1)** | 1 |
| **Cash flow hedge reserve** | | | |
| Unrealised losses on cash flow hedges | | **(41)** | (863) |
| Realised losses transferred to net profit | | **150** | 331 |
| Realised losses/(gains) transferred to non-financial assets | | **169** | (276) |
| Ineffective hedge losses transferred to net profit | | **51** | 140 |
| Tax effect | | **(99)** | 200 |
| **Retained earnings** | | | |
| Actuarial loss on defined benefit plan | 24 | **–** | (59) |
| Tax effect | 24 | **–** | 18 |
| **Other comprehensive income/(loss) for the period net of tax** | | **200** | (521) |
| **Total comprehensive income for the period, net of tax, attributable to members of the parent** | | **1,765** | 1,001 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of profit attributable to members of the parent.

# Balance sheet

as at 30 June 2010 – Wesfarmers Limited and its controlled entities

| | | CONSOLIDATED | | |
|---|---|---|---|---|
| | Note | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 8 | **1,640** | 2,124 | 725 |
| Trade and other receivables | 9 | **2,086** | 1,893 | 2,022 |
| Inventories | 10 | **4,658** | 4,665 | 4,634 |
| Derivatives | 27 | **75** | 38 | 138 |
| Investments backing insurance contracts | 11 | **1,065** | 1,003 | 871 |
| Other | 12 | **150** | 221 | 211 |
| **Total current assets** | | **9,674** | 9,944 | 8,601 |
| **Non-current assets** | | | | |
| Receivables | 9 | **220** | 211 | 135 |
| Available-for-sale investments | 13 | **19** | 18 | 36 |
| Investment in associates | 14 | **468** | 392 | 465 |
| Deferred tax assets | 5 | **608** | 766 | 485 |
| Property, plant and equipment | 15 | **7,542** | 6,912 | 6,362 |
| Intangible assets | 16 | **4,328** | 4,365 | 4,408 |
| Goodwill | 16 | **16,206** | 16,273 | 16,269 |
| Derivatives | 27 | **127** | 147 | 149 |
| Other | 17 | **44** | 34 | 61 |
| **Total non-current assets** | | **29,562** | 29,118 | 28,370 |
| **Total assets** | | **39,236** | 39,062 | 36,971 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 18 | **4,603** | 4,054 | 3,909 |
| Interest-bearing loans and borrowings | 19 | **304** | 634 | 1,261 |
| Income tax payable | | **167** | 27 | 106 |
| Provisions | 20 | **1,176** | 1,066 | 1,083 |
| Insurance liabilities | 21 | **1,307** | 1,198 | 1,137 |
| Derivatives | 27 | **107** | 413 | 53 |
| Other | 22 | **188** | 169 | 176 |
| **Total current liabilities** | | **7,852** | 7,561 | 7,725 |
| **Non-current liabilities** | | | | |
| Payables | 18 | **9** | 3 | 25 |
| Interest-bearing loans and borrowings | 19 | **5,049** | 5,535 | 8,256 |
| Provisions | 20 | **1,070** | 1,042 | 922 |
| Insurance liabilities | 21 | **408** | 503 | 340 |
| Derivatives | 27 | **138** | 153 | 89 |
| Other | 22 | **16** | 17 | 7 |
| **Total non-current liabilities** | | **6,690** | 7,253 | 9,639 |
| **Total liabilities** | | **14,542** | 14,814 | 17,364 |
| **Net assets** | | **24,694** | 24,248 | 19,607 |
| **EQUITY** | | | | |
| **Equity attributable to equity holders of the parent** | | | | |
| Contributed equity | 23 | **23,286** | 23,286 | 18,173 |
| Employee reserved shares | 23 | **(51)** | (62) | (76) |
| Retained earnings | 24 | **1,414** | 1,179 | 1,185 |
| Reserves | 25 | **45** | (155) | 325 |
| **Total equity** | | **24,694** | 24,248 | 19,607 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of consolidated property, plant and equipment, payables, other liabilities, inventories, deferred tax assets and retained earnings. In accordance with AASB 101.39, a third consolidated balance sheet and notes to the restated amounts have been presented.

# Cash flow statement

for the year ended 30 June 2010 – Wesfarmers Limited and its controlled entities

| | Note | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **55,528** | 54,169 |
| Payments to suppliers and employees | | **(51,299)** | (49,909) |
| Dividends and distributions received from associates | | **19** | 51 |
| Interest received | | **145** | 147 |
| Borrowing costs | | **(616)** | (816) |
| Income tax paid | | **(450)** | (598) |
| **Net cash flows from operating activities** | 8 | **3,327** | 3,044 |
| **Cash flows from investing activities** | | | |
| Net acquisition of insurance deposits | | **(62)** | (132) |
| Purchase of property, plant and equipment and intangibles | 15 | **(1,656)** | (1,503) |
| Proceeds from sale of property, plant and equipment | | **30** | 61 |
| Proceeds from sale of controlled entities | | **1** | 9 |
| Net investments in associates and joint ventures | | **4** | (46) |
| Acquisition of subsidiaries, net of cash acquired | | **(13)** | (16) |
| **Net cash flows from investing activities** | | **(1,696)** | (1,627) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **1,380** | 2,242 |
| Repayment of borrowings | | **(2,177)** | (5,706) |
| Proceeds from exercise of in-substance options under the employee share plan | 23 | **7** | 6 |
| Equity dividends paid | | **(1,325)** | (1,066) |
| Proceeds from issue of shares | 23 | **–** | 4,646 |
| Transaction costs from issue of shares | | **–** | (53) |
| **Net cash flows from financing activities** | | **(2,115)** | 69 |
| Net increase in cash and cash equivalents | | **(484)** | 1,486 |
| Cash and cash equivalents at beginning of period | | **2,124** | 638 |
| **Cash and cash equivalents at end of period** | 8 | **1,640** | 2,124 |

# Statement of changes in equity

for the year ended 30 June 2010 – Wesfarmers Limited and its controlled entities

| CONSOLIDATED | Note | Issued capital $m | Employee reserved shares $m | Retained earnings $m | Hedging reserve $m | Other reserves $m | Total equity $m |
|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | | |
| **Balance at 1 July 2008 – as previously stated** | | 18,173 | (76) | 1,176 | 161 | 164 | 19,598 |
| Change in accounting policy | 2 | – | – | 9 | – | – | 9 |
| Restated balance | | 18,173 | (76) | 1,185 | 161 | 164 | 19,607 |
| Net profit for the period | | – | – | 1,522 | – | – | 1,522 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of foreign operations | 25 | – | – | – | – | (10) | (10) |
| Changes in the fair value of available-for-sale assets net of tax | 25 | – | – | – | – | (2) | (2) |
| Changes in the fair value of cash flow hedges net of tax | 25 | – | – | – | (468) | – | (468) |
| Actuarial loss on defined benefit plan | 24 | – | – | (41) | – | – | (41) |
| Total other comprehensive income for the period net of tax | | – | – | (41) | (468) | (12) | (521) |
| Total comprehensive income for the period net of tax | | – | – | 1,481 | (468) | (12) | 1,001 |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | | | |
| Issue of shares | 23 | 5,150 | – | – | – | – | 5,150 |
| Transaction costs | 23 | (37) | – | – | – | – | (37) |
| Proceeds from exercise of in-substance options | 23 | – | 6 | – | – | – | 6 |
| Equity dividends | 7,23 | – | 8 | (1,487) | – | – | (1,479) |
| | | 5,113 | 14 | (1,487) | – | – | 3,640 |
| **Balance at 30 June 2009** | | 23,286 | (62) | 1,179 | (307) | 152 | 24,248 |
| **Balance at 1 July 2009** | | **23,286** | **(62)** | **1,179** | **(307)** | **152** | **24,248** |
| Net profit for the period | | **–** | **–** | **1,565** | **–** | **–** | **1,565** |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of foreign operations | 25 | **–** | **–** | **–** | **–** | **(32)** | **(32)** |
| Changes in the fair value of available-for-sale assets net of tax | 25 | **–** | **–** | **–** | **–** | **2** | **2** |
| Changes in the fair value of cash flow hedges net of tax | 25 | **–** | **–** | **–** | **230** | **–** | **230** |
| Total other comprehensive income for the period net of tax | | **–** | **–** | **–** | **230** | **(30)** | **200** |
| Total comprehensive income for the period net of tax | | **–** | **–** | **1,565** | **230** | **(30)** | **1,765** |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | | | |
| Proceeds from exercise of in-substance options | 23 | **–** | **7** | **–** | **–** | **–** | **7** |
| Equity dividends | 7,23 | **–** | **4** | **(1,330)** | **–** | **–** | **(1,326)** |
| | | **–** | **11** | **(1,330)** | **–** | **–** | **(1,319)** |
| **Balance at 30 June 2010** | | **23,286** | **(51)** | **1,414** | **(77)** | **122** | **24,694** |

# Notes to the financial statements

for the year ended 30 June 2010 – Wesfarmers Limited and its controlled entities

## 1: Corporate information

The financial report of Wesfarmers Limited (referred to as 'Wesfarmers' or 'the Company') for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 16 September 2010. Wesfarmers is a company limited by shares incorporated 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 ('the Group') are described in note 3.

## 2: Summary of significant accounting policies

### (a) Basis of preparation

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. The financial report has also been prepared on a historical cost basis, except for investments held by associates, financial instruments and available-for-sale investments, 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.

The financial report is presented in Australian dollars and all values are rounded to the nearest million dollars ($000,000) unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('the AASB') that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2009. The adoption of these standards gave rise to additional disclosure, and new policies being adopted, but did not have material effect on the financial statements of the Group. Refer to policy note (ah) for the Standards and Interpretations relevant to Wesfarmers that have been adopted.

A number of Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2010. The effect of these new or amended Accounting Standards is not expected to give rise to material changes in the Group's financial statements. Refer to policy note (ai) for the Standards and Interpretations relevant to Wesfarmers that are not yet effective and have not been early adopted.

From 1 July 2009, the Group has elected to change its accounting policy in relation to the rebate payable to Stanwell Corporation for the right to mine the Curragh North deposit so as to better align the timing of the rebate expense with the actual contractual obligations to pay such amount. Refer to policy note (aj) for further details of the change in accounting policy.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group.

A list of controlled entities at year end is contained in note 32.

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 intercompany balances and transactions, income and expenses, and profit and losses resulting from intra-group transactions have been eliminated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries are accounted for by the parent at cost less any allowance for impairment.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

### (d) Significant accounting judgements, estimates and assumptions

#### Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has had a significant effect on the amounts recognised in the financial statements:

*Income tax*

The Group has unrecognised benefits relating to carried forward capital losses, which can only be offset against eligible capital gains. These benefits are detailed in note 5. The Group has exercised its judgement that at this stage it has not identified probable future eligible capital gains that will be available to utilise the tax assets.

#### Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Impairment of assets including goodwill and intangibles with indefinite useful lives*

The Group determines whether assets including goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The recoverable amounts of the cash generating units have been determined using cash flow projections based on Wesfarmers' corporate plans covering a five year period.

The assumptions used in the estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 16.

On 2 July 2010, the Australian Government announced the key features of a new Mineral Resource Rent Tax ('MRRT') that is proposed to be applicable to the coal and iron ore sectors from 1 July 2012. The introduction of the MRRT, as currently proposed, is not expected to lead to an impairment of Wesfarmers' coal mining businesses. However, in the event the MRRT is introduced, future impairment outcomes are uncertain as they will depend on the final design.

## 2: Summary of significant accounting policies (continued)

**(d) Significant accounting judgements, estimates and assumptions (continued)**

*Insurance liabilities – outstanding insurance claims*

The estimation of outstanding claim liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments and claim handling costs incurred to the reporting date. Each class of business is usually examined separately and some or all of the following will be considered for each class in projecting future claim payments:

- historical trends in the development and incidence of the number of claims reported, number of claims finalised, claim payments and reported incurred costs;
- exposure details, including policy counts, sums insured, earned premiums and policy limits;
- claim frequencies and average claim sizes;
- the legislative framework, legal and court environments, and social and economic factors that may impact upon each class of business;
- historical and likely future trends in standard inflationary pressures relating to commodity prices and wages;
- historical and likely future trends of inflationary pressures in addition to price or wage inflation, termed superimposed inflation;
- historical and likely future trends of expenses associated with managing claims to finalisation;
- reinsurance recoveries available under contracts entered into by the insurer;
- historical and likely future trends of recoveries from sources such as subrogation and third party actions; and
- insurer specific, relevant industry data and more general economic data is utilised in the estimation process.

Projected future claim payments and associated claim handling costs are discounted to a present value as required using appropriate risk-free discount rates. A projection of future claim payments, both gross and net of reinsurance and other recoveries, is undertaken.

This projection is typically made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities that has an approximately equal chance of proving adequate as not. Where possible and appropriate, multiple actuarial methods will be applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a blend of methods, is selected by taking into account the characteristics of the class of business and the extent of the development of each past accident period.

As an estimate of future outcomes, the net central estimate of outstanding claims liability is subject to uncertainty. Uncertainty is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis.

As the volatility for each class of business is partially correlated with other classes, when combined across the entire Group, the overall volatility will be less than the sum of the individual classes.

With an estimate of the overall volatility for general insurance business, a range of risk margins associated with a probability of the total net provision for outstanding claims liabilities proving adequate may be produced.

Refer to note 21 for further details.

*Assets arising from reinsurance contracts*

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the consolidated entity may not receive amounts due to it and these amounts can be reliably measured.

*Inventories*

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The key assumptions, which require the use of management judgement, are the variables affecting estimated costs to sell and the expected selling price. These key assumptions are reviewed annually.

*Estimation of useful lives of assets*

Useful lives and residual value of property, plant and equipment are reviewed annually. Judgement is applied in determining the useful lives of property, plant and equipment. These judgements are supported by consultation with internal technical experts. Any reassessment of useful lives and residual value in a particular year will affect depreciation and amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years.

Useful lives of intangible assets with finite lives are reviewed annually. Any reassessment of useful lives in a particular year will affect the amortisation expense (either increasing or decreasing) through to the end of the reassessed useful life for both the current and future years.

*Customer cards and gift vouchers*

The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers. Expected redemption rates are reviewed annually. Any reassessment of the expected redemption rates in a particular year will affect the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing).

*Long service leave*

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in salaries and wages;
- future on-cost rates; and
- experience of employee departures and period of service.

## 2: Summary of significant accounting policies (continued)

**(e) Business combinations**

From 1 July 2009, business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If a business combination is achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognise the resulting gain or loss in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 *Financial Instruments: Recognition and Measurement,* either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

In comparison to the above mentioned requirements, the following policies were applied prior to 30 June 2009:

Business combinations were accounted for using the purchase method, with transaction costs directly attributable to the acquisition forming part of the acquisition costs. Non-controlling interests (formerly known as minority interest) were measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised when the Group had a present obligation, and economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

**(f) Revenue**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and 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 as part of revenue from sale of goods at the date upon which the customer satisfies all payment obligations and takes possession of the merchandise. 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, based on an analysis of historical non-redemption rates.

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 is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

*Rendering of services*

Revenue is recognised for services that have been rendered to a buyer by reference to stage of completion.

*Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

*Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established. Pre-acquisition dividends received are offset against the cost of the investment.

*Operating lease rental revenue*

Operating lease revenue consists of rentals from investment properties and sub-lease rentals. Rentals received under operating leases are recognised on a straight line basis over the term of the lease.

*Insurance premium revenue*

Refer to policy note (af) Insurance activities, for treatment of insurance premium revenue.

**(g) Finance costs**

Finance costs are recognised as an expense when incurred, with the exception of interest charges attributable to major projects with substantial development and construction phases.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate, excluding non-interest costs, applicable to the Group's outstanding borrowings during the period, in this case 8.28 per cent (2009: 8.04 per cent) as disclosed in note 26.

## 2: Summary of significant accounting policies (continued)

### (g) Finance costs (continued)

Provisions and other payables are discounted to their present value when the effect of the time value of money is material. The carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as a discount adjustment in finance costs.

### (h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### Group as a lessee

*Finance leases*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

*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 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.

An asset or liability is recognised for the difference between the amount paid and the lease expense released to earnings on a straight line basis.

### (i) Cash and cash equivalents

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, excluding deposits held as investments by the insurance business.

In accordance with local laws, all broking receipts are held in separate insurance broking bank accounts and approved investments. Disbursements of these monies can only be made in accordance with local laws. Amounts held, by entities within the consolidated entity, in these accounts and investments outstanding at balance sheet date are included in cash and cash equivalents.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

### (j) Trade and other receivables

Trade receivables generally have terms up to 30 days, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability and impairment are assessed on an ongoing basis at a divisional level. Individual debts that are known to be uncollectable are written off when identified. An impairment allowance is recognised 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.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

### (k) Inventories

Inventories are valued at the lower of cost and net realisable value.

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 the Resources division, consisting of production costs of drilling, blasting and overburden removal; and
- retail and wholesale merchandise finished goods – purchase cost on a weighted average basis, after deducting any settlement discount 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 recognised as a reduction in the cost of inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### (l) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and cross currency interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such 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. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as effective cash flow hedges, are taken directly to net profit or loss for the year.

## 2: Summary of significant accounting policies (continued)

**(l) Derivative financial instruments and hedging (continued)**

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The fair value of cross currency interest rate swap contracts is calculated by reference to current forward exchange rates and forward interest rates for similar instruments.

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 or liability; or
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation 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 in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured to fair value, and gains and losses from both are taken to profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to 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 Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, is terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

*Cash flow hedges*

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts recognised in equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale occurs or the asset is consumed. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

**(m) Derecognition of financial assets and financial liabilities**

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

A financial liability is derecognised when the obligation under the liability is discharged, is cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**(n) Impairment of financial assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

## 2: Summary of significant accounting policies (continued)

**(n) Impairment of financial assets (continued)**

*Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Impairment losses are not reversed.

*Available-for-sale investments*

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit.

**(o) Foreign currency translation**

Both the functional and presentation currency of Wesfarmers Limited and its Australian subsidiaries is Australian dollars. The functional currency of overseas subsidiaries is listed in note 32.

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. All exchange differences in the consolidated financial report 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. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Wesfarmers Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

**(p) Investment in associates**

The Group's investments in its associates are accounted for using the equity method of accounting. The associates are entities in which the Group has significant influence and which are neither subsidiaries nor jointly controlled assets.

Under the equity method, the investment in associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate 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 net investment in the associates. The consolidated income statement reflects the Group's share of the results of operations of the associates.

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.

The reporting dates of the associates and the Group may vary, whereupon 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 to those used by the Group for like transactions and events in similar circumstances.

An associate owns investment properties which 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.

**(q) Interest in jointly controlled assets**

The Group has interests in joint ventures that are jointly controlled assets. The Group recognises its share of the asset, classified as plant and equipment. In addition, the Group recognises its share of liabilities, expenses and income from the use and output of the jointly controlled asset.

**(r) Income tax**

Current tax assets and liabilities for the current and prior reporting periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or 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.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognised, other than where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

## 2: Summary of significant accounting policies (continued)

**(r) Income tax (continued)**

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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.

**(s) Other taxes**

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except:

– where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
– receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(t) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such costs include the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at cost less accumulated depreciation on buildings.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| – Buildings | 20–40 years |
| – Plant and equipment | 3–40 years |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Expenditure carried forward in respect of 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.

Amortisation is not charged on expenditure carried forward in respect of areas of interest in the development phase in which production has not yet commenced.

Leasehold improvements are amortised over the period of the lease or the anticipated useful life of the improvements, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

**(u) Investments and other financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

## 2: Summary of significant accounting policies (continued)

**(u) Investments and other financial assets (continued)**

*Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. Interest earned while holding available-for-sale financial investments is reported as interest revenue using the effective interest rate. Dividends earned while holding available-for-sale financial investments are recognised in the income statement as 'other income' when the right of payment has been established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined by reference to the current market value of another instrument which is substantially the same, or is calculated based on the expected cash flows of the underlying net asset base of the investment.

**(v) Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash generating unit (or group of cash generating units), to which goodwill relates.

Impairment testing is performed each year for cash generating units to which goodwill and indefinite life intangibles have been allocated. Further details on the methodology and assumptions used are outlined in note 16.

Each unit or group of units to which the goodwill is so allocated:

– represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

– is not larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. When the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit or group of cash generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**(w) Intangible assets**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial year end.

Intangible assets with indefinite lives are tested for impairment annually, either individually or at the cash generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed each reporting period to determine whether infinite useful life assessment continues to be supportable. If not, the change in useful life assessment from infinite to finite is accounted for as a change in accounting estimate and is thus accounted for on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

**Trade names**

*Useful lives*
Indefinite and finite

*Amortisation method used*
Amortised over the period of expected future benefit on a straight line basis

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists

**Contractual and non-contractual relationships**

*Useful lives*
Finite (up to 15 years)

*Amortisation method used*
Amortised over the period of expected future benefit on a straight line basis

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year end

## 2: Summary of significant accounting policies (continued)

**(w) Intangible assets (continued)**

**Software**

*Useful lives*
Finite (up to seven years)

*Amortisation method used*
Amortised over the period of expected future benefit on a straight line basis

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year end

**Gaming licences**

*Useful lives*
Indefinite

*Amortisation method used*
No amortisation

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists

**Liquor licences**

*Useful lives*
Indefinite

*Amortisation method used*
No amortisation

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists

**(x) Impairment**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are compared to valuation multiples, or other fair value indicators where available, to ensure reasonableness. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses, on assets other than goodwill, may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(y) Trade and other payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are non-interest bearing and are normally settled on terms up to 60 days.

Other payables also include the liability for customer cards and gift vouchers. The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers. Expected redemption rates are reviewed annually. Any reassessment of expected redemption rates in a particular year will affect the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing).

**(z) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

**(aa) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability to the extent they are not already reflected in the cash flows.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## 2: Summary of significant accounting policies (continued)

**(aa) Provisions (continued)**

*Mine and plant rehabilitation*

Provision is made for the Group's estimated liability under specific legislative requirements and the conditions of its licences and leases for future costs (at discounted amounts) expected to be incurred rehabilitating areas of operation. The liability includes the cost of reclamation of the site using existing technology, including plant removal and landfill costs. This provision is recognised immediately at the time of disturbance or when development of the asset occurs.

*Restructure*

A provision for restructuring is recognised for the expected costs associated with restructuring once a present obligation exists.

*Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(ab) Employee leave benefits**

*Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave 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.

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit valuation method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Expenses which are consequential to the employment of the employees (for example, payroll tax associated with employee entitlements) are also recognised as a liability and included in the amount for employee entitlements.

**(ac) Pensions benefits**

*Defined contribution plan*

Contributions to superannuation funds are charged to the income statement when due.

*Defined benefit plan*

The Group contributes to a defined benefit pension scheme. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised directly in equity.

The defined benefit asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

**(ad) Share-based payment transactions**

The Group provides benefits to employees (including executive directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently five plans in place to provide these benefits:

- the Wesfarmers Employee Share Plan ('WESP'), which provides benefits to all employees. The last issue under this plan was in December 2004;
- the Wesfarmers Long Term Incentive Plan ('WLTIP'), which provides benefits to senior executives. The first issue under this plan was in October 2005;
- the Coles Long Term Incentive Plan ('CLTIP'), which provides above average rewards for above average performance in turning around the Coles division's performance over the first five years of Wesfarmers' ownership for the Coles' Managing Director and a small number of senior executives;
- the Group Managing Director Long Term Incentive Plan ('Rights Plan'), which provides rewards for exceptional long-term performance for the Group Managing Director only; and
- the Wesfarmers Employee Share Acquisition Plan ('WESAP'), which provides benefits to all qualifying employees. The first allocation under this plan was in October 2009.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions 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 where applicable, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant 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 number of awards that are expected to ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met, as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

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.

## 2: Summary of significant accounting policies (continued)

### (ad) Share-based payment transactions (continued)

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 in the previous paragraph.

The WESP is accounted for as an 'in-substance' option plan due to the limited recourse nature of the loan. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share. Shares in the Group held under the WESP are classified and disclosed as employee reserved shares and deducted from equity.

The Group also provides benefits to certain executives under the CLTIP, in the form of cash-settled share-based payments, whereby executives can make an election to receive an award in cash. The ultimate cost of these cash-settled transactions will be equal to the actual cash paid to the executives, which will be the fair value at settlement date.

### (ae) Contributed equity

Ordinary shares and price protected ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

The Group operates a dividend investment plan. An issue of shares under the dividend investment plan results in an increase in contributed equity.

### (af) Insurance activities

*Insurance premium revenue*

Premium revenue comprises amounts charged to policy holders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Interest revenue from premium funding activities is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Unearned premium*

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate.

*Outwards reinsurance*

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated as a prepayment at balance date.

*Outstanding claims liability*

The liability for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported ('IBNR'); claims incurred but not enough reported ('IBNER'); and estimated claims handling costs.

The expected future payments are discounted to present value using a risk-free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequate to a minimum of 85 per cent.

*Reinsurance and other recoveries receivable*

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

*Deferred acquisition costs*

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

Commissions paid in respect of premium funding activities are amortised over the expected life of the loan using the effective interest rate method. Commissions paid in respect of general insurance activities are capitalised as a deferred acquisition cost and are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

## 2: Summary of significant accounting policies (continued)

**(af) Insurance activities (continued)**

*Insurance investments*

As part of its investment strategy the Group actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Group has determined that all bank bills, short-term deposits and trade receivables held by underwriting entities are held to back general insurance contracts. These assets have been valued at fair value through the income statement.

*Fire brigade and other charges*

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

**(ag) 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) and preference share 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) and preference share 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 period 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.

**(ah) New and revised accounting standards and interpretations**

From 1 July 2009, the Group has adopted all Australian Accounting Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2009, including:

- AASB 8 *Operating Segments*

  This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group has determined that its reportable segments are the same as the business segments previously reported under AASB 114 *Segment Reporting*. Additional disclosures about each of these segments are shown in note 3, including revised comparative information.

- AASB 123 *Borrowing Costs (Revised)*

  The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. Under the Group's existing accounting policy, borrowing costs relating to qualifying assets are capitalised, therefore this revision does not result in any change for the Group.

- AASB 101 *Presentation of Financial Statements (Revised)*

  The revised standard introduces the requirement to produce a statement of comprehensive income that presents all items of recognised income and expense. Other revisions include effects on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements and changes in the presentation requirements for dividends.

- AASB 2008-1 *Amendments to Australian Accounting Standard Share-based Payments: Vesting Conditions and Cancellations*

  The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' and prescribe the accounting treatment of an award where conditions that are neither service nor performance conditions ('non-vesting conditions') are not satisfied. The adoption of this amendment did not have any effect on the financial position or performance of the Group.

- AASB 3 *Business Combinations*

  The revised standard introduces a number of changes to the accounting treatment of business combinations, the most significant of which includes the requirement to recognise transaction costs immediately in earnings as an expense and a choice to measure a non-controlling interest in the acquiree (formerly a minority interest) either at its fair value, or at its proportionate interest in the acquiree's net assets. This choice will result in goodwill being recognised on acquisition relating to 100 per cent of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The adoption of this revised standard will affect future earnings and did not have a material effect on the financial position or performance of the Group.

- AASB 127 (Revised) *Consolidated and Separate Financial Statements*

  Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction. Furthermore, the amended standard changes the accounting treatment of losses incurred by a subsidiary, as well as the loss of control of a subsidiary. The change in AASB 127 (revised 2008) will affect future changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

- AASB 2008-5 and 2008-6 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

  The improvements project provides a mechanism for making non-urgent amendments to IFRS. The amendments are separated into two parts:

  - Part I deals with accounting changes; and
  - Part II deals with either terminology or editorial amendments that are expected to have minimal impact.

  The adoption of this amendment did not have a material effect on the financial position or performance of the Group.

## 2: Summary of significant accounting policies (continued)

**(ah) New and revised accounting standards and interpretations (continued)**

- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

  The main amendments are those made to AASB 127 *Consolidated and Separate Financial Statements* removing the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements. The distinction between pre- and post-acquisition profits is no longer required, however, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary rather than its fair value. The adoption of this amendment did not have any effect on the financial position or performance of the Group.

- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items*

  The amendment to AASB 139 *Financial Instruments: Recognition and Measurement* clarifies how the principles underlying hedge accounting should be applied when:

  - a one-sided risk in a hedged item exists; and
  - inflation in a financial hedged item existed or was likely to exist.

  This change did not have a material effect on the Group's financial statements.

- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]*

  The main amendment to AASB 7 *Financial Instruments: Disclosures* requires fair value measurements to be disclosed by the source of inputs, using the following three level hierarchy:

  - quoted prices in active markets for identical assets or liabilities (Level 1);
  - 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 2); or
  - inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

  The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes from the amendments to AASB 7. The adoption of these amendments resulted in a presentation effect only for the Group's financial statements. Refer to note 26 for additional disclosures arising from the amendments to AASB 7.

- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]*

  The main amendment of relevance to the Group is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity within the Group as long as the designation, documentation and effectiveness requirements of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment. The adoption of this amendment did not have any effect on the financial position or performance of the Group.

**(ai) Australian accounting standards and interpretations issued but not adopted**

The standards and interpretations relevant to Wesfarmers that have not been early adopted, which are not expected to give rise to material changes in the Group's financial statements, are:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]*: applicable to annual reporting periods beginning on or after 1 July 2010.

  The main amendment is that made to AASB 117 *Leases* by removing the specific guidance regarding classifying leases relating to land so that only the general guidance remains. Assessing leases relating to land based on the general criteria may result in more leases being classified as finance leases. These changes are not expected to have a material effect on the Group's financial statements.

- AASB 2009-8 *Amendments to Australian Accounting Standards – Group cash-settled share-based payment transactions:* applicable to annual reporting periods beginning on or after 1 July 2010.

  The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:

  - the scope of AASB 2; and
  - the interaction between IFRS 2 and other standards.

  An entity that receives goods or services in a share-based payment arrangement must account for those goods or services regardless of which entity in the group settles the transaction, or whether the transaction is settled in shares or cash. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn. These amendments are not expected to have a material effect on the Group's financial statements.

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 Financial Instruments [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]*: applicable to annual reporting periods beginning on or after 1 July 2013.

  The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

  - two categories for financial assets being amortised cost or fair value;
  - removal of the requirement to separate embedded derivatives in financial assets;
  - strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows;
  - an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition;
  - reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes; and
  - changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.

## 2: Summary of significant accounting policies (continued)

**(ai) Australian accounting standards and interpretations issued but not adopted (continued)**

The adoption of Phase I of AASB 9 will affect the Group's classification and measurement of financial assets as described above. The effect of the new standard on the Group's financial statements will continue to be assessed as the standard evolves and each phase is completed and released.

– AASB 2009-12 *Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and Interpretations 2, 4, 16, 1039 and 1052]*: applicable to annual reporting periods beginning on or after 1 July 2011.

This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.

– AASB 124 *Related Party Disclosures (Revised)*: applicable to annual reporting periods beginning on or after 1 July 2011.

The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself). This will only affect the disclosure of the Group's financial statements.

– Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*: applicable to annual reporting periods beginning on or after 1 July 2010.

This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with paragraph 41 of AASB 139. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.

The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. This interpretation is not expected to have a material effect on the Group's financial statements.

– AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*: applicable to annual reporting periods beginning on or after 1 July 2011.

These amendments arise from the issuance of *Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)* and relate to defined benefit pension plans. The requirements of IFRIC 14 meant that entities subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.

The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. The amendment is not expected to have a material effect on the Group's financial statements.

The Group expects to adopt these standards and interpretations in the 2011 and subsequent financial reports, however, they are not expected to have a significant effect on the financial statements of the Group.

**(aj) Voluntary change in accounting policy – Coal rebates payable and rights to mine**

From 1 July 2009 and as disclosed in the 31 December 2009 Half-Year Financial Statements, the Group has elected to change its accounting policy in relation to the rebate payable to Stanwell Corporation for the right to mine the Curragh North deposit so as to better align the timing of the rebate expense with the actual contractual obligations to pay such amounts. This change will bring the accounting treatment in line with industry practice and simplify the presentation of the financial statements.

Under the previous accounting policy, the Group recognised a provision related to its total expected future rebate obligation and an intangible right to mine asset for the same amount based on the committed contracts on hand. Both the provision and the intangible right to mine asset changed over time as and when Curragh entered into new export contracts or there were changes in contract prices. The Group also recorded a monthly amortisation expense related to the intangible right to mine asset, as well as a finance cost that reflected the unwinding of the discount of the liability.

There has been no change to the contractual arrangements or rebate payments made to Stanwell as a result of this accounting policy change and the net effect on both current and retained earnings for the Group is not material. The effect of the change in accounting policy has been applied retrospectively to previous reporting periods in accordance with Australian Accounting Standards.

In accordance with AASB 101, the Group has presented a third balance sheet and related notes as at 1 July 2008, as the change in accounting policy has been applied retrospectively.

The change in accounting policy has the balance sheet effect at 30 June 2010 of reducing financial liabilities by $170 million (30 June 2009: $246 million) offset by a reduction in property, plant and equipment of $145 million (30 June 2009: $214 million) and other net assets of $16 million (30 June 2009: $36 million).

The change in accounting policy has resulted in a reduction in depreciation and amortisation at 30 June 2010 of $150 million (year ended 30 June 2009: $168 million) and a reduction in finance costs of $10 million (year ended 30 June 2009: $12 million). The above reduction in expenditure has been largely offset by an increase in royalty and other expenses of $142 million (year ended 30 June 2009: $198 million). The net effect of the change in accounting policy on profit after tax at 30 June 2010 is an increase of $13 million (year ended 30 June 2009: reduction of $13 million).

The cumulative financial statement effect of the change in accounting policy has resulted in an increase in retained earnings as at 30 June 2010 of $9 million (30 June 2009: reduction of $4 million).

The change in accounting policy has resulted in basic earnings per share increasing from 134.6 to 135.7 (2009: decreasing from 160.0 to 158.5) and diluted earnings per share increasing from 134.3 to 135.5 (2009: decreasing from 159.6 to 158.2).

## 3: Segment information

The operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing 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 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 is disclosed below. Segment performance is evaluated based on operating profit or loss, which in certain respects, as explained in the table below, 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.

Revenue and earnings of various divisions are affected by seasonality and cyclicality as follows:

- for retail divisions, particularly Kmart and Target, earnings are typically greater in the December half of the financial year due to the impact on the retail business of the Christmas holiday shopping period;
- for the Resources division, the majority of the entity's coal contracted tonnages are renewed on an annual basis from April each calendar year and subject to price re-negotiation on a quarterly or annual basis which, depending upon the movement in prevailing coal prices, can result in significant changes in revenue and earnings throughout the financial year; and
- for the Chemicals and Fertilisers division, earnings are typically much greater in the June half of the financial year due to the impact of the Western Australian winter season break on fertiliser sales.

Transfer prices between business segments are set at an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation and are not considered material.

The operating segments and their respective types of products and services are as follows:

### Retail

#### Coles

- Supermarket retailer, including Coles retail support costs;
- Liquor retailer, including hotel portfolio;
- Retail of fuel and operation of convenience stores; and
- Coles property business operator.

#### Kmart

- Retail of apparel and general merchandise, including toys, leisure, entertainment, home and consumables; and
- Provision of automotive service, repairs and tyre service.

#### Target

- Retail of apparel, homewares and general merchandise, including accessories, electricals and toys.

#### Home Improvement and Office Supplies

- Retail building material and home and garden improvement products;
- Servicing project builders and the housing industry; and
- Office supplies products.

### Mining

#### Resources

- Coal mining and development; and
- Coal marketing to both domestic and export markets.

### Insurance

#### Insurance

- Supplier of specialist rural and small business regional insurance;
- Supplier of general insurance through broking intermediaries; and
- Supplier of insurance broking services.

### Industrial

#### Chemicals and Fertilisers

- Manufacture and marketing of chemicals for industry, mining and mineral processing; and
- Manufacture and marketing of broadacre and horticultural fertilisers.

#### Energy

- National marketing and distribution of LPG;
- LPG and LNG extraction for domestic and export markets;
- Manufacture and marketing of industrial gases and equipment; and
- Electricity supply to mining operations and regional centres.

#### Industrial and Safety

- Supplier and distributor of maintenance, repair and operating (MRO) products; and
- Specialised supplier and distributor of industrial safety products and services.

### Other

- Forest products: non-controlling interest in Wespine Pty Ltd, which manufactures products to service the wholesale timber market in Australia;
- Property: includes a non-controlling interest in Bunnings Warehouse Property Trust, which acquires properties suitable for retail property development and investment;
- Investment banking: non-controlling interest in Gresham Partners Group Limited, which is an investment bank providing financial advisory and investment management services; and
- Private equity investment: non-controlling interests in Gresham Private Equity Fund No. 2 and Gresham Private Equity Fund No. 3, which are closed-end private equity funds targeting larger size private equity transactions in the areas of management buy-outs, expansion capital and corporate restructuring.

## 3: Segment information (continued)

| | COLES[1] | | HOME IMPROVEMENT AND OFFICE SUPPLIES | | RESOURCES[2] | | INSURANCE | |
|---|---|---|---|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Segment revenue** | **30,002** | 28,799 | **7,822** | 7,151 | **1,416** | 2,411 | **1,698** | 1,720 |
| **Segment result** | | | | | | | | |
| Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads | **1,364** | 1,216 | **916** | 817 | **285** | 990 | **146** | 116 |
| Depreciation and amortisation | **(402)** | (385) | **(114)** | (93) | **(120)** | (105) | **(24)** | (25) |
| Earnings before interest, tax (EBIT) and corporate overheads | **962** | 831 | **802** | 724 | **165** | 885 | **122** | 91 |
| Finance costs[5] | | | | | | | | |
| Corporate overheads | | | | | | | | |
| Profit before income tax expense | | | | | | | | |
| Income tax expense[6] | | | | | | | | |
| **Profit attributable to members of the parent** | | | | | | | | |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | **18,350** | 17,995 | **4,703** | 4,217 | **1,657** | 1,515 | **3,641** | 3,561 |
| Investments in associates | **32** | 31 | **–** | – | **–** | – | **–** | – |
| Tax assets | | | | | | | | |
| Total assets | | | | | | | | |
| Segment liabilities | **3,113** | 2,855 | **752** | 637 | **413** | 426 | **2,264** | 2,190 |
| Tax liabilities | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | |
| Total liabilities | | | | | | | | |
| **Other segment information** | | | | | | | | |
| Capital expenditure[7] | **683** | 606 | **446** | 378 | **228** | 252 | **26** | 26 |
| Share of net profit or loss of associates included in EBIT | **–** | – | **–** | – | **–** | 1 | **–** | – |
| Non–cash expenses other than depreciation and amortisation | **91** | 122 | **147** | 134 | **69** | 95 | **24** | 24 |

1 Coles division includes the food, liquor, convenience and Coles property businesses, and Coles retail support costs.

2 Resources prior period results have been restated following a change in accounting policy, as outlined in note 2, reducing prior period EBIT largely due to a reclassification of finance costs. Resources 2010 result includes $20 million of hedge losses (2009: $204 million) in relation to foreign exchange forward contracts incurred by Curragh, including $83 million (2009: $88 million) of locked-in exchange rate losses and Stanwell rebate expense of $156 million (2009: $183 million).

3 On 20 April 2010, Wesfarmers announced that the Chemical and Fertilisers, and Energy divisions will merge to form a new division and Coregas will transfer to the Industrial and Safety division. Reporting of results in accordance with the new structure will commence from 1 July 2010. 2009 results were affected by the gas supply disruption caused by the explosion at Varanus Island during the period. These disruptions are subject to an insurance recovery process which is ongoing.

4 2010 includes interest revenue of $65 million (2009: $57 million), share of profit/(loss) of associates of $77 million (2009: loss of $60 million), impairment of Coles freehold property of $10 million (2009: $82 million), writedown of goodwill of Coregas of $48 million, Kmart supply chain and restructuring costs of $33 million (2009: $70 million) and Chemicals, Energy and Fertilisers division restructuring costs of $4 million. Prior periods results were also affected by the Coles store exit provision writeback of $30 million and Insurance restructuring costs and impairment of the Company's investment in Centrepoint Alliance Limited of $15 million.

5 As outlined in note 19, finance costs include $51 million (2009: $136 million) relating to the recognition of cumulative losses on hedging instruments transferred from equity as the forecast transactions are no longer expected to occur. This is the result of losses being recognised on interest rate swaps used to hedge the maturity profile of debt facilities repaid during the period.

6 Prior year effective tax rate was affected by finalisation of appropriate deferred tax treatment for leasehold improvements in the former Coles group divisions (2009: $84 million) and research and development claims (2009: $26 million). Refer to note 5 for the income tax note.

7 Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,656 million (2009: $1,503 million).

| KMART | | TARGET | | INDUSTRIAL AND SAFETY | | ENERGY[3] | | CHEMICALS AND FERTILISERS[3] | | OTHER[4] | | CONSOLIDATED | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **4,019** | 3,998 | **3,825** | 3,788 | **1,311** | 1,294 | **611** | 598 | **1,060** | 1,162 | **63** | 61 | **51,827** | 50,982 |
| **254** | 171 | **449** | 417 | **125** | 127 | **153** | 122 | **183** | 115 | **7** | (187) | **3,882** | 3,904 |
| **(58)** | (62) | **(68)** | (60) | **(14)** | (13) | **(51)** | (47) | **(62)** | (63) | **(4)** | (3) | **(917)** | (856) |
| **196** | 109 | **381** | 357 | **111** | 114 | **102** | 75 | **121** | 52 | **3** | (190) | **2,965** | 3,048 |
| | | | | | | | | | | | | **(654)** | (951) |
| | | | | | | | | | | | | **(96)** | (101) |
| | | | | | | | | | | | | **2,215** | 1,996 |
| | | | | | | | | | | | | **(650)** | (474) |
| | | | | | | | | | | | | **1,565** | 1,522 |
| **1,487** | 1,444 | **3,930** | 3,886 | **1,005** | 967 | **817** | 894 | **1,106** | 1,262 | **1,464** | 2,163 | **38,160** | 37,904 |
| **–** | – | **–** | – | **–** | – | **4** | 2 | **66** | 73 | **366** | 286 | **468** | 392 |
| | | | | | | | | | | | | **608** | 766 |
| | | | | | | | | | | | | **39,236** | 39,062 |
| **624** | 497 | **513** | 487 | **208** | 163 | **112** | 97 | **182** | 139 | **841** | 1,127 | **9,022** | 8,618 |
| | | | | | | | | | | | | **167** | 27 |
| | | | | | | | | | | | | **5,353** | 6,169 |
| | | | | | | | | | | | | **14,542** | 14,814 |
| **79** | 63 | **91** | 91 | **25** | 25 | **21** | 40 | **32** | 44 | **3** | 14 | **1,634** | 1,539 |
| **–** | – | **–** | – | **–** | – | **6** | 4 | **12** | 5 | **77** | (60) | **95** | (50) |
| **4** | 8 | **48** | 11 | **21** | 21 | **57** | 6 | **4** | 3 | **12** | 39 | **477** | 463 |

**Geographical locations**

Revenue by geographical locations is detailed below.
Revenue is attributed to geographic location based on the location of the customers.

| | 2010 $m | 2009 $m |
|---|---|---|
| Australia | **50,623** | 49,944 |
| New Zealand | **1,162** | 989 |
| Other foreign countries | **42** | 49 |
| Total revenue | **51,827** | 50,982 |

The analysis of the location of non-current assets other than financial instruments, deferred tax assets and pension assets is as follows:

| | 2010 $m | 2009 $m |
|---|---|---|
| Australia | **27,713** | 27,122 |
| New Zealand | **856** | 812 |
| Other foreign countries | **15** | 37 |
| Total non-current assets | **28,584** | 27,971 |

| | CONSOLIDATED | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **4: Revenue and expenses** | | |
| **Employee benefits expense** | | |
| Remuneration, bonuses and on-costs | **6,311** | 6,033 |
| Amounts provided for employee entitlements | **441** | 434 |
| Share-based payments expense | **76** | 68 |
| | **6,828** | 6,535 |
| **Occupancy-related expenses** | | |
| Minimum lease payments | **1,661** | 1,602 |
| Other | **416** | 406 |
| | **2,077** | 2,008 |
| **Depreciation and amortisation** | | |
| Depreciation | **735** | 667 |
| Amortisation of intangibles | **86** | 83 |
| Amortisation other | **96** | 106 |
| | **917** | 856 |
| **Other expenses included in income statement** | | |
| Impairment of freehold property | **10** | 82 |
| Impairment of plant, equipment and other assets | **71** | 36 |
| Total impairment charge | **81** | 118 |
| Government mining royalties | **98** | 208 |
| Stanwell rebate | **156** | 183 |
| Repairs and maintenance | **382** | 378 |
| Utilities and office expenses | **900** | 815 |
| Self-insurance expenses | **195** | 205 |
| Other | **1,170** | 1,108 |
| | **2,982** | 3,015 |
| **Other income** | | |
| Gains on disposal of property, plant and equipment | **4** | 13 |
| Gain on sale of controlled entities | **8** | 1 |
| Other income | **137** | 155 |
| | **149** | 169 |
| **Finance costs** | | |
| Interest expense | **493** | 737 |
| Ineffective interest rate swap losses (refer to note 3, footnote (5)) | **51** | 136 |
| Discount adjustment | **64** | 41 |
| Amortisation of debt establishment costs | **25** | 21 |
| Other including bank facility and settlement fees | **21** | 16 |
| | **654** | 951 |
| **Insurance underwriting result** | | |
| Premium revenue | **1,386** | 1,366 |
| Outwards reinsurance premium expense | **(297)** | (305) |
| Net premium revenue | **1,089** | 1,061 |
| Claims expense – undiscounted | **(929)** | (1,144) |
| Discount effect | **2** | (16) |
| Reinsurance and other recoveries revenue – undiscounted | **262** | 406 |
| Discount effect | **(5)** | 5 |
| Net claims incurred | **(670)** | (749) |
| Acquisition costs | **(236)** | (232) |
| Other underwriting expenses | **(124)** | (70) |
| Net underwriting expenses | **(360)** | (302) |
| Underwriting result | **59** | 10 |

Net claims incurred relating to risks borne in previous periods are not material.

| | CONSOLIDATED | | |
|---|---|---|---|
| | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |

## 5: Income tax

The major components of income tax expense are:

| | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| **Income statement** | | | |
| *Current income tax* | | | |
| Current income tax charge | **612** | 583 | 531 |
| Adjustments in respect of current income tax of previous years | **(9)** | (67) | (4) |
| *Deferred income tax* | | | |
| Deferred tax asset not previously recognised | **–** | (84) | – |
| Relating to origination and reversal of temporary differences | **47** | 42 | (157) |
| Income tax expense reported in the income statement | **650** | 474 | 370 |
| **Statement of comprehensive income** | | | |
| *Deferred income tax related to items charged or credited directly to equity* | | | |
| Net gain/(loss) on revaluation of cash flow hedges | **99** | (212) | 23 |
| Actuarial loss on defined benefit plan | **–** | (18) | – |
| Equity raising costs | **–** | (15) | (18) |
| Income tax expense/(credit) reported in equity | **99** | (245) | 5 |

A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Group's applicable income tax rate is as follows:

| | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| Accounting profit before income tax | **2,215** | 1,996 | 1,442 |
| At the statutory income tax rate of 30 per cent (2009: 30 per cent) | **665** | 599 | 433 |
| Adjustments in respect of current income tax of previous years | **(9)** | (41) | (4) |
| Carried forward tax losses now recognised | **–** | – | (24) |
| Additional Federal Government Investment Allowance deductions | **(26)** | (11) | – |
| Non-deductible writedown of investments | **17** | 30 | – |
| Share of associated companies net loss/(profit) after tax | **(8)** | 4 | (7) |
| Tax on undistributed associates profit | **4** | 4 | 2 |
| Research and development costs | **–** | (26) | – |
| Deferred tax asset not previously recognised | **–** | (84) | – |
| Finalisation of acquisition accounting adjustment | **–** | – | (23) |
| Other | **7** | (1) | (7) |
| Income tax expense reported in the consolidated income statement | **650** | 474 | 370 |

| | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| **Deferred income tax** | | | |
| Deferred income tax at 30 June relates to the following: | | | |
| *Balance sheet* | | | |
| Deferred tax assets | | | |
| Provisions | **256** | 260 | 283 |
| Employee benefits | **292** | 257 | 227 |
| Accrued and other payables | **86** | 75 | 26 |
| Borrowings | **28** | 38 | 16 |
| Insurance liabilities | **19** | 31 | 14 |
| Doubtful debts | **14** | 17 | 7 |
| Amortisation of intangibles | **–** | – | 46 |
| Derivatives | **75** | 164 | 43 |
| Deferred income | **16** | 20 | 20 |
| Trading stock | **110** | 109 | 104 |
| Fixed assets | **188** | 180 | 142 |
| Share issue costs | **16** | 24 | 18 |
| Gross deferred income tax assets | **1,100** | 1,175 | 946 |
| Amount netted against deferred tax liabilities | **(492)** | (409) | (461) |
| Net deferred tax assets | **608** | 766 | 485 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of deferred tax assets.

| | CONSOLIDATED 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| **5: Income tax (continued)** | | | |
| **Deferred income tax (continued)** | | | |
| Deferred tax liabilities | | | |
| Accelerated depreciation for tax purposes | **197** | 172 | 209 |
| Mining assets recognised for accounting purposes | **46** | 33 | – |
| Derivatives | **62** | 52 | 86 |
| Accrued income and other | **63** | 32 | 60 |
| Unremitted earnings of associates | **–** | 19 | 25 |
| Warehouse stock | **19** | 24 | 16 |
| Intangible assets | **104** | 71 | 59 |
| Deferred acquisition costs | **1** | 6 | 6 |
| Gross deferred income tax liabilities | **492** | 409 | 461 |
| Amount netted against deferred tax assets | **(492)** | (409) | (461) |
| Net deferred tax liabilities | **–** | – | – |
| *Income statement* | | | |
| Provisions | **6** | 23 | (42) |
| Employee benefits | **(22)** | (30) | (19) |
| Doubtful debts | **(4)** | (10) | – |
| Depreciation and amortisation | **1** | (39) | (68) |
| Derivatives | **14** | 59 | (11) |
| Unremitted earnings of associates | **–** | (8) | – |
| Insurance liabilities | **3** | (17) | 1 |
| Intangible assets | **31** | 12 | 29 |
| Stock | **(4)** | 3 | (123) |
| Mining assets recognised for accounting purposes | **3** | 30 | – |
| Accruals and other | **19** | 19 | 76 |
| Deferred tax expense/(credit) | **47** | 42 | (157) |
| Unrecognised deferred tax asset in respect of capital losses in Australia – available indefinitely subject to meeting relevant statutory tests. | **220** | 218 | 226 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of deferred tax assets.

**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 arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is considered remote.

**Tax effect accounting by members of the tax consolidated group**

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.

## 6: Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares (including partially protected shares) outstanding during the year (excluding employee reserved shares).

Diluted earnings per share amounts are calculated as above with an adjustment for the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares.

## 6: Earnings per share (continued)

Wesfarmers partially protected shares ('PPS') are ordinary shares that confer rights on holders that are the same in all respects to those conferred by other ordinary shares. In addition, PPS provide a level of downside price protection in that they may provide holders with up to an additional 0.25 ordinary shares per PPS, in certain circumstances within a specified period from the date the PPS were issued. Full details and other terms and conditions applicable to the PPS are available from the Company website www.wesfarmers.com.au.

Basic and dilutive earnings per share calculations are as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2010 $m** | Restated[1] 2009 $m |
| Profit attributable to members of the parent | **1,565** | 1,522 |
| | **shares (m)** | shares (m) |
| Weighted average number of ordinary shares for basic earnings per share | **1,153** | 932 |
| Effect of dilution – employee reserved shares | **2** | 2 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | **1,155** | 934 |
| | **cents** | cents |
| Earnings per share (cents per share) | | |
| – basic for profit for the period attributable to ordinary equity holders of the parent | **135.7** | 158.5 |
| – diluted for profit for the period attributable to ordinary equity holders of the parent | **135.5** | 158.2 |

Prior period earnings per share have been adjusted by a factor of 1.03, reflecting settlement of the entitlement offer part way through the previous financial year. In January 2009, Wesfarmers announced an equity issue, including a 3 for 7 accelerated pro-rata non-renounceable entitlement offer at an offer price of $13.50 per share which included a fully underwritten institutional component; and additional proceeds of $900 million raised by placements to two strategic investors. Details of the shares issued are outlined in note 23.

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 and the conversion of partially protected ordinary shares to ordinary shares.

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of earnings per share.

## 7: Dividends paid and proposed

| | CONSOLIDATED | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Declared and paid during the period (fully franked at 30 per cent)** | | |
| Final franked dividend for 2009: $0.60 (2008: $1.35) | **694** | 1,079 |
| Interim franked dividend for 2010: $0.55 (2009: $0.50) | **636** | 408 |
| | **1,330** | 1,487 |
| **Proposed and not recognised as a liability (fully franked at 30 per cent)** | | |
| Final franked dividend for 2010: $0.70 (2009: $0.60) | **810** | 694 |
| **Franking credit balance** | | |
| Franking credits available for future years at 30 per cent adjusted for debits and credits arising from the payment of income tax payable and from recognised dividends receivable or payable | **144** | 262 |
| 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 | **(347)** | (297) |

The Group operates a dividend investment plan which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with Wesfarmers ordinary shares, which has been applied to the dividends payable from March 2007. 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 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.

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **8: Cash and cash equivalents** | | |
| Cash on hand and in transit | **237** | 311 |
| Cash at bank and on deposit | **1,318** | 1,734 |
| Insurance broking trust accounts | **85** | 79 |
| | **1,640** | 2,124 |

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.

**Reconciliation to cash flow statement**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

| | 2010 $m | 2009 $m |
|---|---|---|
| Cash on hand and in transit | **237** | 311 |
| Cash at bank and on deposit | **1,318** | 1,734 |
| Insurance broking accounts | **85** | 79 |
| | **1,640** | 2,124 |

**Reconciliation of net profit after tax to net cash flows from operations**

| | 2010 $m | 2009 $m |
|---|---|---|
| Net profit | **1,565** | 1,522 |
| *Adjustments* | | |
| Depreciation and amortisation | **917** | 856 |
| Impairment and writedowns of assets | **81** | 118 |
| Net loss on disposal of property, plant and equipment | **56** | 55 |
| Share of associates' net (profits)/losses | **(95)** | 50 |
| Dividends and distributions received from associates | **19** | 51 |
| Discount adjustment in borrowing costs | **64** | 41 |
| Amortisation of debt establishment costs net of amounts paid | **18** | (7) |
| Ineffective interest rate swap losses net of amounts paid | **13** | 98 |
| Non-cash issue of shares recognised in earnings | **21** | 66 |
| Other | **(25)** | (28) |
| *Changes in assets and liabilities* | | |
| Decrease/(increase) in inventories | **2** | (49) |
| (Increase)/decrease in trade and other receivables | **(225)** | 73 |
| Decrease/(increase) in prepayments | **42** | (14) |
| Increase in trade and other payables | **596** | 131 |
| Decrease/(increase) in deferred tax assets | **58** | (35) |
| Increase in other assets | **(2)** | (67) |
| Increase in provisions | **65** | 39 |
| Increase in other liabilities | **17** | 228 |
| Decrease/(increase) in current tax payable | **140** | (84) |
| Net cash from operating activities | **3,327** | 3,044 |

**Non-cash financing and investing activities**

| | 2010 $m | 2009 $m |
|---|---|---|
| Issue of share capital under employee incentive plans recognised in earnings | **21** | 66 |
| Issue of share capital under dividend investment plan | **–** | 415 |

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **9: Trade and other receivables** | | |
| **Current** | | |
| Trade receivables | **1,373** | 1,324 |
| Allowance for credit losses | **(52)** | (50) |
| Reinsurance and other recoveries receivable | **319** | 295 |
| Finance advances and loans | **195** | 134 |
| Related party receivables – associates | **1** | 5 |
| Other debtors | **250** | 185 |
| | **2,086** | 1,893 |
| **Non-current** | | |
| Reinsurance and other recoveries receivable | **192** | 203 |
| Finance advances and loans | **22** | 3 |
| Other debtors | **6** | 5 |
| | **220** | 211 |

Refer to note 26 for information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

**Impaired trade receivables**
As at 30 June 2010, current trade receivables of the Group with a nominal value of $52 million (2009: $50 million) were impaired. The amount of the allowance account was $52 million (2009: $50 million).

| Movements in the allowance account for credit losses were as follows: | 2010 $m | 2009 $m |
|---|---|---|
| Carrying value at beginning of year | **50** | 39 |
| Allowance for credit losses recognised during the year | **13** | 23 |
| Receivables written off during the year as uncollectable | **(7)** | (5) |
| Unused amount reversed | **(4)** | (7) |
| Carrying value at end of year | **52** | 50 |

**Trade receivables past due but not impaired**
As at 30 June 2010, trade receivables of $268 million (2009: $381 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default or other indicators of impairment.

| The ageing analysis of these trade receivables is as follows: | 2010 $m | 2009 $m |
|---|---|---|
| Under 3 months | **185** | 330 |
| 3 to 6 months | **63** | 35 |
| Over 6 months | **20** | 16 |
| | **268** | 381 |

With respect to trade receivables which are neither impaired nor past due, there are no indications as at the reporting date that the debtors will not meet their payment obligations. 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.

## 9: Trade and other receivables (continued)

**Reinsurance and other recoveries receivable**

The Group reinsures a portion of risks underwritten to control exposure to insurance losses, reduce volatility and protect capital. The Group's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

– treaty or facultative reinsurance is placed in accordance with the requirements of the Group's reinsurance management strategy;

– reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical losses and potential future losses based on the Group's maximum event retention; and

– exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

The reinsurance counterparty risk is managed with reference to an analysis of an entity's credit rating. Strict controls are maintained over reinsurance counterparty exposures. Reinsurance is placed with counterparties that have a strong credit rating. Credit risk exposures are calculated regularly and ratings are reviewed by management on a regular basis.

The following table provides information about the quality of the Group's credit risk exposure in respect of reinsurance recoveries on outstanding claims at the balance date. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating.

| | CREDIT RATING | | | | | |
|---|---|---|---|---|---|---|
| | AAA $m | AA $m | A $m | BBB $m | Not rated $m | Total $m |
| YEAR ENDED 30 JUNE 2010 | | | | | | |
| Reinsurance recoveries on outstanding claims | **–** | **164** | **152** | **–** | **77** | **393** |
| Amounts due from reinsurers on paid claims | **–** | **9** | **14** | **–** | **–** | **23** |
| | **–** | **173** | **166** | **–** | **77** | **416** |
| YEAR ENDED 30 JUNE 2009 | | | | | | |
| Reinsurance recoveries on outstanding claims | 29 | 146 | 150 | – | 67 | 392 |
| Amounts due from reinsurers on paid claims | – | 6 | 6 | – | – | 12 |
| | 29 | 152 | 156 | – | 67 | 404 |

The remaining reinsurance and other recoveries receivable relate to the reinsurers share of the unearned premium provisions. All reinsurance and other recoveries receivable are current and not impaired.

**Finance advances and loans**

Finance advances and loans consist of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. A risk assessment process is used for new loan applications which ranges from conducting credit assessments to relying on the assessments of financial risk provided by credit insurers.

All finance advances and loans are current and not impaired.

**Related party receivables**

For terms and conditions of related party receivables, refer to note 34.

**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.

| | CONSOLIDATED 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| **10: Inventories** | | | |
| Raw materials | **78** | 75 | 73 |
| Work in progress | **93** | 75 | 75 |
| Finished goods | **4,487** | 4,515 | 4,486 |
| Total inventories at the lower of cost and net realisable value | **4,658** | 4,665 | 4,634 |

Inventories recognised as an expense for the year ended 30 June 2010 totalled $36,887 million (2009: $36,182 million).

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of consolidated inventories.

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **11: Investments backing insurance contracts** | | |
| Investments backing insurance contracts are all financial assets at fair value through profit or loss and include the following: | | |
| Bank bills | **359** | 491 |
| Term deposits | **705** | 511 |
| Other | **1** | 1 |
| | **1,065** | 1,003 |
| **12: Other current assets** | | |
| Deferred acquisition costs | **125** | 135 |
| Prepayments | **25** | 68 |
| Assets held for sale | **–** | 18 |
| | **150** | 221 |
| Movements in deferred acquisition costs | | |
| Carrying value at beginning of year | **135** | 127 |
| Acquisition costs deferred | **117** | 143 |
| Costs charged to profit and loss | **(119)** | (126) |
| Other movements | **(8)** | (9) |
| Carrying value at end of year | **125** | 135 |
| **13: Available-for-sale investments** | | |
| Shares in listed companies at fair value | **2** | 1 |
| Shares in unlisted companies at fair value | **17** | 17 |
| | **19** | 18 |

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value for listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

There are no individually material investments at 30 June 2010.

The fair value of the unlisted available-for-sale investments has been estimated using appropriate valuation techniques based on assumptions where the fair value cannot be determined by observable market prices or rates. Management believes the estimated fair value resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in reserves are reasonable and the most appropriate at balance sheet date. Management also believes that changing any of the assumptions to a reasonably possible alternative would not result in a significantly different value.

## 14: Investments in associates

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| Shares and units in associates | **459** | 373 |
| Loans to associates at cost | **9** | 19 |
| | **468** | 392 |
| **Fair value of listed investments in associates** | | |
| Bunnings Warehouse Property Trust | **183** | 151 |
| **Share of associates' commitments** | | |
| Capital commitments | **11** | 12 |
| Lease commitments | **6** | 7 |
| Other commitments | **9** | 10 |

| Associate | Principal activity | OWNERSHIP 2010 % | 2009 % |
|---|---|---|---|
| Air Liquide WA Pty Ltd | Industrial gases | **40.0** | 40.0 |
| Albany Woolstores Pty Ltd | Wool handling | **35.0** | 35.0 |
| Bengalla Agricultural Company Pty Limited | Agriculture | **40.0** | 40.0 |
| Bengalla Coal Sales Company Pty Limited | Sales agent | **40.0** | 40.0 |
| Bengalla Mining Company Pty Limited | Management company | **40.0** | 40.0 |
| Bunnings Warehouse Property Trust | Property investment | **23.1** | 22.7 |
| Gresham Partners Group Limited | Investment banking | **50.0** | 50.0 |
| Gresham Private Equity Funds | Private equity fund | **(a)** | (a) |
| HAL Property Trust | Property ownership | **50.0** | 50.0 |
| Queensland Nitrates Management Pty Ltd | Chemical manufacture | **50.0** | 50.0 |
| Queensland Nitrates Pty Ltd | Chemical manufacture | **50.0** | 50.0 |
| Wespine Industries Pty Ltd | Pine sawmillers | **50.0** | 50.0 |

Each of the above entities is incorporated in Australia and has a reporting date of 30 June with the exception of Gresham Partners Group Limited which has a reporting date of 30 September and the Bengalla companies that have a reporting date of 31 December.

(a) Gresham Private Equity Funds
Whilst the consolidated entity's interest in the unitholders' funds of Gresham Private Equity Fund No. 2 and 3 amounts to greater than 50.0 per cent, they are not controlled entities as the consolidated entity does not have the capacity to dominate decision making in relation to its financial and operating policies. Such control requires a unitholders' resolution of 75.0 per cent of votes pursuant to the Funds' trust deeds. Gresham Private Equity Fund No. 3 is subject to future capital calls and the consolidated entity's interest is expected to reduce over time.

Resolutions to terminate Gresham Private Equity Fund No. 1 were passed on 28 February 2010 by unitholders in the fund.

| SHARE OF REVENUES | | SHARE OF PROFIT/(LOSS) | | SHARE OF ASSETS | | SHARE OF LIABILITIES | | CARRYING AMOUNT | |
|---|---|---|---|---|---|---|---|---|---|
| **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **23** | 21 | **6** | 4 | **11** | 12 | **6** | 8 | **5** | 4 |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **–** | – | **–** | 1 | **–** | – | **–** | – | **–** | – |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **22** | 12 | **27** | (8) | **233** | 250 | **52** | 95 | **168** | 142 |
| **34** | 31 | **1** | 1 | **54** | 57 | **15** | 16 | **26** | 27 |
| **1** | 3 | **43** | (57) | **184** | 126 | **4** | 9 | **179** | 121 |
| **–** | – | **–** | – | **14** | 14 | **–** | – | **15** | 14 |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **70** | 56 | **12** | 5 | **124** | 137 | **61** | 85 | **56** | 54 |
| **47** | 35 | **6** | 4 | **35** | 36 | **25** | 25 | **10** | 11 |
| **197** | 158 | **95** | (50) | **655** | 632 | **163** | 238 | **459** | 373 |

| | CONSOLIDATED 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|

## 15: Property, plant and equipment

| **Freehold land** | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| Cost | **1,040** | 748 | 678 |
| Net carrying amount | **1,040** | 748 | 678 |
| Net carrying amount at beginning of year | **748** | 678 | 168 |
| Additions | **177** | 127 | 162 |
| Transfers | **131** | 32 | (5) |
| Transfers to inventory | **(4)** | (1) | (28) |
| Disposals | **(3)** | (13) | (6) |
| Acquisitions of controlled entities | **–** | 7 | 397 |
| Impairment charge | **(10)** | (82) | – |
| Exchange differences | **1** | – | (10) |
| Net carrying amount at end of year | **1,040** | 748 | 678 |

| **Buildings** | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| Cost | **715** | 571 | 477 |
| Accumulated depreciation and impairment | **(103)** | (93) | (84) |
| Net carrying amount | **612** | 478 | 393 |
| Net carrying amount at beginning of year | **478** | 393 | 203 |
| Additions | **118** | 74 | 119 |
| Transfers | **42** | 53 | 20 |
| Transfers to inventory | **(10)** | (17) | (66) |
| Disposals | **(3)** | (14) | (1) |
| Acquisitions of controlled entities | **–** | – | 129 |
| Depreciation expense | **(14)** | (11) | (9) |
| Exchange differences | **1** | – | (2) |
| Net carrying amount at end of year | **612** | 478 | 393 |
| Assets in course of construction included above | **71** | 1 | 3 |

| **Leasehold improvements** | 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| Cost | **689** | 592 | 500 |
| Accumulated depreciation and impairment | **(215)** | (151) | (79) |
| Net carrying amount | **474** | 441 | 421 |
| Net carrying amount at beginning of year | **441** | 421 | 52 |
| Additions | **91** | 89 | 69 |
| Transfers | **20** | 12 | 13 |
| Rehabilitation provision asset increment | **–** | 1 | – |
| Disposals | **(4)** | (5) | (5) |
| Acquisitions of controlled entities | **–** | – | 343 |
| Impairment charge | **(2)** | 3 | (6) |
| Amortisation expense | **(72)** | (80) | (45) |
| Net carrying amount at end of year | **474** | 441 | 421 |
| Assets in course of construction included above | **28** | 12 | 2 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of property, plant and equipment.

## 15: Property, plant and equipment (continued)

| | CONSOLIDATED 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| **Plant, vehicles and equipment** | | | |
| Cost | **8,031** | 7,300 | 6,454 |
| Accumulated depreciation and impairment | **(3,128)** | (2,533) | (1,981) |
| Net carrying amount | **4,903** | 4,767 | 4,473 |
| Net carrying amount at beginning of year | **4,767** | 4,473 | 1,798 |
| Additions | **1,142** | 1,123 | 910 |
| Transfers | **(198)** | (93) | (37) |
| Rehabilitation provision asset increment | **–** | – | 1 |
| Disposals | **(75)** | (75) | (41) |
| Acquisitions of controlled entities | **1** | – | 2,381 |
| Impairment charge | **(14)** | (8) | (53) |
| Depreciation expense | **(721)** | (656) | (474) |
| Exchange differences | **1** | 3 | (12) |
| Net carrying amount at end of year | **4,903** | 4,767 | 4,473 |
| Assets in course of construction included above | **466** | 587 | 747 |
| **Mineral lease and development costs** | | | |
| Cost | **683** | 624 | 517 |
| Accumulated depreciation and impairment | **(170)** | (146) | (120) |
| Net carrying amount | **513** | 478 | 397 |
| Net carrying amount at beginning of year | **478** | 397 | 422 |
| Additions | **48** | 90 | 10 |
| Transfers | **(1)** | – | (13) |
| Rehabilitation provision asset increment | **12** | 17 | – |
| Amortisation expense | **(24)** | (26) | (22) |
| Net carrying amount at end of year | **513** | 478 | 397 |
| Assets in course of construction included above | **3** | 65 | 1 |
| **Total** | | | |
| Cost | **11,158** | 9,835 | 8,626 |
| Accumulated depreciation and impairment | **(3,616)** | (2,923) | (2,264) |
| Net carrying amount | **7,542** | 6,912 | 6,362 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of property, plant and equipment.

Refer to note 19 for assets pledged as security.

**Property, plant and equipment impairments recognised**

During the period a $10 million (2009: $82 million) impairment charge has been recognised in relation to freehold property held by the Coles division as a result of a decline in rental yields used to determine the recoverable amount.

## 16: Intangible assets and goodwill

| | Goodwill $m | Trade names $m | Contractual and non-contractual relationships $m | Software $m | Gaming and liquor licences $m | Total $m |
|---|---|---|---|---|---|---|
| **YEAR ENDED 30 JUNE 2010** | | | | | | |
| Cost | **16,258** | **3,799** | **122** | **482** | **149** | **20,810** |
| Accumulated amortisation and impairment | **(52)** | **(5)** | **(36)** | **(183)** | **–** | **(276)** |
| Net carrying amount | **16,206** | **3,794** | **86** | **299** | **149** | **20,534** |
| Net carrying amount at beginning of year | **16,273** | **3,795** | **100** | **320** | **150** | **20,638** |
| Additions | **–** | **1** | **1** | **50** | **6** | **58** |
| Transfers | **–** | **–** | **–** | **3** | **–** | **3** |
| Acquisitions of controlled entities | **10** | **–** | **–** | **–** | **–** | **10** |
| Amortisation for the year | **–** | **(2)** | **(10)** | **(74)** | **–** | **(86)** |
| Impairment charge | **(48)** | **–** | **–** | **–** | **(7)** | **(55)** |
| Effect of movements in exchange rates | **(29)** | **–** | **(5)** | **–** | **–** | **(34)** |
| Net carrying amount at end of year | **16,206** | **3,794** | **86** | **299** | **149** | **20,534** |
| **YEAR ENDED 30 JUNE 2009** | | | | | | |
| Cost | 16,277 | 3,798 | 126 | 429 | 150 | 20,780 |
| Accumulated amortisation and impairment | (4) | (3) | (26) | (109) | – | (142) |
| Net carrying amount | 16,273 | 3,795 | 100 | 320 | 150 | 20,638 |
| Net carrying amount at beginning of year | 16,269 | 3,797 | 108 | 364 | 139 | 20,677 |
| Additions | – | – | – | 28 | 11 | 39 |
| Disposals | (8) | – | – | (1) | – | (9) |
| Acquisitions of controlled entities | 10 | – | 2 | – | – | 12 |
| Disposals of controlled entities | – | (2) | – | – | – | (2) |
| Amortisation for the year | – | – | (10) | (71) | – | (81) |
| Effect of movements in exchange rates | 2 | – | – | – | – | 2 |
| Net carrying amount at end of year | 16,273 | 3,795 | 100 | 320 | 150 | 20,638 |

## 16: Intangible assets and goodwill (continued)

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **Allocation of indefinite life intangible assets to groups of cash generating units** | | |
| Carrying amount of intangibles | | |
| Home Improvement and Office Supplies | | |
| – Bunnings | **1** | – |
| – Officeworks | **160** | 160 |
| Industrial and Safety | **9** | 9 |
| Coles | **2,953** | 2,953 |
| Kmart | **268** | 268 |
| Target | **531** | 531 |
| | **3,922** | 3,921 |

Trade names: the brand names included above have been assessed as having indefinite lives on the basis of strong brand strength, ongoing expected profitability and continuing support.

Gaming and liquor licences: 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.

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **Allocation of goodwill to groups of cash generating units** | | |
| Carrying amount of goodwill | | |
| Energy | | |
| – Coregas | **252** | 300 |
| – Other | **13** | 13 |
| Home Improvement and Office Supplies | | |
| – Bunnings | **848** | 848 |
| – Officeworks | **799** | 799 |
| Industrial and Safety | | |
| – Blackwoods Australia | **308** | 308 |
| – Other | **149** | 149 |
| Insurance | | |
| – Lumley Australia | **434** | 434 |
| – Other | **493** | 517 |
| Coles | **10,216** | 10,211 |
| Kmart | **273** | 273 |
| Target | **2,419** | 2,419 |
| Other | **2** | 2 |
| | **16,206** | 16,273 |

## 16: Intangible assets and goodwill (continued)

**Key assumptions used in impairment calculations**

The recoverable amounts of the cash generating units have been determined using cash flow projections based on Wesfarmers' corporate plans and business forecasts using a fair value less costs to sell or value in use methodology as required by Australian Accounting Standards. Wesfarmers' corporate plans are developed annually with a five year outlook. Supplemental business forecasts are also used where appropriate in determining the recoverable value of a business unit.

Where a value in use methodology has been used, these plans have been adjusted to exclude the costs and benefits of expansion capital and have been prepared on the understanding that many actual outcomes will differ from assumptions used in the calculations.

Cash flows beyond the five year period are extrapolated using the estimated growth rates, which are based on the Group's estimates taking into consideration past historical performance as well as expected long-term operating conditions. Growth rates do not exceed the long-term average growth rate for the business in which the cash generating unit operates.

Discount rates are based on the weighted average cost of capital determined by prevailing or benchmarked market inputs.

Other assumptions are determined with reference to external sources of information and use consistent and conservative estimates for such variables such as terminal cash flow multiples.

The impairment calculations have been prepared for the purpose of determining whether the cash generating units' carrying value does not exceed its recoverable amount, but does not purport to be a market valuation of the relevant business operations.

Outlined below are the key assumptions used for cash generating units with significant goodwill balances. As outlined below, changes in discount rates used for Coles division impairment testing could cause the carrying value to exceed its recoverable amount. Such an increase in the discount rates could arise, for example, following an increase in prevailing risk-free and borrowing rates.

The Group considers that for other cash generating units, any reasonably possible change in key assumptions would not cause the carrying amount to exceed the recoverable amount. However, future increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, could cause the carrying values of cash generating units to exceed their recoverable amounts. Although this would not be expected to result in a significant writedown to goodwill or intangible assets, there may be an impact on future earnings.

| | CONSOLIDATED | |
|---|---|---|
| | **2010** | 2009 |
| **Key assumptions used in fair value less costs to sell calculations** | | |
| *Coles* | | |
| Discount rate (post-tax) | **9.2%** | 9.2% |
| Growth rate beyond five year financial plan | **2.9%** | 3.2% |
| Perpetuity factor for calculation of terminal value (1/(discount rate – growth rate)) | **16.0** | 16.7 |

Other key assumptions include retail sales, EBIT margin and inflation rate (which are based on past experience and external sources of information) and a program of business improvement strategies, including store upgrades (which are based on management projections).

The recoverable amount of the Coles division currently exceeds its carrying value by $2,422 million (2009: $2,359 million). This excess in recoverable amount could be reduced should changes in the following key assumptions occur:

i. Trading conditions – The cash flows are based on the forecast improved operating and financial performance of the Coles division, which have been derived from the 2010 Wesfarmers' Corporate Plan. Although the timing of the cash flows arising from this improvement are influenced by general market conditions, Wesfarmers believes the magnitude of the longer-term cash flows will be far less affected. This view is based on the likely longer-term trends in the business (i.e. steadily rising market demand) and the inherent value of the network, especially once such a network has been revitalised. Notwithstanding this, should such an improvement not occur, the impact on the cash flows could result in a reduction of the recoverable amount to below the carrying value.

ii. Discount rate – The discount rate for the Coles division has been determined based on the weighted average cost of capital with reference to the prevailing risk-free and borrowing rates, and with consideration to the risk associated with the Coles turnaround. Consequently, should these rates increase, the discount rate would also increase. An increase in the discount rate of over 1.0 per cent (2009: 0.9 per cent) would result in a reduction of the recoverable amount to below the carrying value.

| | | |
|---|---|---|
| *Target* | | |
| Discount rate (post-tax) | **9.5%** | 10.4% |
| Growth rate beyond five year financial plan | **3.2%** | 3.2% |
| Perpetuity factor for calculation of terminal value (1/(discount rate – growth rate)) | **15.9** | 13.9 |

Other key assumptions include retail sales, EBIT margin and inflation rate (which are based on past experience and external sources of information) and a program of business improvement strategies, including store upgrades (which are based on management projections).

## 17: Other non-current assets

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| Deferred acquisition costs | **9** | – |
| Defined benefit asset | **4** | 5 |
| Investment property | **6** | 6 |
| Prepaid rent | **14** | 15 |
| Other | **11** | 8 |
| | **44** | 34 |
| Movements in deferred acquisition costs | | |
| Carrying amount at beginning of year | **–** | 6 |
| Acquisition costs deferred during the period | **9** | – |
| Costs charged to profit and loss | **–** | (6) |
| Carrying amount at the end of the year | **9** | – |

## 18: Trade and other payables

| | CONSOLIDATED 2010 $m | Restated[1] 2009 $m | Restated[1] 2008 $m |
|---|---|---|---|
| **Current** | | | |
| Trade payables | **4,603** | 4,054 | 3,909 |
| **Non-current** | | | |
| Other creditors and accruals | **9** | 3 | 25 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of trade and other payables.

| | CONSOLIDATED 2010 $m | CONSOLIDATED 2009 $m |
|---|---|---|
| **19: Interest-bearing loans and borrowings** | | |
| **Current** | | |
| Secured | | |
| Bank loans | – | 2 |
| Unsecured | | |
| Term loans (a), (b) | 99 | 437 |
| Other bank loans | 205 | 194 |
| Other loans | – | 1 |
| | 304 | 634 |
| **Non–current** | | |
| Unsecured | | |
| Term loans (a), (b) | 2,607 | 4,318 |
| Corporate bonds (c) | 2,442 | 1,217 |
| | 5,049 | 5,535 |
| Total interest-bearing loans and borrowings | 5,353 | 6,169 |
| **Financing facilities available** | | |
| Total facilities | | |
| Term loans (a), (b) | 2,728 | 4,787 |
| Other bank loans | 515 | 214 |
| Commercial paper | 350 | 320 |
| Bank bills | 600 | 1,082 |
| | 4,193 | 6,403 |
| Facilities used at balance date | | |
| Term loans (a), (b) | 2,728 | 4,787 |
| Other bank loans | 205 | 194 |
| | 2,933 | 4,981 |
| Facilities unused at balance date | | |
| Other bank loans | 310 | 20 |
| Commercial paper | 350 | 320 |
| Bank bills | 600 | 1,082 |
| | 1,260 | 1,422 |
| Total facilities | 4,193 | 6,403 |
| Facilities used at reporting date | 2,933 | 4,981 |
| Facilities unused at reporting date | 1,260 | 1,422 |

## 19: Interest-bearing loans and borrowings (continued)

Repayment obligations in respect of the amount of the facilities utilised are included in maturities of financial liabilities tables in note 26.

**Funding activities**

In the period ended 30 June 2010, domestic and European bond issuance combined with cash on hand was utilised to further reduce gross debt to $5,353 million ($6,169 million at 30 June 2009). Wesfarmers' syndicated credit facility contains financial covenants that are required to be met. As at 30 June 2010, Wesfarmers has complied with these covenants.

The syndicated credit facility requires that wholly owned subsidiaries of Wesfarmers representing at least five per cent of EBITDA or total assets of the Wesfarmers Group are guarantors and that the guarantor group represents at least 85 per cent of the Group's total assets and 85 per cent of the EBITDA of the Group. Insurance underwriting subsidiaries are not permitted to guarantee the senior debt facility due to insurance regulatory restrictions.

The carrying amount of the syndicated bank loan is net of remaining capitalised debt fees directly attributable to the establishment of the facility. These will be released to earnings based on the effective interest rate while the loan remains outstanding.

**(a) Term loan – bilateral facility**

Committed bilateral bank facilities of $1,214 million were entered into in 2008. These facilities were partially refinanced during the period ended 30 June 2009, resulting in facilities fully drawn to $787 million. During the period ended 30 June 2010, Wesfarmers fully repaid and cancelled the remaining outstanding facilities.

**(b) Term loan – syndicated facility**

As at 30 June 2009, $4,000 million was fully drawn against the syndicated facility. Of this facility, $1,803 million had been extended from 1 October 2010 to 31 December 2011, another $1,803 million had been extended to 31 December 2012 and a further $222 million had been extended to 27 February 2015. The balance of $171 million was payable at the original maturity date in October 2010. During the year ended 30 June 2010 a further $1,400 million of this facility was repaid, leaving $111 million payable in October 2010, $1,641 million maturing in December 2011, $703 million maturing in December 2012 and the balance in February 2015. Brought forward interest rate hedge close out costs of $51 million were recognised as a result of the repayment. Interest is payable at a rate calculated as the Australian bank bill swap yield plus a margin. The margin is subject to change based on the Company's Standard & Poor's credit rating.

**(c) Corporate bonds**

Wesfarmers issued $400 million fixed rate domestic bonds and $100 million floating rate domestic bonds in September 2009. Both domestic bonds mature in September 2014. Interest is charged semi-annually in arrears on the fixed rate domestic bonds, at 8.25 per cent per annum. Interest is charged quarterly in arrears on the floating domestic bonds at the Australian bank bill swap yield plus a margin of 260 basis points.

On 4 March 2010, Wesfarmers announced the issue of $756 million (€500 million) of bonds maturing on 10 July 2015 under its Euro Medium Term Note program with pricing after the effect of hedging of 228 basis points over the average mid three month Bank Bill Reference Rate (BBSW). Settlement of the transaction was on 10 March 2010.

Proceeds from the Euro bond issue and an additional $250 million of surplus cash were applied towards repayment of part of the syndicated bank facility maturing in December 2012.

As a result of the acquisition of the Coles group, Wesfarmers entered into financing arrangements with Coles group's note holders during the period ending 30 June 2008. The medium-term fixed rate notes outstanding have a principal of $400 million and mature on 25 July 2012. Interest on these notes is payable semi-annually in arrears at six per cent per annum.

Wesfarmers issued US bonds in April 2008, with a face value of $711 million (US$ 650 million), maturing on 10 April 2013. Interest on these bonds is payable semi-annually in arrears at 6.998 per cent per annum. If both Moody's and Standard & Poor's cease to rate the notes (excluding Coles notes) investment grade during a change of control transaction, each holder of the notes has the right to require Wesfarmers to purchase all or a portion of the holder's notes at a purchase price equal to 101 per cent of the principal amount thereof plus accrued and unpaid interest. In addition, if there is a downgrade to the credit ratings assigned to the notes (excluding Coles notes) by Moody's or Standard & Poor's (to BBB– or Baa3 or below), the interest rate on the notes will increase.

Derivative contracts are held to hedge future foreign exchange translation and currency interest rate risks in relation to US and European bonds. Refer to note 27 for further details.

**Assets pledged as security**

A controlled entity has issued a floating charge over assets, capped at $80 million, as security for payment obligations to a trade creditor. The assets are excluded from financial covenants in all debt documentation.

| | CONSOLIDATED 2010 $m | CONSOLIDATED 2009 $m |
|---|---|---|
| **20: Provisions** | | |
| **Current** | | |
| Employee benefits | **827** | 745 |
| Workers' compensation | **89** | 85 |
| Self-insured risks | **58** | 42 |
| Mine and plant rehabilitation | **3** | 3 |
| Restructuring and make good | **101** | 63 |
| Surplus leased space | **9** | 9 |
| Off-market contracts | **54** | 74 |
| Other | **35** | 45 |
| | **1,176** | 1,066 |
| **Non-current** | | |
| Employee benefits | **146** | 147 |
| Workers' compensation | **256** | 251 |
| Self-insured risks | **69** | 62 |
| Mine and plant rehabilitation | **172** | 144 |
| Restructuring and make good | **19** | 34 |
| Surplus leased space | **17** | 14 |
| Off-market contracts | **321** | 349 |
| Other | **70** | 41 |
| | **1,070** | 1,042 |
| Total provisions | **2,246** | 2,108 |

Provisions have been calculated using discount rates between five per cent and six per cent (2009: between five per cent and six per cent), except as outlined below.

### Workers' compensation and self-insured risks

The Group is self-insured for costs relating to workers' compensation and general liability claims. Provisions are recognised based on claims reported, and an estimate of claims incurred but not reported, prior to reporting date.

These provisions are determined on a discounted basis, using an actuarially determined method, which is based on various assumptions including, but not limited to, future inflation, investment return, average claim size and claim administration expenses. These assumptions are reviewed periodically and any reassessment of these assumptions will affect workers' compensation or claims expense (either increasing or decreasing the expense).

### Mine and plant rehabilitation

In accordance with mining lease agreements and Group policies, obligations exist to remediate areas where mining activity has taken place. Work is ongoing at various sites and in some cases will extend over periods beyond 20 years. Provisions have generally been calculated assuming current technologies. As part of the valuation methodology, the risks are incorporated in the cash flows rather than the discount rates to aid with comparability.

### Restructuring and make good

These provisions relate principally to:

– the closure of retail outlets or distribution centres;

– the disaggregation of shared services and supply chain within the former Coles group divisions;

– restructuring; and

– associated redundancies.

Provisions are recognised where steps have been taken to implement the restructuring plan, including discussions with affected personnel.

### Surplus leased space

The surplus leased space provision covers future payments for leased premises, which are onerous, net of actual and expected sub-leasing revenue, and relates to commitments of up to seven years (2009: eight years). Actual lease payments may vary from the amounts provided where alternate uses are found for these premises, including attraction of new tenants.

## 20: Provisions (continued)

### Off-market contracts

In existence at the date of acquisition of the Coles group by Wesfarmers were a number of contracts. Changes in market conditions had resulted in the original terms of the contract becoming unfavourable in comparison to market supply conditions present at the date of acquisition. The obligation for the discounted future above market payments has been provided for, calculated using a discount rate of nine per cent. The value of the contract is updated for key underlying assumptions, such as volume/capacity factors, as these become known and is released to earnings over the period of the contract.

| CONSOLIDATED | Workers' compensation $m | Self-insured risks $m | Mine and plant rehabilitation $m | Restructuring and make good $m | Surplus leased space $m | Off-market contracts $m | Other $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| YEAR ENDED 30 JUNE 2010 | | | | | | | | |
| Carrying amount at beginning of year | **336** | **104** | **147** | **97** | **23** | **423** | **86** | **1,216** |
| Arising during year | **91** | **59** | **15** | **68** | **10** | **22** | **70** | **335** |
| Utilised | **(99)** | **(42)** | **(8)** | **(32)** | **(6)** | **(70)** | **(49)** | **(306)** |
| Unused amounts reversed | **–** | **–** | **–** | **(17)** | **(2)** | **–** | **(2)** | **(21)** |
| Discount rate adjustment | **17** | **6** | **9** | **4** | **1** | **–** | **–** | **37** |
| Fair value adjustment | **–** | **–** | **12** | **–** | **–** | **–** | **–** | **12** |
| Carrying amount at end of year | **345** | **127** | **175** | **120** | **26** | **375** | **105** | **1,273** |
| YEAR ENDED 30 JUNE 2009 | | | | | | | | |
| Carrying amount at beginning of year | 317 | 91 | 120 | 113 | 29 | 472 | 48 | 1,190 |
| Arising during year | 71 | 35 | 1 | 22 | – | 17 | 50 | 196 |
| Utilised | (89) | (27) | (7) | (38) | (6) | (66) | (2) | (235) |
| Unused amounts reversed | – | – | – | – | – | – | (11) | (11) |
| Acquisition of controlled entities | 2 | – | – | – | – | – | – | 2 |
| Discount rate adjustment | 32 | 5 | 8 | – | – | – | – | 45 |
| Fair value adjustment | – | – | 25 | – | – | – | – | 25 |
| Exchange differences | 3 | – | – | – | – | – | 1 | 4 |
| Carrying amount at end of year | 336 | 104 | 147 | 97 | 23 | 423 | 86 | 1,216 |

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **21: Insurance liabilities** | | |
| **Unearned insurance premiums** | | |
| Current | **762** | 718 |
| Non-current | **35** | 66 |
| | **797** | 784 |
| Carrying amount at beginning of year | **784** | 750 |
| Deferral of premium on contracts written during year | **694** | 728 |
| Earning of premiums deferred in prior years | **(681)** | (694) |
| Carrying amount at end of year | **797** | 784 |
| **Outstanding insurance claims** | | |
| Current | **545** | 480 |
| Non-current | **373** | 437 |
| | **918** | 917 |
| **Outstanding insurance claims** | | |
| Gross central estimate of outstanding claims liabilities | **885** | 887 |
| Discount to present value | **(66)** | (61) |
| Claim handling expenses | **34** | 33 |
| Risk margin | **65** | 58 |
| | **918** | 917 |
| **Total insurance liabilities** | | |
| Current | **1,307** | 1,198 |
| Non-current | **408** | 503 |
| | **1,715** | 1,701 |

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency between 85 per cent and 90 per cent. The probability of adequacy at 30 June 2010 is approximately 85 per cent (2009: 85 per cent), which is within the Group's internal target range of 85 per cent to 90 per cent.

The risk margin included in net outstanding claims is 15.7 per cent of the central estimate (2009: 13.0 per cent). The discount rate used is 4.2 per cent (2009: 4.3 per cent).

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | Gross $m | Reinsurance $m | 2010 Net $m | 2009 Net $m |
| Movement in outstanding insurance claims | | | | |
| Carrying amount at beginning of year | **917** | **(404)** | **513** | 448 |
| Incurred claims recognised in profit and loss | **927** | **(258)** | **669** | 749 |
| Net claim payments | **(927)** | **246** | **(681)** | (788) |
| Acquisition of companies | **–** | **–** | **–** | 124 |
| Other | **1** | **–** | **1** | (20) |
| Carrying amount at end of year | **918** | **(416)** | **502** | 513 |

## 21: Insurance liabilities (continued)

### Liquidity risk

Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Group is exposed to daily calls on its available cash resources from policy claims. The Group manages this risk in accordance with the Group's liquidity policy whereby investments are held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations.

The Group limits the risk of liquidity shortfalls resulting from a mismatch in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

The maturity profile of the Group's discounted net outstanding claims provision is analysed below.

| 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 2010 | | | | | | | | | | |
| Gross outstanding claims | **254** | **120** | **171** | **128** | **81** | **53** | **36** | **75** | **918** | **918** |
| Reinsurance recoveries | **(114)** | **(51)** | **(52)** | **(69)** | **(39)** | **(24)** | **(17)** | **(50)** | **(416)** | **(416)** |
| Net outstanding claims provision | **140** | **69** | **119** | **59** | **42** | **29** | **19** | **25** | **502** | **502** |
| YEAR ENDED 30 JUNE 2009 | | | | | | | | | | |
| Gross outstanding claims | 241 | 122 | 117 | 151 | 89 | 66 | 44 | 87 | 917 | 917 |
| Reinsurance recoveries | (79) | (58) | (64) | (69) | (35) | (26) | (20) | (53) | (404) | (404) |
| Net outstanding claims provision | 162 | 64 | 53 | 82 | 54 | 40 | 24 | 34 | 513 | 513 |

### Claims development table

The following table shows the development of the estimated ultimate incurred cost for the public liability and workers' compensation classes of business in Australia for the five most recent accident years. The estimated ultimate incurred cost at each point in time consists of the payments to date plus the actuarial estimate of outstanding claims. The subsequent components in the table provide a breakdown of the current estimate of ultimate incurred cost between payments to date and the various components of the outstanding claims liability.

| | CONSOLIDATED ACCIDENT YEAR | | | | | |
|---|---|---|---|---|---|---|
| **Ultimate claims cost estimate** | 2006 $m | 2007 $m | 2008 $m | 2009 $m | **2010 $m** | Total $m |
| At end of accident year | 62 | 69 | 88 | 91 | **90** | 400 |
| One year later | 56 | 75 | 91 | 89 | **–** | 311 |
| Two years later | 60 | 76 | 82 | – | **–** | 218 |
| Three years later | 66 | 71 | – | – | **–** | 137 |
| Four years later | 59 | – | – | – | **–** | 59 |
| Current estimate of ultimate claims cost | 60 | 71 | 83 | 89 | **90** | 393 |
| Cumulative payments | (43) | (39) | (35) | (29) | **(10)** | (156) |
| Undiscounted central estimate | 17 | 32 | 48 | 60 | **80** | 237 |
| Discount to present value | (2) | (3) | (5) | (7) | **(9)** | (26) |
| Discounted central estimate | 15 | 29 | 43 | 53 | **71** | 211 |
| Claims handling expense | 1 | 2 | 3 | 3 | **4** | 13 |
| Risk margin | 2 | 5 | 7 | 9 | **12** | 35 |
| Net outstanding claims liabilities | 18 | 36 | 53 | 65 | **87** | 259 |
| Liabilities and other recoveries | 6 | 19 | 18 | 30 | **26** | 99 |
| Gross outstanding claims liabilities | 24 | 55 | 71 | 95 | **113** | 358 |

The reconciliation of the movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recovery bases to give the most meaningful insight into the impact on the income statement.

## 22: Other liabilities

| | CONSOLIDATED 2010 $m | Restated[1] 2009 $m |
|---|---|---|
| Deferred coal revenue | | |
| Current | **7** | 2 |
| Non-current | **2** | 9 |
| | **9** | 11 |
| Other | | |
| Current | **181** | 167 |
| Non-current | **14** | 8 |
| | **195** | 175 |
| Total | | |
| Current | **188** | 169 |
| Non-current | **16** | 17 |
| | **204** | 186 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of other liabilities. Coal rebates payable reduced from $220 million to nil as at 1 July 2008 as a result of the restatement.

## 23: Contributed equity

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| Ordinary shares (a) | **23,286** | 23,286 |
| Employee reserved shares (b) | **(51)** | (62) |
| | **23,235** | 23,224 |

**(a) Ordinary shares**

All ordinary shares are fully paid. Fully paid ordinary shares (including employee reserved shares) carry one vote per share and carry the right to dividends.

Each partially protected ordinary share confers rights on a partially protected shareholder that are the same in all respects to those conferred by an ordinary share on an ordinary shareholder on an equal basis. In addition, partially protected ordinary shares provide a level of downside share price protection. Refer to note 6 for key terms and conditions. Full terms and conditions are available from the Company website www.wesfarmers.com.au.

The Group operates a dividend investment plan which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with Wesfarmers ordinary shares, which has been applied to the dividends payable from March 2007. 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 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.

## 23: Contributed equity (continued)

### (a) Ordinary shares (continued)

| | CONSOLIDATED | |
|---|---|---|
| **Movement in ordinary shares on issue** | Thousands | $m |
| At 1 July 2008 | 647,183 | 11,785 |
| Issue of shares under non-executive director plan at $31.82 per share | 5 | – |
| Issue of shares under salary sacrifice share plan at $29.09 per share | 57 | 2 |
| Issue of shares under dividend investment plan at $30.46 per share | 11,230 | 342 |
| Issue of shares under employee long-term incentive plans at $18.11 per share | 4,575 | 83 |
| Issue of shares under salary sacrifice plan at $16.25 per share | 141 | 2 |
| Issue of shares under salary sacrifice plan at $18.72 per share | 87 | 2 |
| Issue of shares under placement at $14.25 per share | 63,158 | 900 |
| Issue of shares under institutional book build at $15.00 per share | 30,153 | 452 |
| Issue of shares under institutional entitlement offer at $13.50 per share | 115,282 | 1,556 |
| Issue of shares under non-executive director plan at $16.86 per share | 9 | – |
| Issue of shares under retail entitlement offer at $13.50 per share | 128,661 | 1,737 |
| Issue of shares under dividend investment plan at $17.37 per share | 4,217 | 73 |
| Issue of shares under retail entitlement offer at $13.50 per share | 59 | 1 |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | 310 | 13 |
| Transaction costs associated with entitlement offer (net of tax) | – | (37) |
| At 30 June 2009 | **1,005,127** | **16,911** |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | **41** | **2** |
| **At 30 June 2010** | **1,005,168** | **16,913** |
| **Movement in partially protected ordinary shares on issue** | | |
| At 1 July 2008 | 152,255 | 6,388 |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | (310) | (13) |
| At 30 June 2009 | **151,945** | **6,375** |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | **(41)** | **(2)** |
| **At 30 June 2010** | **151,904** | **6,373** |
| **Total contributed equity** | **1,157,072** | **23,286** |

### (b) Employee reserved shares

| **Movement in employee reserved shares on issue** | | |
|---|---|---|
| At 30 June 2008 | 5,270 | 76 |
| Exercise of in-substance options | (497) | (6) |
| Dividends applied | – | (8) |
| At 30 June 2009 | **4,773** | **62** |
| Exercise of in-substance options | **(468)** | **(7)** |
| Dividends applied | **–** | **(4)** |
| **At 30 June 2010** | **4,305** | **51** |

Shares issued to employees under the share loan plan referred to in note 36 (termed as 'employee reserved shares') are fully paid via a limited recourse loan to the employee from the parent and a subsidiary, and as such the arrangement is accounted for as in-substance options. Loans are repaid from dividends declared, capital returns and cash repayments. Once the loan is repaid in full, the employee reserved shares are converted to unrestricted ordinary shares.

## 23: Contributed equity (continued)

### (c) Capital management

The Board is responsible for approving and monitoring the progress of capital management. Wesfarmers defines capital as shareholders' equity and net debt. When managing capital, the objective is to ensure that Wesfarmers continues as a going concern as well as maintaining optimal returns to shareholders and benefits for other stakeholders. Wesfarmers also aims to maintain a stable investment grade capital structure, ensuring low cost of capital is available to the Group.

In order to manage the short and long-term capital structure, the Group adjusts the amount of ordinary dividends paid to shareholders, maintains a dividend reinvestment plan, returns capital to shareholders and arranges debt to fund new acquisitions. Wesfarmers' dividend policy reflects cash flow requirements, profit generation, availability of franking credits and seeks to deliver growing dividends over time.

Wesfarmers continues to maintain investment grade credit ratings, following the credit rating downgrade announced on completion of the Coles group acquisition. These ratings allow Wesfarmers to access global debt capital markets as required.

Some subsidiaries in the Insurance division are general insurance companies, which are subject to externally imposed capital requirements set and monitored by regulatory bodies. These subsidiaries have been ring-fenced and maintain a level of solvency deemed sufficient by Standard & Poor's to support at least an A– rating.

Wesfarmers monitors capital on the basis of the ratios of net debt to total equity and cash interest cover. Net debt is calculated as total interest-bearing debt less cash at bank and on deposit. Total equity is as shown in the balance sheet. Interest cover is calculated as earnings before interest, tax, depreciation and amortisation divided by net cash interest paid (excluding interest revenue earned in any Insurance business).

Net debt to total capital and cash interest cover were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| Total interest-bearing debt | **5,353** | 6,169 |
| Less: cash at bank and on deposit | **1,318** | 1,734 |
| Net financial debt | **4,035** | 4,435 |
| Total equity | **24,694** | 24,248 |
| **Net debt to equity** | **16.3%** | 18.3% |
| Profit before income tax | **2,215** | 1,996 |
| Borrowing costs | **654** | 951 |
| Depreciation and amortisation | **917** | 856 |
| Earnings before interest, tax, depreciation and amortisation | **3,786** | 3,803 |
| Net cash interest paid | **553** | 762 |
| **Cash interest cover** | **6.8** | 5.0 |

Details of externally imposed capital requirements are contained in note 19.

## 24: Retained earnings

| | CONSOLIDATED | | |
|---|---|---|---|
| | **2010 $m** | Restated[1] 2009 $m | Restated[1] 2008 $m |
| **Balance as at 1 July** | **1,179** | 1,185 | 1,131 |
| Net profit | **1,565** | 1,522 | 1,072 |
| Dividends | **(1,330)** | (1,487) | (997) |
| Actuarial loss on defined benefit plan | **–** | (41) | (21) |
| **Balance as at 30 June** | **1,414** | 1,179 | 1,185 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of retained earnings.

## 25: Reserves

| | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|
| | Restructure tax reserve $m | Capital reserve $m | Foreign currency translation reserve $m | Hedging reserve $m | Available-for-sale reserve $m | Total $m |
| Balance at 1 July 2008 | 150 | 24 | (14) | 161 | 4 | 325 |
| Revaluation of financial instruments | – | – | – | (863) | (3) | (866) |
| Tax effect of revaluation | – | – | – | 259 | 1 | 260 |
| Realised losses transferred to balance sheet/net profit | – | – | – | 55 | – | 55 |
| Tax effect of transfers | – | – | – | (17) | – | (17) |
| Ineffective hedge losses transferred to net profit – gross | – | – | – | 140 | – | 140 |
| Tax effect of ineffective cash flow hedges | – | – | – | (42) | – | (42) |
| Currency translation differences | – | – | (10) | – | – | (10) |
| **Balance at 30 June 2009** | 150 | 24 | (24) | (307) | 2 | (155) |
| Revaluation of financial instruments | **–** | **–** | **–** | **(41)** | **3** | **(38)** |
| Tax effect of revaluation | **–** | **–** | **–** | **12** | **(1)** | **11** |
| Realised losses transferred to balance sheet/net profit | **–** | **–** | **–** | **319** | **–** | **319** |
| Tax effect of transfers | **–** | **–** | **–** | **(96)** | **–** | **(96)** |
| Ineffective hedge losses transferred to net profit – gross | **–** | **–** | **–** | **51** | **–** | **51** |
| Tax effect of ineffective cash flow hedges | **–** | **–** | **–** | **(15)** | **–** | **(15)** |
| Currency translation differences | **–** | **–** | **(32)** | **–** | **–** | **(32)** |
| **Balance at 30 June 2010** | **150** | **24** | **(56)** | **(77)** | **4** | **45** |

### 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.

#### Hedging 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.

#### Available-for-sale reserve

The available-for-sale reserve records fair value changes on available-for-sale investments.

## 26: Financial risk management objectives and policies

**Financial risk management objectives and policies**

The Group's principal financial instruments, other than derivatives, comprise syndicated and other bank loans, bank accepted bills, commercial paper, corporate bonds and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations or, in the case of short-term deposits, to invest surplus funds. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts, to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period, the Group's policy that no speculative trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are:

- liquidity risk;
- market risk (including foreign currency, interest rate and commodity price risk); and
- credit risk.

The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 2 to the financial statements.

**(a) Liquidity risk**

Wesfarmers maintains a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise. 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. Wesfarmers aims to spread maturities to avoid excessive refinancing in any period.

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 accessing the debt and equity capital markets. Wesfarmers continues to maintain investment grade credit ratings from Moody's and Standard & Poor's.

Wesfarmers aims to maintain funding flexibility by keeping committed credit lines available with a variety of counterparties. At 30 June 2010, the Group had unutilised committed debt facilities of $1,260 million (2009: $1,422 million). Unutilised committed debt facilities includes backup liquidity for the Group's commercial paper programs through committed commercial paper standby facilities, of which $350 million was available at 30 June 2010 (2009: $320 million). Refer to note 19 for the financing facilities used and unused. Surplus funds are generally invested in instruments that are tradeable in highly liquid markets.

Liquidity risk disclosures for insurance liabilities are included in note 21.

**Maturities of financial liabilities**

The tables below 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.

For foreign exchange derivatives and cross currency interest rate swaps, the amounts disclosed are the gross contractual cash flows to be paid.

For interest rate swaps, the cash flows are the net amounts to be paid at each quarter, excluding accruals included in trade and other payables, and have been estimated using forward interest rates applicable at the reporting date.

Derivative cash flows exclude accruals recognised in trade and other payables.

The carrying values of financial guarantee contracts have been assessed as nil based on the probability of default.

Refer to note 28 for further details on contingent liabilities.

## 26: Financial risk management objectives and policies (continued)

### (a) 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 2010 | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables[1] | **4,412** | **181** | **10** | **6** | **1** | **1** | **–** | **1** | **4,612** | **4,612** |
| Loans and borrowings before swaps | **208** | **111** | **–** | **1,641** | **1,869** | **–** | **772** | **718** | **5,319** | **5,353** |
| Expected future interest payments on loans and borrowings | **31** | **86** | **183** | **330** | **240** | **123** | **95** | **15** | **1,103** | **–** |
| **Total non–derivatives** | **4,651** | **378** | **193** | **1,977** | **2,110** | **124** | **867** | **734** | **11,034** | **9,965** |
| **Derivatives** | | | | | | | | | | |
| Hedge interest rate swaps (net settled) | **17** | **14** | **30** | **41** | **25** | **2** | **–** | **–** | **129** | **95** |
| Non-hedge interest rate swaps (net settled) | **13** | **15** | **5** | **8** | **2** | **–** | **–** | **–** | **43** | **28** |
| Cross currency interest rate swap (gross settled) | | | | | | | | | | |
| – (inflow) | **–** | **(27)** | **(27)** | **(96)** | **(922)** | **(32)** | **(33)** | **(869)** | **(2,006)** | **(73)** |
| – outflow | **28** | **30** | **59** | **117** | **813** | **58** | **59** | **746** | **1,910** | **–** |
| Net cross currency interest rate swaps | **28** | **3** | **32** | **21** | **(109)** | **26** | **26** | **(123)** | **(96)** | **(73)** |
| Hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | **(32)** | **(19)** | **(16)** | **(7)** | **(8)** | **(3)** | **(1)** | **–** | **(86)** | **(6)** |
| – outflow | **13** | **6** | **11** | **25** | **21** | **6** | **–** | **–** | **82** | **–** |
| Non-hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | **(2)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2)** | **(1)** |
| – outflow | **1** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1** | **–** |
| Net foreign exchange contracts | **(20)** | **(13)** | **(5)** | **18** | **13** | **3** | **(1)** | **–** | **(5)** | **(7)** |
| **Total derivatives** | **38** | **19** | **62** | **88** | **(69)** | **31** | **25** | **(123)** | **71** | **43** |
| YEAR ENDED 30 JUNE 2009 | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables[1] | 3,572 | 447 | 35 | 2 | – | – | – | 1 | 4,057 | 4,057 |
| Loans and borrowings before swaps | 114 | 518 | – | 171 | 2,153 | 3,039 | – | 222 | 6,217 | 6,169 |
| Expected future interest payments on loans and borrowings | 70 | 88 | 158 | 356 | 338 | 182 | 22 | 18 | 1,232 | – |
| **Total non–derivatives** | 3,756 | 1,053 | 193 | 529 | 2,491 | 3,221 | 22 | 241 | 11,506 | 10,226 |
| **Derivatives** | | | | | | | | | | |
| Hedge interest rate swaps (net settled) | 45 | 41 | 70 | 84 | 25 | 7 | 1 | – | 273 | 263 |
| Non-hedge interest rate swaps (net settled) | 15 | 14 | 28 | 29 | 3 | – | – | – | 89 | 74 |
| Cross currency interest rate swap (gross settled) | | | | | | | | | | |
| – (inflow) | – | (28) | (28) | (55) | (54) | (784) | – | – | (949) | (137) |
| – outflow | 12 | 13 | 25 | 57 | 64 | 640 | – | – | 811 | – |
| Net cross currency interest rate swaps | 12 | (15) | (3) | 2 | 10 | (144) | – | – | (138) | (137) |
| Hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | (572) | (406) | (515) | (444) | (122) | (44) | – | – | (2,103) | 91 |
| – outflow | 600 | 435 | 533 | 448 | 127 | 46 | – | – | 2,189 | – |
| Non–hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | (259) | (127) | (126) | – | – | – | – | – | (512) | 90 |
| – outflow | 300 | 153 | 146 | – | – | – | – | – | 599 | – |
| Net foreign exchange contracts | 69 | 55 | 38 | 4 | 5 | 2 | – | – | 173 | 181 |
| **Total derivatives** | 141 | 95 | 133 | 119 | 43 | (135) | 1 | – | 397 | 381 |

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of trade and other payables.

## 26: Financial risk management objectives and policies (continued)

### (b) Market risk

#### Foreign currency risk

The Group's primary currency exposures are in relation to US dollars and arise from sales or purchases by a division in currencies other than the division's functional currency.

As a result of operations in New Zealand, the Group's balance sheet can be affected by movements in the AUD/NZD exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in NZ dollars in New Zealand.

The Group requires all divisions to hedge foreign exchange exposures for firm commitments relating to sales or purchases or when highly probable forecast transactions have been identified. Before hedging, the divisions are also required to take into account their competitive position. The hedging instrument must be in the same currency as the hedged item. Divisions are not permitted to speculate on future currency movements.

The objective of Wesfarmers' policy on foreign exchange hedging is to protect the Group from adverse currency fluctuations. Hedging is implemented for the following reasons:

- protection of competitive position; and
- greater certainty of earnings due to protection from sudden currency movements.

The Group aims to hedge approximately 45 per cent to 55 per cent (over five years) of its foreign currency sales for which firm commitments or highly probable forecast transactions existed at the balance sheet date. The current hedge contracts extend out to January 2015. Such foreign currency purchases arise predominantly in the Resources division.

The Group aims to hedge approximately 70 per cent to 100 per cent (up to 12 months) of its foreign currency purchases for which firm commitments or highly probable forecast transactions existed at the balance sheet date. The current hedge contracts extend out to October 2012. Such foreign currency purchases arise predominantly in the retail, Chemicals and Fertilisers, and Industrial and Safety divisions.

Refer to note 27 for details of outstanding foreign exchange derivative contracts used by the Group to manage exposure to foreign exchange risk as at 30 June 2010.

The Group's exposure of its financial instruments to the US dollar, Euro and NZ dollar (prior to hedging contracts) at the reporting date were as follows:

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| **CONSOLIDATED** | **USD A$m** | **EUR A$m** | **NZD A$m** | USD A$m | NZD A$m |
| **Financial assets** | | | | | |
| Cash and cash equivalents | **64** | **–** | **52** | 61 | 71 |
| Trade and other receivables | **93** | **2** | **205** | 77 | 149 |
| Amounts due from reinsurers on paid claims | **–** | **–** | **48** | – | 65 |
| Finance advances and loans | **–** | **–** | **71** | – | 65 |
| Cross currency interest rate swap | **103** | **–** | **–** | 137 | – |
| Hedge foreign exchange derivative assets | **86** | **–** | **–** | – | – |
| **Financial liabilities** | | | | | |
| Trade and other payables | **117** | **7** | **157** | 76 | 136 |
| Interest-bearing loans and borrowings | **809** | **733** | **208** | 831 | 194 |
| Cross currency interest rate swap | **–** | **30** | **–** | – | – |
| Insurance liabilities | **–** | **–** | **216** | – | 218 |
| Hedge foreign exchange derivative liabilities | **74** | **3** | **–** | 91 | – |
| Non–hedge foreign exchange derivative liabilities | **1** | **–** | **–** | 83 | – |

## 26: Financial risk management objectives and policies (continued)

**(b) Market risk (continued)**

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 period's sensitivity analysis. Past movements are not necessarily indicative of future movements.

The following rates have been used in performing the sensitivity analysis:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Balance sheet date** | **+10%** | **–10%** | Balance sheet date | +15% | –20% |
| US dollar | **0.85** | **0.94** | **0.77** | 0.81 | 0.93 | 0.65 |
| Euro | **0.70** | **0.77** | **0.63** | – | – | – |

The impact on profit and equity is estimated by relating the hypothetical changes in the US 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 and the impact is not material to the Group. Therefore, no sensitivity analysis is performed for exposure to the NZ dollar as the amount is immaterial to the Group.

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 impact 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 impact on profit.

At 30 June 2010, had the Australian dollar moved against the US dollar and the Euro, as illustrated in the table above, with all other variables held constant, Group profit after tax and other equity would have been affected as follows:

| | | AUD/USD +10% | | AUD/USD –10% | | | AUD/EUR +10% | | AUD/EUR –10% | |
|---|---|---|---|---|---|---|---|---|---|---|
| **CONSOLIDATED** | **USD exposure A$m** | **Impact on profit A$m** | **Impact on equity A$m** | **Impact on profit A$m** | **Impact on equity A$m** | **EUR exposure A$m** | **Impact on profit A$m** | **Impact on equity A$m** | **Impact on profit A$m** | **Impact on equity A$m** |
| YEAR ENDED 30 JUNE 2010 | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Cash and cash equivalents | **64** | **(4)** | **–** | **5** | **–** | **–** | **–** | **–** | **–** | **–** |
| Trade and other receivables | **93** | **(6)** | **–** | **7** | **–** | **2** | **–** | **–** | **–** | **–** |
| **Financial liabilities** | | | | | | | | | | |
| Trade and other payables | **117** | **7** | **–** | **(9)** | **–** | **7** | **1** | **–** | **(1)** | **–** |
| Interest-bearing loans and borrowings | **809** | **(54)** | **–** | **73** | **–** | **733** | **(49)** | **–** | **62** | **–** |
| Cross currency interest rate swap | **(103)** | **54** | **–** | **(73)** | **–** | **30** | **49** | **–** | **(62)** | **–** |
| Hedge foreign exchange derivative liabilities | **(10)** | **–** | **107** | **–** | **(133)** | **3** | **–** | **(3)** | **–** | **4** |
| De-designated foreign exchange derivative liabilities* | **(1)** | **(2)** | **–** | **2** | **–** | **–** | **–** | **–** | **–** | **–** |
| Net impact | | **(5)** | **107** | **5** | **(133)** | | **1** | **(3)** | **(1)** | **4** |

* Non-hedge foreign exchange derivative liabilities do not impact profit or equity as there are equal and opposite derivatives in place.

## 26: Financial risk management objectives and policies (continued)

### (b) Market risk (continued)

| | | AUD/USD +15% | | AUD/USD –20% | |
|---|---|---|---|---|---|
| CONSOLIDATED | USD exposure A$m | Impact on profit A$m | Impact on equity A$m | Impact on profit A$m | Impact on equity A$m |
| YEAR ENDED 30 JUNE 2009 | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 61 | (6) | – | 11 | – |
| Trade and other receivables | 77 | (7) | – | 13 | – |
| **Financial liabilities** | | | | | |
| Trade and other payables | 76 | 7 | – | (13) | – |
| Interest-bearing loans and borrowings | 831 | 93 | – | (112) | – |
| Cross currency interest rate swap | (137) | (93) | – | 112 | – |
| Hedge foreign exchange derivative assets | 91 | – | 30 | – | (55) |
| De-designated foreign exchange derivative liabilities* | 83 | – | – | – | – |
| Net impact | | (6) | 30 | 11 | (55) |

* Non-hedge foreign exchange derivative liabilities do not impact profit or equity as there are equal and opposite derivatives in place.

#### 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.

The Group's policy is to limit the Group's exposure to adverse fluctuations in interest rates which could erode Group profitability and adversely affect shareholder value. The policy requires that an interest rate risk management (IRRM) plan be developed based on cash flow forecasts. A committee comprising senior management meets periodically to review the IRRM plan and make interest rate hedging recommendations, which are provided to the Finance Director for approval. The Group's interest rate hedging profile is regularly reported to the Wesfarmers Board and senior executives.

To manage the interest rate exposure, the Group generally enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge interest costs associated with underlying debt obligations. At 30 June 2010, after taking into account the effect of interest rate swaps, economic hedging relationships and early repayment of a portion of core debt facilities, approximately 25 per cent of the Group's core borrowings are exposed to movements in variable rates (2009: approximately 18 per cent). Refer to note 27 for details of outstanding interest rate swap derivative contracts used to manage the Group's interest rate risk as at 30 June 2010.

From a Group perspective, any internal contracts are eliminated as part of the consolidation process, leaving only the external contracts in the name of Wesfarmers Limited.

Although Wesfarmers has issued US and Euro bonds, cross currency swaps are in place which remove any exposure to US and Euro interest rates. These cross currency swaps ensure that the effective interest rate to Wesfarmers is referenced to Australian interest rates.

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. Other financial instruments of the Group that are not included in the table below are non-interest bearing and are therefore not subject to interest rate risk.

The weighted average interest rate, as shown in the table below, is calculated after taking into account the impact of interest rate swaps.

## 26: Financial risk management objectives and policies (continued)

### (b) Market risk (continued)

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Balance $m | Weighted average interest rate % | Balance $m | Weighted average interest rate % |
| **Financial assets** | | | | |
| *Fixed rate* | | | | |
| Finance advances and loans | **217** | **9.75** | 137 | 20.20 |
| Loans to associates | **9** | **7.00** | 19 | 7.00 |
| Weighted average effective interest rate on fixed rate assets | | **9.64** | | 18.59 |
| *Floating rate* | | | | |
| Investments backing insurance contracts | **1,065** | **4.94** | 1,003 | 5.27 |
| Cash assets | **1,403** | **4.45** | 1,813 | 3.05 |
| Weighted average effective interest rate on floating rate assets | | **4.66** | | 3.84 |
| Total weighted average effective interest rate on financial assets at balance date | | **5.08** | | 4.62 |
| **Financial liabilities** | | | | |
| *Fixed rate* | | | | |
| Term loans | **2,525** | **9.65** | 4,473 | 8.72 |
| Corporate bonds | **392** | **6.00** | 386 | 6.54 |
| Weighted average effective interest rate on fixed rate liabilities | | **9.16** | | 8.55 |
| *Floating rate* | | | | |
| Secured bank loan | **–** | **–** | 2 | 12.17 |
| Term loans | **181** | **7.05** | 282 | 4.73 |
| Other unsecured bank loan | **205** | **4.67** | 194 | 4.48 |
| Corporate bonds | **2,050** | **7.84** | 831 | 7.12 |
| Weighted average effective interest rate on floating rate liabilities | | **7.51** | | 6.22 |
| Total weighted average effective interest rate on financial liabilities at balance date | | **8.41** | | 8.05 |
| Total weighted average effective interest rate on financial liabilities during the period | | **8.28** | | 8.04 |

## 26: Financial risk management objectives and policies (continued)

**(b) Market risk (continued)**

The sensitivity analysis below demonstrates 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. Past movements are not necessarily indicative of future movements.

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 and with all other variables held constant, profit after tax and equity would have been affected as follows:

| | **2010** | | **2009** | |
|---|---|---|---|---|
| **CONSOLIDATED** | **Impact on profit A$m** | **Impact on equity A$m** | Impact on profit A$m | Impact on equity A$m |
| Australian variable interest rate +100bps (2009: +75bps) | **(3)** | **32** | (7) | 82 |
| Australian variable interest rate –100bps (2009: –50bps) | **3** | **(32)** | 4 | (54) |

The sensitivity is lower in 2010 than in 2009 because of the decrease in debt due to recent equity raisings undertaken by the Group, the majority of the proceeds of which were used to reduce overall debt of the Group, as outlined in note 23.

### Commodity price risk

The Group's exposure to commodity price risk arises largely from coal price fluctuations which impact its coal mining operations. 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 above, this exposure is not hedged as the coal type predominantly sold by the Group is not a readily traded commodity on a market exchange.

No sensitivity analysis is provided for the Group's coal and gas 'own use contracts' as they are outside the scope of AASB 139 *Financial Instruments: Recognition and Measurement*. Such contracts are to buy or sell non-financial items and were entered into, and continue to be held, for the purpose of the receipt or delivery of the non-financial item, in accordance with the division's expected purchase, sale or usage requirements.

## 26: Financial risk management objectives and policies (continued)

### (c) Credit 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 banks and financial institutions, foreign exchange transactions and other financial instruments.

#### Credit risk related to 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 14 to 30 days from date of invoice. It is the Group's policy that 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.

An impairment allowance is recognised 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 Group's exposure to bad debts is not significant and default rates have historically been very low. An ageing of receivables past due is included in note 9. The carrying amounts of the Group's trade receivables are denominated in Australian dollars, US dollars or NZ dollars. Since the Group trades only with recognised third parties, no requests or requirement for collateral covering trade receivable balances have been made.

The following concentrations of the maximum credit exposure of current receivables are as follows for the consolidated entity:

| | 2010 | 2009 |
|---|---|---|
| Chemicals and Fertilisers | **5.7%** | 7.5% |
| Resources | **6.3%** | 6.3% |
| Corporate | **4.5%** | 1.2% |
| Energy | **3.1%** | 3.6% |
| Home Improvement | **9.1%** | 10.6% |
| Industrial and Safety | **9.0%** | 10.1% |
| Insurance | **53.9%** | 50.7% |
| Coles | **6.9%** | 7.9% |
| Kmart | **1.3%** | 1.6% |
| Target | **0.2%** | 0.5% |
| | **100.0%** | 100.0% |

#### Credit risk related to 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 counterparties rated above AA– by Standard & Poor's and within credit limits assigned to each counterparty, unless appropriate approval is provided. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. In the current period, Wesfarmers increased the percentage of its portfolio invested with Australia's four major banks, and credit limits and ratings of counterparty financial institutions have continued to be monitored closely.

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 28. There are no significant concentrations of credit risk within the Group.

## 26: Financial risk management objectives and policies (continued)

### (d) Fair values

The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are as follows:

| CONSOLIDATED | Note | CARRYING AMOUNT 2010 $m | CARRYING AMOUNT Restated[1] 2009 $m | FAIR VALUE 2010 $m | FAIR VALUE Restated[1] 2009 $m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | 8 | **1,640** | 2,124 | **1,640** | 2,124 |
| Trade receivables | 9 | **1,321** | 1,274 | **1,321** | 1,273 |
| Amounts due from reinsurers on paid claims | 9 | **23** | 12 | **23** | 12 |
| Finance advances and loans | 9 | **217** | 137 | **217** | 137 |
| Receivables from associates | 9 | **1** | 5 | **1** | 5 |
| Other debtors | 9 | **256** | 190 | **256** | 190 |
| Investments backing insurance contracts | | | | | |
| Bank bills | 11 | **359** | 491 | **359** | 491 |
| Term deposits | 11 | **705** | 511 | **705** | 511 |
| Other | 11 | **1** | 1 | **1** | 1 |
| Available-for-sale investments | 13 | **19** | 18 | **19** | 18 |
| Loans to associates | 14 | **9** | 19 | **9** | 19 |
| Forward currency contracts | 27 | **85** | 42 | **85** | 42 |
| Interest rate swaps | 27 | **14** | 6 | **14** | 6 |
| Cross currency interest rate swaps | 27 | **103** | 137 | **103** | 137 |
| **Financial liabilities** | | | | | |
| Trade payables | 18 | **4,603** | 4,054 | **4,603** | 4,054 |
| Other creditors and accruals | 18 | **9** | 3 | **9** | 3 |
| Interest-bearing loans and borrowings: | | | | | |
| Secured bank loans | 19 | **–** | 2 | **–** | 2 |
| Syndicated bank loans | 19 | **2,706** | 4,755 | **2,706** | 4,753 |
| Unsecured bank loans | 19 | **205** | 194 | **205** | 194 |
| Corporate bonds | 19 | **2,442** | 1,217 | **2,468** | 1,261 |
| Other loans | 19 | **–** | 1 | **–** | 1 |
| Forward currency contracts | 27 | **78** | 223 | **78** | 223 |
| Interest rate swaps | 27 | **137** | 343 | **137** | 343 |
| Cross currency interest rate swaps | 27 | **30** | – | **30** | – |

The methods and assumptions used to estimate the fair value of financial instruments are outlined below:

#### Cash

The carrying amount is fair value due to the liquid nature of these assets.

#### Receivables/payables

Due to the short-term nature of these financial rights and obligations, their carrying amounts are estimated to represent their fair values.

#### Other financial assets/liabilities

Market values have been used to determine the fair value of listed available-for-sale investments using a quoted market price. The fair values of derivatives and borrowings 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.

#### Interest-bearing liabilities

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held or valued based on discounting expected future cash flows at market rates.

1 The Group has a change in accounting policy that, as outlined in note 2, has resulted in a restatement of trade and other payables.

## 26: Financial risk management objectives and policies (continued)

**(d) Fair values (continued)**

**Hierarchy**

For financial instruments measured at fair value, the Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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.

The fair value of the financial instruments, as well as the methods used to estimate fair value, are summarised in the table below:

| CONSOLIDATED | Quoted market price (Level 1) $m | Valuation technique – market observable inputs (Level 2) $m | Valuation technique – non-market observable inputs (Level 3) $m | Total $m |
|---|---|---|---|---|
| YEAR ENDED 30 JUNE 2010 | | | | |
| **Financial assets measured at fair value** | | | | |
| **Available-for-sale financial investments** | | | | |
| Shares in listed companies at fair value | 2 | – | – | 2 |
| Shares in unlisted companies at fair value | – | – | 17 | 17 |
| **Investments backing insurance contracts** | | | | |
| Bank bills | – | 359 | – | 359 |
| Term deposits | – | 705 | – | 705 |
| Other | – | 1 | – | 1 |
| **Derivative instruments** | | | | |
| Forward currency contracts | – | 85 | – | 85 |
| Interest rate swaps | – | 14 | – | 14 |
| Cross currency interest rate swaps | – | 103 | – | 103 |
| **Total financial assets measured at fair value** | 2 | 1,267 | 17 | 1,286 |
| **Financial liabilities measured at fair value** | | | | |
| **Interest-bearing loans and borrowings** | | | | |
| Corporate bonds | – | 1,950 | – | 1,950 |
| **Derivative instruments** | | | | |
| Forward currency contracts | – | 78 | – | 78 |
| Interest rate swaps | – | 137 | – | 137 |
| Cross currency interest rate swaps | – | 30 | – | 30 |
| **Total financial liabilities measured at fair value** | – | 2,195 | – | 2,195 |

There were no transfers between Level 1 and Level 2 during the year.

There have been no Level 3 fair value movements during the year.

## 27: Hedging activities

### Foreign exchange contracts

The terms of the forward currency contracts have been negotiated to match the terms of the underlying hedged items and, as such, the hedges are expected to be highly effective in offsetting changes in cash flows attributable to movements in the foreign exchange rates. Note, de-designated hedges that have equal and opposite offsetting hedges are not disclosed below.

| Instrument | Notional amount | Average rate | Expiry | Hedge type | FAIR VALUE 2010 $m | FAIR VALUE 2009 $m |
|---|---|---|---|---|---|---|
| Foreign exchange forwards | 2010: US$2,197.8 million (2009: US$934.7 million) | AUD/USD = 0.8665 (2009: AUD/USD = 0.7795) | July 2009 to January 2015 | Cash flow hedge – forward sales contracts relating mainly to USD coal and LPG sales and have maturities out to January 2015 | **(22)** | 7 |
| | 2010: US$887.8 million (2009: US$678.5 million) | AUD/USD = 0.8822 (2009: AUD/USD = 0.7230) | July 2010 to October 2012 | Cash flow hedges – forward purchases contracts relating mainly to capital expenditure or the purchase of inventory and have maturities out to October 2012 | **31** | (93) |
| | 2010: EUR€49.0 million (2009: EUR€17.9 million) | AUD/EUR = 0.6558 (2009: AUD/EUR = 0.5518) | July 2009 to March 2011 | | **(3)** | (1) |
| | 2010: NZ$19.0 million (2009: NZ$19.0 million) | NZD/USD = 0.6950 (2009: NZD/USD = 0.5701) | July 2009 to April 2011 | | **–** | (4) |
| | | | | | **6** | (91) |

### Interest rate swap contracts

The terms of the interest rate contracts match the terms of the underlying debt items and, as such, the hedges are expected to be highly effective in offsetting changes in cash flows attributable to movements in interest rates. Note, de-designated hedges that have equal and opposite offsetting hedges are not disclosed below.

| Instrument | Notional amount | Average rate | Expiry | Hedge type | FAIR VALUE 2010 $m | FAIR VALUE 2009 $m |
|---|---|---|---|---|---|---|
| Interest rate swaps | AUD 2010: $2,525 million (2009: $4,600 million) | Receive BBSW or BBSY floating Pay 7.1% fixed (2009: 7.4%) | October 2010 to July 2013 | Cash flow hedge – to hedge exposures to variability in AUD cash flows attributable to movements in the three month benchmark reference rate (BBSW or BBSY) in relation to floating rate bank bill, term loans or commercial paper debt | **(93)** | (259) |
| | AUD 2010: $400 million (2009: $650 million) | Receive BBSW or BBSY floating Pay 6.6% fixed (2009: 6.7%) | October 2012 to October 2013 | Cash flow hedge – delay start interest rate swaps to hedge exposures to variability in AUD cash flows attributable to movements in the three month benchmark reference rate (BBSW or BBSY) in relation to term loan debt starting from 1 October 2010 | **(16)** | (10) |
| | AUD 2010: $400 million (2009: nil) | Receive 8.25% fixed (2009: nil) Pay BBSW floating | September 2014 | Fair value hedge – to swap the 2014 $400 million AUD bond from a fixed rate to floating rate exposure | **8** | – |
| | AUD 2010: $436 million (2009: $229 million) | Receive 6.0% fixed (2009: 6.4%) Pay BBSW floating | July 2011 to June 2021 | Other hedge – to hedge the exposure to changes in the fair value of the outstanding insurance claims (a recognised liability) attributable to changes in fixed interest rates | **6** | 6 |
| | | | | | **(95)** | (263) |

## 27: Hedging activities (continued)

### Cross currency interest rate swap contracts

| Instrument | Notional amount | Rate | Expiry | Hedge type | FAIR VALUE 2010 $m | FAIR VALUE 2009 $m |
|---|---|---|---|---|---|---|
| Fixed for floating cross currency interest rate swap | USD 2010: US$650 million (2009: US$650 million) | Receive 6.998% fixed (2009: 6.998%) Pay BBSW plus 3.979% floating | April 2013 | Cash flow hedge – to eliminate variability in cash flows due to foreign exchange risk on the margin or portion of the interest coupon on the debt above the US dollar LIBOR benchmark curve for the term of the hedge bond and cross currency interest rate swap ('CCIRS') | **(1)** | 7 |
| | | | | Fair value hedge – to eliminate variability in the changes in the fair value of the remaining portion of coupon and principal cash flows of the US dollar bond, due to changes in spot foreign exchange rates and currency interest rates | **104** | 130 |
| | | | | | **103** | 137 |
| Fixed for floating cross currency interest rate swap | EUR 2010: EUR€500 million (2009: nil) | Receive 3.875% fixed (2009: nil) Pay BBSW plus 2.295% floating | July 2015 | Cash flow hedge – to eliminate variability in cash flows due to foreign exchange risk on the margin or portion of the interest coupon on the debt above the Euribor benchmark curve for the term of the hedge bond and cross currency interest rate swap ('CCIRS') | **(7)** | – |
| | | | | Fair value hedge – to eliminate variability in the changes in the fair value of the portion of coupon based on the Euribor benchmark curve due to changes in spot foreign exchange rates and interest rates | **(23)** | – |
| | | | | | **(30)** | – |
| **Total derivatives in effective hedge relationships** | | | | | **(16)** | (217) |

## 27: Hedging activities (continued)

| | FAIR VALUE 2010 $m | FAIR VALUE 2009 $m |
|---|---|---|
| Total derivatives comprise: | | |
| **Current assets** | | |
| Forward currency contracts – cash flow hedges | **68** | 30 |
| Forward currency contracts classified as held for trading* | **1** | 2 |
| Interest rate swaps – fair value hedges | **6** | 6 |
| Total current assets | **75** | 38 |
| **Non-current assets** | | |
| Forward currency contracts – cash flow hedges | **16** | 10 |
| Cross currency interest rate swap – cash flow hedge | **(1)** | 7 |
| Cross currency interest rate swap – fair value hedge | **104** | 130 |
| Interest rate swaps – cash flow hedges | **8** | – |
| Total non-current assets | **127** | 147 |
| **Current liabilities** | | |
| Forward currency contracts – cash flow hedges | **(31)** | (110) |
| Forward currency contracts classified as held for trading* | **–** | (92) |
| Interest rate swaps – cash flow hedges | **(57)** | (167) |
| Interest rate swaps classified as held for trading* | **(19)** | (44) |
| Total current liabilities | **(107)** | (413) |
| **Non-current liabilities** | | |
| Forward currency contracts – cash flow hedges | **(47)** | (21) |
| Cross currency interest rate swap – cash flow hedge | **(7)** | – |
| Cross currency interest rate swap – fair value hedge | **(23)** | – |
| Interest rate swaps – cash flow hedges | **(52)** | (102) |
| Interest rate swaps classified as held for trading* | **(9)** | (30) |
| Total non-current liabilities | **(138)** | (153) |
| **Total derivatives** | **(43)** | (381) |

* Derivative instruments classified as held for trading primarily consist of derivatives previously in effective hedge relationships but no longer satisfy the requirements for hedge accounting. These derivative instruments are in offsetting relationships to minimise the effect on earnings.

## 28: Commitments and contingencies

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **Operating lease commitments – Group as lessee** | | |
| 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. | | |
| Future minimum rentals payable under non-cancellable operating leases not included within this financial report were as follows: | | |
| Within one year | **1,477** | 1,473 |
| Greater than one year but not more than five years | **4,776** | 4,738 |
| More than five years | **4,882** | 5,067 |
| | **11,135** | 11,278 |
| **Operating lease commitments – Group as lessor** | | |
| Contracted non-cancellable future minimum lease payments expected to be received in relation to non-cancellable sub-leases not included in this financial report were as follows: | | |
| Within one year | **19** | 12 |
| Greater than one year but not more than five years | **42** | 32 |
| More than five years | **15** | 13 |
| | **76** | 57 |
| **Capital commitments** | | |
| Commitments arising from contracts for capital expenditure contracted for at balance date not included in this financial report were as follows: | | |
| Within one year | **236** | 351 |
| Greater than one year but not more than five years | **391** | 7 |
| | **627** | 358 |
| Commitments arising from agreements to invest in Gresham Private Equity Funds contracted for at balance date not included in this financial report were as follows: | | |
| Due within one year | **85** | 101 |
| **Other expenditure commitments** | | |
| Contracted other expenditure commitments not included in this financial report were as follows: | | |
| Within one year | **88** | 15 |
| Greater than one year but not more than five years | **344** | 21 |
| More than five years | **133** | 2 |
| | **565** | 38 |
| **Commitments relating to jointly controlled operations** | | |
| At 30 June 2010, the Group's share of the Bengalla Joint Venture commitments was $1 million (2009: $11 million), principally relating to the acquisition of plant and equipment, all of which is payable within one year. The Group's share of the Kwinana Sodium Cyanide Joint Venture capital commitments was $2 million (2009: $2 million), relating to the acquisition of plant and equipment, all of which is payable within one year. The Group's share of HAL Property Trust commitments was $1 million (2009: nil), relating to the acquisition of plant and equipment. | | |
| Share of capital commitments of the joint venture operations: | | |
| Due within one year | **4** | 13 |
| **Contingencies** | | |
| Contingent liabilities at balance date, not included in this financial report, were as follows: | | |
| Trading guarantees | **1,065** | 1,037 |

## 28: Commitments and contingencies (continued)

**Contingencies (continued)**

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 $35 million (2009: $131 million). The fair value of these guarantees is not considered to be material and has not been recognised in this financial report.

**Other**

Certain companies within the Group are party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal actions would not have a material adverse effect on the Group's financial report.

## 29: Events after the balance sheet date

**Dividend**

A fully franked dividend of 70 cents per share resulting in a dividend payment of $810 million was declared for a payment date of 30 September 2010. The dividend has not been provided for in the 30 June 2010 full year financial statements.

**Board appointments/resignations**

On 6 July 2010, Wesfarmers announced the appointment of Ms Vanessa Wallace as a new non-executive director, with effect from that date.

On 16 September 2010, Wesfarmers announced the resignation from the Board of Wesfarmers of Mr David White effective from the Company's Annual General Meeting scheduled for 9 November 2010.

## 30: Interest in jointly controlled assets

The Group has the following interests in joint ventures in Australia:

| | | INTEREST | |
|---|---|---|---|
| Joint venture | Principal activity | 2010 % | 2009 % |
| Sodium Cyanide JV | Sodium cyanide manufacture | **75** | 75 |
| Bengalla JV | Coal mining | **40** | 40 |
| Kwinana Industrial Gases JV | Oxygen and nitrogen manufacture | **40** | 40 |
| HAL Property Trust | Property ownership | **50** | 50 |

The share of the assets, revenue and expenses of the jointly controlled assets, which are included in the consolidated financial statements, are as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2010 $m | 2009 $m |
| **Current assets** | | |
| Cash and cash equivalents | **5** | 7 |
| Inventories | **13** | 10 |
| Other | **7** | 3 |
| Total current assets | **25** | 20 |
| **Non-current assets** | | |
| Property, plant and equipment | **269** | 270 |
| Total non-current assets | **269** | 270 |
| **Total assets** | **294** | 290 |
| **Revenue** | **289** | 320 |
| Costs of sales | **(178)** | (181) |
| Administrative expenses | **(5)** | (5) |
| Profit before income tax | **106** | 134 |
| Income tax expense | **(31)** | (40) |
| **Net profit** | **75** | 94 |

Refer to note 28 for details on capital commitments. There were no impairment losses in the jointly controlled assets.

## 31: Parent disclosures

| | PARENT 2010 $m | PARENT 2009 $m |
|---|---|---|
| ASSETS | | |
| Current assets | **7,892** | 8,550 |
| Non-current assets | **22,377** | 22,246 |
| **Total assets** | **30,269** | 30,796 |
| LIABILITIES | | |
| Current liabilities | **760** | 1,233 |
| Non-current liabilities | **5,171** | 5,663 |
| **Total liabilities** | **5,931** | 6,896 |
| **Net assets** | **24,338** | 23,900 |
| EQUITY | | |
| **Equity attributable to equity holders of the parent** | | |
| Contributed equity | **23,280** | 23,280 |
| Employee reserved shares | **(48)** | (59) |
| Retained earnings | **1,035** | 714 |
| Restructure tax reserve | **150** | 150 |
| Hedging reserve | **(79)** | (185) |
| **Total equity** | **24,338** | 23,900 |
| **Profit attributable to members of the parent** | **1,655** | 1,082 |
| **Total comprehensive income for the year, net of tax, attributable to members of the parent** | **1,757** | 836 |
| **Contingencies** | | |
| Contingent liabilities at balance date, not included in this financial report, were as follows: | | |
| Trading guarantees | **361** | 352 |

Wesfarmers 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.

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.

Refer to note 33 for details of the Wesfarmers Deed of Cross Guarantee.

**Capital commitments**

There were no commitments arising from contracts for capital expenditure contracted for at balance date not included in this financial report (2009: nil).

## 32: Subsidiaries

The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table:

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2010 % | 2009 % |
|---|---|---|---|---|
| AALARA Risk Management Pty Ltd | Australia | AUD | **50** | 50 |
| A.C.N. 003 921 873 Pty Limited | Australia | AUD | **100** | 100 |
| A.C.N. 082 931 486 Pty Ltd | Australia | AUD | **100** | 100 |
| A.C.N. 112 719 918 Pty Ltd | Australia | AUD | **100** | 100 |
| All Transport Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| ALW Newco Pty Limited | Australia | AUD | **100** | 100 |
| Andearp Pty Ltd | Australia | AUD | **100** | 100 |
| Arana Hills Properties Pty Limited | Australia | AUD | **100** | 100 |
| Australian Gold Reagents Pty Ltd | Australia | AUD | **75** | 75 |
| Australian Graphics Pty Ltd | Australia | AUD | **100** | 100 |
| Australian Grocery Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Australian International Insurance Limited + | Australia | AUD | **100** | 100 |
| Australian Liquor Group Ltd + | Australia | AUD | **100** | 100 |
| Australian Taxi Insurance Underwriting Agency Pty Ltd | Australia | AUD | **100** | 100 |
| Australian Underwriting Holdings Limited + | Australia | AUD | **100** | 100 |
| Australian Underwriting Services Pty Ltd | Australia | AUD | **100** | 100 |
| Australian Vinyls Corporation Pty Ltd + | Australia | AUD | **100** | 100 |
| AVC Holdings Pty Ltd + | Australia | AUD | **100** | 100 |
| AVC Trading Pty Ltd + | Australia | AUD | **100** | 100 |
| Bakop Pty Ltd | Australia | AUD | **100** | 100 |
| Barrier Investments Pty Ltd | Australia | AUD | **100** | 100 |
| BBC Hardware Limited + | Australia | AUD | **100** | 100 |
| BBC Hardware Properties (NSW) Pty Ltd | Australia | AUD | **100** | 100 |
| BBC Hardware Properties (Vic) Pty Ltd | Australia | AUD | **100** | 100 |
| Bi-Lo Pty Limited + | Australia | AUD | **100** | 100 |
| Brian Pty Ltd | Australia | AUD | **100** | 100 |
| Bullivants Lifting and Industrial Products Pty Limited | Australia | AUD | **100** | 100 |
| Bullivants Pty Limited + | Australia | AUD | **100** | 100 |
| Bunnings Group Limited + | Australia | AUD | **100** | 100 |
| Bunnings Limited # | New Zealand | NZD | **100** | 100 |
| Bunnings Management Services Pty Ltd | Australia | AUD | **100** | 100 |
| Bunnings Manufacturing Pty Ltd | Australia | AUD | **100** | 100 |
| Bunnings (Northern Territory) Pty Ltd | Australia | AUD | **100** | 100 |
| Bunnings Properties Pty Ltd | Australia | AUD | **100** | 100 |
| Bunnings Property Management Limited < | Australia | AUD | **100** | 100 |
| Bunnings Pulp Mill Pty Ltd | Australia | AUD | **100** | 100 |
| Byrne Watkinson Kaye Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| C S Holdings Pty Limited + | Australia | AUD | **100** | 100 |
| Campbells Hardware & Timber Pty Limited | Australia | AUD | **100** | 100 |
| Car Rental Risk Management Services Pty Ltd | Australia | AUD | **100** | 100 |
| CGNZ Finance Limited | New Zealand | NZD | **100** | 100 |
| Charlie Carter (Norwest) Pty Ltd | Australia | AUD | **100** | 100 |
| Chemical Holdings Kwinana Pty Ltd + | Australia | AUD | **100** | 100 |
| Clarkson Shopping Centre Pty Ltd | Australia | AUD | **100** | 100 |
| CMFL Services Ltd + | Australia | AUD | **100** | 100 |
| CMNZ Investments Pty Ltd | Australia | AUD | **100** | 100 |
| CMPQ (CML) Pty Ltd | Australia | AUD | **100** | 100 |
| CMPQ (PEN) Pty Ltd | Australia | AUD | **100** | 100 |
| CMTI Pty Ltd | Australia | AUD | **100** | 100 |
| Co-operative Wholesale Services Ltd | Australia | AUD | **100** | 100 |
| Coles Ansett Travel Pty Ltd | Australia | AUD | **97.5** | 97.5 |
| Coles Finance Company | United States | USD | **–** | 100 |
| Coles Group Asia Pty Ltd + | Australia | AUD | **100** | 100 |
| Coles Group Deposit Services Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group Employee Share Plan Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group Finance Limited + | Australia | AUD | **100** | 100 |
| Coles Group Finance (USA) Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group International Pty Ltd | Australia | AUD | **100** | 100 |

## 32: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2010 % | 2009 % |
|---|---|---|---|---|
| Coles Group Limited + | Australia | AUD | **100** | 100 |
| Coles Group New Zealand Holdings Limited | New Zealand | NZD | **100** | 100 |
| Coles Group Properties Holdings Ltd + | Australia | AUD | **100** | 100 |
| Coles Group Properties Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group Property Developments Ltd + | Australia | AUD | **100** | 100 |
| Coles Group Superannuation Fund Pty Ltd (formerly Coles Myer Superannuation Fund Pty Ltd) | Australia | AUD | **100** | 100 |
| Coles Group Supply Chain Pty Ltd + | Australia | AUD | **100** | 100 |
| Coles LD Australia Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Melbourne Ltd + | Australia | AUD | **100** | 100 |
| Coles Online Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Properties WA Ltd + | Australia | AUD | **100** | 100 |
| Coles Retail Group Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Stores (New Zealand) Limited | New Zealand | NZD | **100** | 100 |
| Coles Supercentres Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Supermarkets Australia Pty Ltd + | Australia | AUD | **100** | 100 |
| Comnet Pty Ltd | Australia | AUD | **100** | 100 |
| Comprehensive Holiday Insurance (Underwriting Agents) Pty Ltd | Australia | AUD | **100** | 100 |
| ConsortiumCo Pty Ltd | Australia | AUD | **100** | 100 |
| Coregas Pty Ltd + | Australia | AUD | **100** | 100 |
| Credit Management Pty Ltd | Australia | AUD | **–** | 100 |
| Crombie Lockwood (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| CSA Retail (Finance) Pty Ltd | Australia | AUD | **100** | 100 |
| CSBP Ammonia Terminal Pty Ltd | Australia | AUD | **100** | 100 |
| CSBP Limited + | Australia | AUD | **100** | 100 |
| Cuming Smith and Company Limited + | Australia | AUD | **100** | 100 |
| Curragh Coal Sales Co Pty Ltd | Australia | AUD | **100** | 100 |
| Curragh Queensland Mining Pty Ltd | Australia | AUD | **100** | 100 |
| Dairy Properties Co-operative Limited | Australia | AUD | **100** | 100 |
| Dennison & Associates Pty Ltd | Australia | AUD | **100** | 100 |
| Direct Fulfilment Group Pty Ltd | Australia | AUD | **100** | 100 |
| e.colesgroup Pty Ltd + | Australia | AUD | **100** | 100 |
| e.tailing (Coles Group) Pty Ltd | Australia | AUD | **100** | 100 |
| Eastfarmers Pty Ltd | Australia | AUD | **100** | 100 |
| ELH Services Limited # | United Kingdom | GBP | **100** | 100 |
| ELOL Limited # | United Kingdom | GBP | **100** | 100 |
| Energy Generation Pty Ltd + | Australia | AUD | **100** | 100 |
| Eskdale Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Eureka Operations Pty Ltd + | Australia | AUD | **100** | 100 |
| FIF Investments Pty Limited | Australia | AUD | **100** | 100 |
| Financial Network Card Services Pty Ltd | Australia | AUD | **100** | 100 |
| Fitzgibbons Hotel Pty Ltd | Australia | AUD | **100** | 100 |
| Fitzinn Pty Ltd | Australia | AUD | **100** | 100 |
| Fosseys (Australia) Pty Ltd | Australia | AUD | **100** | 100 |
| FPT (Australia) Pty Limited | Australia | AUD | **100** | 100 |
| Fulthom Pty Limited | Australia | AUD | **100** | 100 |
| G J Coles & Coy Pty Limited | Australia | AUD | **100** | 100 |
| Gault Armstrong Kemble Pty Ltd | Australia | AUD | **100** | 100 |
| Gault Armstrong SARL | New Caledonia | XPF | **100** | 100 |
| GBPL Pty Ltd | Australia | AUD | **100** | 100 |
| General Merchandise & Apparel Group Pty Ltd | Australia | AUD | **100** | 100 |
| GPML Pty Ltd | Australia | AUD | **100** | 100 |
| Grocery Holdings Pty Ltd + | Australia | AUD | **100** | 100 |
| Guidel Pty Ltd | Australia | AUD | **100** | 100 |
| Hadrill Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Harris Technology (NZ) Pty Ltd | Australia | AUD | **100** | 100 |
| Harris Technology Pty Ltd + | Australia | AUD | **100** | 100 |
| Hedz No 2 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 3 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 4 Pty Ltd | Australia | AUD | **100** | 100 |

## 32: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2010 % | 2009 % |
|---|---|---|---|---|
| Hedz No 5 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 6 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 7 Pty Ltd | Australia | AUD | **100** | 100 |
| Hotel Wickham Investments Pty Ltd | Australia | AUD | **100** | 100 |
| HouseWorks Co Pty Ltd | Australia | AUD | **100** | 100 |
| Howard Smith Limited + | Australia | AUD | **100** | 100 |
| Howard Smith Nominees Pty Limited | Australia | AUD | **100** | 100 |
| HT (Colesgroup) Pty Ltd | Australia | AUD | **100** | 100 |
| Ibert Pty Limited | Australia | AUD | **100** | 100 |
| Idobent Pty Ltd | Australia | AUD | **100** | 100 |
| J Blackwood & Son Pty Ltd (formerly J Blackwood & Son Limited) + | Australia | AUD | **100** | 100 |
| J Blackwood & Son Steel & Metals Pty Ltd | Australia | AUD | **100** | 100 |
| Katies Fashions (Aust) Pty Limited | Australia | AUD | **100** | 100 |
| Kleenheat Gas House Franchising Pty Ltd | Australia | AUD | **100** | 100 |
| Kmart Australia Limited (formerly K Mart Australia Ltd) + | Australia | AUD | **100** | 100 |
| Knox Liquor Australia Pty Ltd | Australia | AUD | **100** | 100 |
| Kwinana Nitrogen Company Proprietary Limited | Australia | AUD | **100** | 100 |
| Lawvale Pty Ltd | Australia | AUD | **100** | 100 |
| LHG Pty Ltd + | Australia | AUD | **100** | 100 |
| LHG2 Pty Ltd + | Australia | AUD | **100** | 100 |
| LHG3 Pty Ltd | Australia | AUD | **100** | 100 |
| Liftco Pty Limited + | Australia | AUD | **100** | 100 |
| Liquorland (Australia) Pty Ltd + | Australia | AUD | **100** | 100 |
| Liquorland (Qld) Pty Ltd + | Australia | AUD | **100** | 100 |
| Loadsafe Systems Pty Ltd | Australia | AUD | **100** | 100 |
| Loggia Pty Ltd + | Australia | AUD | **100** | 100 |
| Lumley Corporation Pty Limited + | Australia | AUD | **100** | 100 |
| Lumley Finance (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley General Insurance (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Insurance Group Limited | Australia | AUD | **100** | 100 |
| Lumley Investments (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Life (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Management Services Pty Limited | Australia | AUD | **100** | 100 |
| Lumley Services (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Superannuation Pty Limited | Australia | AUD | **100** | 100 |
| Lumley Technology Pty Ltd (formerly Lumley Technology Limited) | Australia | AUD | **100** | 100 |
| Manacol Pty Limited + | Australia | AUD | **100** | 100 |
| Mawhinney Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Meredith Distribution (NSW) Pty Ltd | Australia | AUD | **100** | 100 |
| Meredith Distribution Pty Ltd | Australia | AUD | **100** | 100 |
| MIB Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Millars (WA) Pty Ltd | Australia | AUD | **100** | 100 |
| Modwood Technologies Pty Ltd | Australia | AUD | **100** | 100 |
| Monument Finance Limited # | New Zealand | NZD | **100** | 100 |
| Monument Insurance (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Morley Shopping Centre Pty Limited | Australia | AUD | **100** | 100 |
| Motion Industries Pty Ltd | Australia | AUD | **100** | 100 |
| Multimedia Services Pty Ltd | Australia | AUD | **100** | 100 |
| Mycar Automotive Pty Ltd | Australia | AUD | **100** | 100 |
| NEGF Power Management Pty Ltd | Australia | AUD | **–** | 100 |
| NEGF Power Sales Pty Ltd | Australia | AUD | **–** | 100 |
| Newmart Pty Ltd | Australia | AUD | **100** | 100 |
| now.com.au Pty Ltd | Australia | AUD | **100** | 100 |
| NZ Finance Holdings Pty Limited | New Zealand | NZD | **100** | 100 |
| OAMPS (HK) Limited | Hong Kong | HKD | **–** | 100 |
| OAMPS (UK) Limited # | United Kingdom | GBP | **100** | 100 |
| OAMPS (UK) Underwriting Services Limited # | United Kingdom | GBP | **–** | 100 |
| OAMPS Agency Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Consulting Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Corporate Risk Pty Ltd | Australia | AUD | **100** | 100 |

## 32: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2010 % | 2009 % |
|---|---|---|---|---|
| OAMPS Credit Limited | Australia | AUD | **51** | 51 |
| OAMPS Gault Armstrong Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Insurance Brokers Ltd + | Australia | AUD | **100** | 100 |
| OAMPS Insurance Brokers (NZ) Limited | New Zealand | NZD | **–** | 100 |
| OAMPS Life Solutions Ltd | Australia | AUD | **100** | 100 |
| OAMPS Ltd + | Australia | AUD | **100** | 100 |
| OAMPS Special Risks Ltd # | United Kingdom | GBP | **100** | 100 |
| OAMPS Sports Services Pty Limited @ | Australia | AUD | **100** | – |
| OAMPS Superannuation Ltd | Australia | AUD | **100** | 100 |
| OAMPS Superannuation Management Pty Ltd | Australia | AUD | **100** | 100 |
| Officeworks Businessdirect Pty Ltd + | Australia | AUD | **100** | 100 |
| Officeworks Superstores NZ Limited | New Zealand | NZD | **100** | 100 |
| Officeworks Superstores Pty Ltd + | Australia | AUD | **100** | 100 |
| Offshore Market Placements Limited # | New Zealand | NZD | **100** | 100 |
| OHES Environmental Limited (formerly Oil & Hazardous Environmental Services Limited) # | United Kingdom | GBP | **100** | 100 |
| OMP Insurance Brokers Ltd + | Australia | AUD | **100** | 100 |
| ORZO Pty Limited | Australia | AUD | **100** | 100 |
| Osmond Hotel Pty Ltd | Australia | AUD | **100** | 100 |
| Outfront Liquor Services Pty Ltd | Australia | AUD | **100** | 100 |
| Pacific Liquor Wholesalers Pty Ltd | Australia | AUD | **100** | 100 |
| Packaging House Limited # | New Zealand | NZD | **100** | 100 |
| Pailou Pty Ltd + | Australia | AUD | **100** | 100 |
| Parks Insurance Pty Ltd | Australia | AUD | **100** | 100 |
| Patrick Operations Pty Ltd | Australia | AUD | **100** | 100 |
| Penneys Pty Limited | Australia | AUD | **100** | 100 |
| Petersen Bros Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Melbourne Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Niddrie Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Toorak Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Wine & Spirits Pty Ltd | Australia | AUD | **100** | 100 |
| Powertrain Pty Limited | Australia | AUD | **100** | 100 |
| Premier Power Sales Pty Ltd | Australia | AUD | **100** | 100 |
| Price Point Pty Ltd | Australia | AUD | **100** | 100 |
| Procurement Online Pty Ltd | Australia | AUD | **100** | 100 |
| Protector Alsafe Pty Ltd + | Australia | AUD | **100** | 100 |
| PTF Training Limited @ | United Kingdom | GBP | **100** | – |
| Q.R.L. Insurance Finance Agency Pty Ltd | Australia | AUD | **50** | 50 |
| R & N Palmer Pty Ltd | Australia | AUD | **100** | 100 |
| Retail Australia Consortium Pty Ltd | Australia | AUD | **50** | 50 |
| Retail Investments Pty Ltd | Australia | AUD | **100** | 100 |
| Ronell Pty Ltd | Australia | AUD | **100** | 100 |
| Roval Lifting and Industrial Products Pty Limited | Australia | AUD | **100** | 100 |
| SBS Rural IAMA Pty Limited | Australia | AUD | **100** | 100 |
| Sellers (SA) Pty Ltd | Australia | AUD | **100** | 100 |
| Share Nominees Limited | Australia | AUD | **100** | 100 |
| Sorcha Pty Ltd + | Australia | AUD | **100** | 100 |
| Sotico Pty Ltd | Australia | AUD | **100** | 100 |
| Sportsure Pty Ltd | Australia | AUD | **50** | 50 |
| StateWest Power Pty Ltd | Australia | AUD | **100** | 100 |
| Target Australia Pty Ltd + | Australia | AUD | **100** | 100 |
| The Builders Warehouse Group Pty Limited | Australia | AUD | **100** | 100 |
| The Franked Income Fund | Australia | AUD | **100** | 100 |
| The Grape Management Pty Ltd | Australia | AUD | **100** | 100 |
| Theo's Liquor Pty Ltd | Australia | AUD | **100** | 100 |
| Tickoth Pty Ltd | Australia | AUD | **100** | 100 |
| Tooronga Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Tooronga Shopping Centre Pty Ltd | Australia | AUD | **100** | 100 |
| TotalGuard Pty Limited | Australia | AUD | **100** | 100 |
| Tyremaster (Wholesale) Pty Ltd | Australia | AUD | **100** | 100 |

## 32: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2010 % | 2009 % |
|---|---|---|---|---|
| Tyremaster Pty Ltd | Australia | AUD | **100** | 100 |
| Ucone Pty Ltd + | Australia | AUD | **100** | 100 |
| Universal Underwriting Services Pty Limited | Australia | AUD | **100** | 100 |
| Valley Investments Pty Ltd + | Australia | AUD | **100** | 100 |
| Vigil Underwriting Agencies Pty Ltd | Australia | AUD | **100** | 100 |
| Viking Direct Pty Limited | Australia | AUD | **100** | 100 |
| W F Broking (UK) Limited | United Kingdom | GBP | **100** | 100 |
| W4K.World 4 Kids Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Agribusiness Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Bangladesh Gas Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Bengalla Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Bioenergy Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Broking (NZ) Limited | New Zealand | NZD | **100** | 100 |
| Wesfarmers Bunnings Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Char Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Coal Resources Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Curragh Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Energy (Gas Sales) Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Energy (Industrial Gas) Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Energy Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Federation Insurance Pty Ltd (formerly Wesfarmers Federation Insurance Limited) | Australia | AUD | **100** | 100 |
| Wesfarmers Fertilizers Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Finance Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Gas Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers General Insurance Limited | Australia | AUD | **100** | 100 |
| Wesfarmers Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Industrial & Safety Holdings NZ Limited # | New Zealand | NZD | **100** | 100 |
| Wesfarmers Industrial & Safety NZ Limited # | New Zealand | NZD | **100** | 100 |
| Wesfarmers Industrial and Safety Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Insurance Investments Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Insurance Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Investments Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Kleenheat Elpiji Limited < | Bangladesh | BDT | **69** | 69 |
| Wesfarmers Kleenheat Gas Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers LNG Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers LPG Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Premier Coal Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Private Equity Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Provident Fund Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Railroad Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Resources Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Retail Holdings Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Retail Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Risk Management Limited # | Bermuda | AUD | **100** | 100 |
| Wesfarmers Risk Management (Singapore) Pte Ltd | Singapore | SGD | **100** | 100 |
| Wesfarmers Securities Management Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Sugar Company Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Superannuation Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Transport Indonesia Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Transport Limited + | Australia | AUD | **100** | 100 |
| Weskem Pty Ltd | Australia | AUD | **100** | 100 |
| West Africa Power Company Pty Ltd | Australia | AUD | **–** | 100 |
| Westralian Farmers Co-operative Limited | Australia | AUD | **100** | 100 |
| Westralian Farmers Superphosphates Limited + | Australia | AUD | **100** | 100 |
| WFCL Investments Pty Ltd | Australia | AUD | **100** | 100 |
| Wideland Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Wideland Life Insurance Agency Pty Ltd | Australia | AUD | **100** | 100 |
| WI Premium Funding Limited (formerly Lumley Finance Limited) + | Australia | AUD | **100** | 100 |
| WIS Solutions Pty Ltd | Australia | AUD | **100** | 100 |

## 32: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2010 % | 2009 % |
|---|---|---|---|---|
| Workplace Risk Solutions Limited # | New Zealand | NZD | **–** | 100 |
| WPP Holdings Pty Ltd | Australia | AUD | **50** | 50 |
| Wyper Brothers Pty Limited | Australia | AUD | **100** | 100 |
| X-WIS Pty Ltd | Australia | AUD | **100** | 100 |
| XCC (Retail) Pty Ltd | Australia | AUD | **100** | 100 |
| ZIB Credit Trust | Australia | AUD | **51** | 51 |
| ZIB Group Holdings Company Limited + | Australia | AUD | **100** | 100 |
| ZIB Holdings Pty Limited + | Australia | AUD | **100** | 100 |
| ZIB Insurance Brokers Holding Limited + | Australia | AUD | **100** | 100 |
| ZIB Insurance Trust | Australia | AUD | **100** | 100 |

@ Entity acquired/incorporated during the year.

\# Audited by firms of Ernst & Young International.

< Audited by other firms of accountants.

\+ An ASIC approved deed of cross guarantee has been entered into by Wesfarmers Limited and these entities. Refer to note 33 for further details.

Wesfarmers Limited, incorporated in Australia, is the ultimate Australian parent entity and the ultimate parent of the Group.

## 33: Deed of cross guarantee

Pursuant to the Wesfarmers Deed of Cross Guarantee ('the Deed') and in accordance with ASIC Class Order 98/1418, the subsidiaries identified with a '+' in note 32 are relieved from the requirements of the *Corporations Act 2001* relating to the preparation, audit and lodgement of their financial reports.

The subsidiaries identified with a '+' in note 32 and Wesfarmers Limited, together referred to as the 'Closed Group', either originally entered into the Deed on 27 June 2008 or have subsequently joined the Deed by way of an assumption deed. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group. The entities joining the Closed Group by way of an assumption deed dated 9 June 2010 are:

- Lumley Corporation Pty Limited ACN 004 191 646
- Officeworks Businessdirect Pty Ltd ACN 061 239 807
- Wesfarmers Industrial and Safety Pty Ltd ACN 003 903 704
- Wesfarmers LNG Pty Ltd ACN 096 080 205

On 9 June 2010, a revocation deed in respect of the Deed was executed and lodged with ASIC. Those entities that were removed as a party to the Deed will be released from their obligations under the Deed provided that none of the parties to the Deed are wound up and no winding up of any of those parties is commenced within six months after the revocation deed was lodged with ASIC. The entity removed from the Closed Group by way of a revocation deed is:

- Coles Group International Pty Ltd ACN 006 233 736

The entity removed from the Deed does not have a material effect on the income statement and balance sheet of the Closed Group.

The consolidated income statement of the entities that are members of the Closed Group is as follows:

| | New Deed 2010 $m | Previous Deed 2009 $m |
|---|---|---|
| **Consolidated income statement** | | |
| Profit from continuing operations before income tax | **1,852** | 2,105 |
| Income tax expense | **(569)** | (476) |
| Net profit for the period | **1,283** | 1,629 |
| Retained earnings at the beginning of the year | **930** | 926 |
| Adjustment for companies transferred out of the Closed Group | **(197)** | (138) |
| Total available for appropriation | **2,016** | 2,417 |
| Dividends provided for or paid | **(1,331)** | (1,487) |
| Retained earnings at the end of the year | **685** | 930 |

## 33: Deed of cross guarantee (continued)

The consolidated balance sheet of the entities that are members of the Closed Group is as follows:

| | New Deed 2010 $m | Previous Deed 2009 $m |
|---|---|---|
| **Consolidated balance sheet** | | |
| ASSETS | | |
| **Current assets** | | |
| Cash and cash equivalents | **1,633** | 2,108 |
| Trade and other receivables | **1,300** | 1,088 |
| Inventories | **4,464** | 4,573 |
| Derivatives | **69** | 50 |
| Other financial assets | **71** | 107 |
| **Total current assets** | **7,537** | 7,926 |
| **Non-current assets** | | |
| Receivables | **934** | 998 |
| Investments | **4,925** | 5,564 |
| Other financial assets | **1** | 1 |
| Investment in associates | **133** | 130 |
| Deferred tax assets | **574** | 731 |
| Property, plant and equipment | **7,192** | 6,774 |
| Intangible assets and goodwill | **20,158** | 20,228 |
| Derivatives | **127** | 147 |
| Other | **35** | 34 |
| **Total non-current assets** | **34,079** | 34,607 |
| **Total assets** | **41,616** | 42,533 |
| LIABILITIES | | |
| **Current liabilities** | | |
| Trade and other payables | **6,517** | 5,360 |
| Interest-bearing loans and borrowings | **99** | 494 |
| Income tax payable | **129** | 24 |
| Provisions | **1,077** | 853 |
| Derivatives | **107** | 572 |
| Other | **186** | 334 |
| **Total current liabilities** | **8,115** | 7,637 |
| **Non-current liabilities** | | |
| Payables | **3,082** | 3,910 |
| Interest-bearing loans and borrowings | **5,051** | 5,537 |
| Deferred tax liabilities | **–** | 7 |
| Provisions | **1,108** | 1,051 |
| Derivatives | **138** | 153 |
| Other | **59** | 146 |
| **Total non-current liabilities** | **9,438** | 10,804 |
| **Total liabilities** | **17,553** | 18,441 |
| **Net assets** | **24,063** | 24,092 |
| EQUITY | | |
| Contributed equity | **23,286** | 23,286 |
| Employee reserved shares | **(51)** | (62) |
| Retained earnings | **685** | 930 |
| Reserves | **143** | (62) |
| **Total equity** | **24,063** | 24,092 |

## 34: Related party transactions

| | CONSOLIDATED 2010 $m | 2009 $m |
|---|---|---|
| **Associates** | | |
| Management fees received | **7** | 7 |
| Profit on sale of rental properties | **–** | 1 |
| Operating lease rent paid | **76** | 70 |
| Financial advisory fees paid | **–** | 5 |
| Agreed reimbursement for completion of upgrades | **–** | 7 |
| Sale of gift cards on commercial terms | **33** | 36 |
| Payments for customer loyalty programs | **33** | 35 |
| Loans receivable | **9** | 19 |

**Associates**

Management fees have been paid by associated entities, Air Liquide WA Pty Ltd and Bunnings Warehouse Property Trust, to the consolidated entity on normal commercial terms and conditions for staff and other services provided to the associates.

Rent for retail warehouses has been paid by the consolidated entity to an associated entity, the Bunnings Warehouse Property Trust.

Mr Carter, a director of Wesfarmers, is a director and shareholder of Colin Carter & Associates. Colin Carter & Associates has previously provided consultancy services to Wesfarmers and was paid a fee of $25,000 in 2009. No consultancy services have been provided, and no fees have been paid, in 2010.

Mr Graham, a director of Wesfarmers, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers. A partly owned subsidiary of Gresham Partners Group Limited has provided financial advisory services to Wesfarmers of $9,000 (2009: $5 million).

Loans have been made to an associated entity. Loans are subordinated to a syndicate of project financing banks and neither is repayable nor interest-bearing until a number of financial covenants have been achieved.

Other minor loans have also been made to associates.

| | CONSOLIDATED 2010 $m | CONSOLIDATED 2009 $m |
|---|---|---|
| **35: Auditor's remuneration** | | |
| The auditor of Wesfarmers Limited is Ernst & Young (Australia). | | |
| **Amounts received or due and receivable by Ernst & Young (Australia) for:** | | |
| – an audit or review of the financial report of the entity and any other entity in the consolidated group | **6,469** | 7,112 |
| – other services in relation to the entity and any other entity in the consolidated group | | |
| – tax compliance | **561** | 420 |
| – assurance related | **1,076** | 1,300 |
| – special audits required by regulators | **–** | 45 |
| – other | **14** | 51 |
| | **8,120** | 8,928 |
| **Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:** | | |
| – an audit or review of the financial report of subsidiaries | **598** | 736 |
| – other services in relation to the entity and any other entity in the consolidated group | | |
| – tax compliance | **14** | 58 |
| – other | **–** | 19 |
| | **612** | 813 |
| **Amounts received or due and receivable by non Ernst & Young audit firms for:** | | |
| – other | **35** | 233 |
| | **8,767** | 9,974 |

## 36: Share-based payment plans

**Wesfarmers Employee Share Plan ('WESP')**

The WESP was approved by shareholders in April 1985, with the last issue under the plan being made in December 2004. Under the plan, all permanent employees over 18 years of age continuously employed by the Group for a minimum period of one year were invited annually to apply for a specified number of fully paid ordinary shares in the Company, funded by a limited-recourse interest-free loan from the Group.

Under the plan, shares were allotted at the weighted average price of Wesfarmers Limited shares posted on the Australian Securities Exchange one week up to and including the day of allotment. The shares are not subject to any specific vesting conditions.

The employee's obligation for repayment of the loans is limited to the dividends declared and capital returns by the Company and, in the event the employee ceases employment, the market price achieved on the sale of the shares held as security by the Company for the loans.

The plan is accounted for as an in-substance option plan, with the contractual life of each option equivalent to the estimated loan life and no maximum term. Repayment of the loan constitutes exercise of the option, with the exercise price being the remaining loan balance per share.

The following table sets out the number and weighted average exercise prices ('WAEP') of and movements in in-substance share options during the year:

| | 2010 Number Thousands | 2010 WAEP | 2009 Number Thousands | 2009 WAEP |
|---|---|---|---|---|
| Outstanding and exercisable at the beginning of the year | **4,773** | **$12.91** | 5,270 | $14.37 |
| Exercised during the year | **(468)** | **$12.61** | (497) | $12.17 |
| Outstanding and exercisable at the end of the year | **4,305** | **$11.94** | 4,773 | $12.91 |
| Weighted average share price for Wesfarmers Limited | | **$28.55** | | $22.18 |
| The weighted average exercise prices (after reductions for dividends paid, returns of capital and voluntary payments) for in-substance options issued during the following years ended 30 June are: | | | | |
| 2001 | | **$7.77** | | $8.66 |
| 2002 | | **$10.98** | | $12.09 |
| 2003 | | **$13.34** | | $14.44 |
| 2004 | | **$26.54** | | $27.66 |

## 36: Share-based payment plans (continued)

**Wesfarmers Long Term Incentive Plan ('WLTIP')**

The WLTIP was introduced in September 2005. Under the plan in 2010, eligible senior executives were invited to receive fully paid ordinary shares in the Company subject to the achievement of future performance hurdles based both on the Group achieving a benchmark growth rate in return on equity against a comparative group of companies and continuation of employment. Eligibility is dependent upon an in-service period and being a permanent employee.

Shares may be either acquired on-market, issued by the parent or forfeited shares reissued. During the current financial year, 580,419 shares were acquired on-market, with the cost being expensed over the vesting period from 1 July 2009 to 30 June 2011. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares acquired on-market, issued or reissued.

The impact on the profit and loss is set out in note 4.

| | CONSOLIDATED | |
|---|---|---|
| | **2010** | 2009 |
| Shares acquired under the plan | **580,419** | 3,682,893 |
| Fair value per share | **$28.74** | $18.11 |

**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 achievement of a performance hurdle based on the Group achieving a benchmark return on equity performance against a comparative group of companies. 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.

Shares may be either acquired on-market or issued by the parent. During the current financial year, 2,712,154 award shares were acquired on-market by the parent and 78,679 forfeited shares were reissued, with the cost being expensed over the vesting period from 1 July 2009 to 30 November 2012. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares issued.

The impact on the profit and loss is set out in note 4.

| | CONSOLIDATED | |
|---|---|---|
| | **2010** | 2009 |
| Shares acquired under the plan | **2,790,833** | 1,253,280 |
| Fair value per share | **$28.74** | $18.11 |

**Coles Long Term Incentive Plan ('CLTIP')**

The Group also provides benefits to certain executives under the Coles LTI, in the form of cash-settled share-based payments, whereby executives can make an election to receive an award in cash. The ultimate cost of these cash-settled transactions will be equal to the actual cash paid to the executives, which will be the fair value at settlement date. No shares have been issued to date under the plan.

## 37: Pension plan

The Group operated a defined benefit pension plan within the Wesfarmers Group Superannuation Plan (the 'Pension Plan') during the year. The Pension Plan provides pensions for a closed group of life time pensioners only, hence there are no active defined liabilities in the Pension Plan. All other members receive benefits on an accumulation basis.

The Group has a legal obligation to ensure the Pension Plan remains in a satisfactory financial position but no legal right to benefit from any surplus, except to the extent a contribution holiday can be taken.

Actuarial gains and losses are recognised directly in retained earnings.

The following disclosure is for funds related to the defined benefit plan:

| | CONSOLIDATED | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening defined benefit obligation | **38** | 388 |
| Interest cost | **2** | 24 |
| Current service cost | **–** | 11 |
| Contributions by plan participants | **–** | 7 |
| Benefits paid | **(3)** | (36) |
| Transfers out | **(1)** | (325) |
| Actuarial losses/(gains) | **1** | (20) |
| Taxes paid on contributions | **–** | (7) |
| Curtailment gain | **1** | (17) |
| Conversion cost | **–** | 13 |
| Closing defined benefit obligation | **38** | 38 |
| Changes in the fair value of the defined benefits portion of plan assets are as follows: | | |
| Opening fair value of plan assets | **43** | 418 |
| Expected return | **2** | 26 |
| Contributions by employer | **–** | 40 |
| Contributions by plan participants | **–** | 7 |
| Taxes paid on contributions | **–** | (7) |
| Benefits paid | **(3)** | (36) |
| Transfers out | **(1)** | (325) |
| Actuarial gains/(losses) | **1** | (80) |
| Closing fair value of plan assets | **42** | 43 |
| The fair value of fund assets does not include amounts relating to the Group's own financial instruments nor any property or other assets used by the Group. | | |
| Net (surplus)/expense recognised in profit and loss: | | |
| Current service cost | **–** | 11 |
| Interest cost | **2** | 24 |
| Expected return on plan assets | **(2)** | (26) |
| Curtailment loss/(gain) | **1** | (17) |
| Conversion cost | **–** | 13 |
| Defined benefit plan expense | **1** | 5 |
| Amounts recognised in the statement of changes in equity: | | |
| Actuarial loss on defined benefit plans | **–** | (59) |
| Income tax on actuarial gains | **–** | 18 |
| | **–** | (41) |
| Benefit asset recognised in the balance sheet: | | |
| Defined benefit obligation | **(38)** | (38) |
| Fair value of plan assets | **42** | 43 |
| Net benefit asset | **4** | 5 |

The principal actuarial assumptions used in determining pension benefit obligations are:

| | **2010 %** | 2009 % |
|---|---|---|
| Discount rate | **5.10** | 5.50 |
| Expected rate of return on fund assets | **5.10** | 5.30 |
| Expected pension increase rate | **2.50** | 2.50 |

## 38: Director and executive disclosures

**Details of key management personnel during the year ended 30 June 2010**

### Non-executive directors

C B Carter
R L Every (appointed Chairman 13 November 2008)
J P Graham
A J Howarth
C Macek
D L Smith-Gander (appointed non-executive director 27 August 2009)
W G Osborn (appointed non-executive director 24 March 2010)
D C White

### Executive directors

R J B Goyder (Group Managing Director)
T J Bowen (Finance Director)

### Senior executives

S A Butel, Managing Director, Resources division
J C Gillam, Managing Director, Home Improvement and Office Supplies division
L K Inman, Managing Director, Target division
I J W McLeod, Managing Director, Coles division

### Former key management personnel and executives disclosed under the *Corporations Act 2001*

P A Cross (resigned as non-executive director 24 March 2010)
K D Gordon (retired as senior executive 13 November 2009)
T R Eastwood (retired as Chairman and director 13 November 2008)
G T Tilbrook (retired as Finance Director 1 May 2009)

**Compensation of key management personnel**

The remuneration disclosures are provided in sections one to seven of the remuneration report on pages 150 to 165 of this Annual Report designated as audited and forming part of the directors' report.

| | CONSOLIDATED 2010 $'000 | 2009 $'000 |
|---|---|---|
| Short-term | **18,701** | 19,133 |
| Post-employment | **2,066** | 4,396 |
| Termination benefits | **119** | – |
| Share-based payment | **15,636** | 15,577 |
| | **36,522** | 39,106 |

## 38: Director and executive disclosures (continued)

**Holdings of equity instruments in Wesfarmers Limited of key management personnel**

**Wesfarmers Limited ordinary shares and partially protected ordinary shares**

| Shares – 30 June 2010 | Balance at beginning of year | Granted as remuneration | Net change other | Balance at end of year |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| C B Carter | **26,363** | **–** | **770** | **27,133** |
| R L Every | **24,736** | **–** | **–** | **24,736** |
| J P Graham | **1,247,463** | **–** | **(299,823)** | **947,640** |
| A J Howarth | **8,462** | **–** | **2,258** | **10,720** |
| C Macek | **21,271** | **–** | **300** | **21,571** |
| W G Osborn | **–** | **–** | **1,202** | **1,202** |
| D L Smith-Gander | **–** | **–** | **11,847** | **11,847** |
| D C White | **58,151** | **–** | **588** | **58,739** |
| **Executive directors** | | | | |
| R J B Goyder | **714,359** | **–** | **–** | **714,359** |
| T J Bowen | **301,008** | **–** | **–** | **301,008** |
| **Senior executives** | | | | |
| S A Butel | **98,452** | **41,933** | **–** | **140,385** |
| J C Gillam | **344,602** | **–** | **–** | **344,602** |
| L K Inman | **178,780** | **96,556** | **–** | **275,336** |
| I J W McLeod | **63,097** | **–** | **321** | **63,418** |
| **Former KMP and executives disclosed under the *Corporations Act 2001*** | | | | |
| P A Cross[1] | **15,437** | **–** | **1,000** | **16,437** |
| K D Gordon[1] | **224,278** | **–** | **(29,874)** | **194,404** |
| | **3,326,459** | **138,489** | **(311,411)** | **3,153,537** |

1 Ceased to be non-executive director, executive director or key management personnel during the 2010 financial year.

| Shares – 30 June 2009 | Balance at beginning of year | Granted as remuneration | Net change other* | Balance at end of year |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| C B Carter | 17,543 | – | 8,820 | 26,363 |
| P A Cross | 8,204 | – | 7,233 | 15,437 |
| R L Every | 7,091 | – | 17,645 | 24,736 |
| J P Graham | 1,058,079 | – | 189,384 | 1,247,463 |
| A J Howarth | 3,933 | – | 4,529 | 8,462 |
| C Macek | 13,022 | – | 8,249 | 21,271 |
| D C White | 42,422 | – | 15,729 | 58,151 |
| **Executive directors** | | | | |
| R J B Goyder | 302,757 | 220,844 | 190,758 | 714,359 |
| T J Bowen | 40,495 | 265,013 | (4,500) | 301,008 |
| **Senior executives** | | | | |
| S A Butel | 44,622 | 53,830 | – | 98,452 |
| J C Gillam | 104,589 | 265,013 | (25,000) | 344,602 |
| K D Gordon | 45,394 | 178,884 | – | 224,278 |
| L K Inman | 3,496 | 157,351 | 17,933 | 178,780 |
| I J W McLeod | – | 44,168 | 18,929 | 63,097 |
| **Former KMP and executives disclosed under the *Corporations Act 2001*** | | | | |
| T R Eastwood (Chairman)[1] | 878,533 | – | – | 878,533 |
| G T Tilbrook[1] | 260,669 | 110,422 | (121,644) | 249,447 |
| | 2,830,849 | 1,295,525 | 328,065 | 4,454,439 |

1 Ceased to be non-executive director, executive director or key management personnel during the 2009 financial year.

* Includes shares acquired under the entitlement offer announced on 22 January 2009 and shares acquired under fee/salary sacrifice share plans.

**Other transactions and balances with key management personnel**

Refer to note 34 in relation to transactions with Colin Carter & Associates, of which C Carter is a director and shareholder.

Refer to note 34 in relation to transactions with Gresham Partners Group Limited, of which J P Graham is a director.

From time to time, directors of the Company or its controlled entities, or their director-related entities, may purchase goods or services from the consolidated entity. 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.

# Directors' report

Wesfarmers Limited and its controlled entities

The information appearing on pages 2 to 66 forms part of the directors' report for the financial year ended 30 June 2010 and is to be read in conjunction with the following information:

## Results and dividends

| YEAR ENDED 30 JUNE | 2010 $m | 2009 $m |
|---|---|---|
| **Profit** | | |
| Profit attributable to members of the parent entity | **1,565** | 1,522 |
| **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 2010: | | |
| a) out of the profits for the year ended 30 June 2009 on the fully-paid ordinary shares and partially protected shares: | | |
| (i) fully franked final dividend of 60 cents per share paid on 1 October 2009 (as disclosed in last year's directors' report) | **694** | 1,079 |
| b) out of the profits for the year ended 30 June 2010 and retained earnings on the fully-paid ordinary shares and partially protected shares: | | |
| (i) fully franked interim dividend of 55 cents (2009: 50 cents) per share paid on 31 March 2010 | **636** | 408 |
| (ii) fully franked final dividend of 70 cents (2009: 60 cents) per share to be paid on 30 September 2010* | **810** | 694 |

* Date of payment is subject to change.

## Principal activities

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

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

There have been no significant changes in the nature of these activities during the year.

## Directors

### Information on directors

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

- R L Every (Chairman)
- R J B Goyder (Managing Director)
- T J Bowen (Finance Director)
- C B Carter
- J P Graham
- A J Howarth
- C Macek
- D L Smith-Gander (Director from 27 August 2009)
- W G Osborn (Director from 24 March 2010)
- V M Wallace (Director from 6 July 2010)
- D C White

All directors served on the Board for the period from 1 July 2009 to 30 June 2010, except for D L Smith-Gander who was appointed on 27 August 2009, W G Osborn who was appointed on 24 March 2010 and V M Wallace who was appointed on 6 July 2010.

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report appear on pages 56 and 57 of this Annual Report.

The following director resigned or retired during the year:

- P A Cross resigned as a director on 24 March 2010 (appointed as a director in 2003).

### 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:

| | Bunnings Warehouse Property Trust (units) | Wesfarmers Limited (shares) |
|---|---|---|
| T J Bowen | | 327,619 |
| C B Carter | | 27,133 |
| R L Every | | 24,736 |
| R J B Goyder* | | 770,193 |
| J P Graham | 9,334 | 937,094 |
| A J Howarth | | 10,720 |
| C Macek | | 20,571 |
| W G Osborn | | 1,000 |
| D L Smith-Gander | | 11,847 |
| V M Wallace | | 1,000 |
| D C White | | 13,466 |

* R J B Goyder also holds 100,000 performance rights. The performance rights were issued pursuant to the Group Managing Director Long-Term Incentive Plan. Each performance right is a right to acquire a fully paid ordinary share subject to satisfaction of a performance condition which is based on return on equity. For further details, please see the remuneration report on pages 150 to 165 of this Annual Report.

P A Cross resigned on 24 March 2010. At the date of her resignation she had 16,437 Wesfarmers Limited shares and no Bunnings Warehouse Property Trust units.

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2010 and the number of meetings attended by each director:

| | Board | | Audit Committee | | Remuneration Committee | | Nomination Committee | | Gresham Mandate Review Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (A)[1] | (B)[2] | (A) | (B) | (A) | (B) | (A) | (B) | (A) | (B) |
| **Current directors** | | | | | | | | | | |
| T J Bowen | 8 | 8 | | | | | | | | |
| C B Carter | 8 | 8 | | | 6 | 6 | 3 | 3 | 1 | 1 |
| R L Every | 8 | 8 | 7 | 7 | 6 | 6 | 3 | 3 | | |
| R J B Goyder | 8 | 8 | | | | | | | | |
| J P Graham | 8 | 8 | | | 6 | 6 | 3 | 3 | | |
| A J Howarth | 8 | 8 | 7 | 6 | | | 3 | 3 | | |
| C Macek | 8 | 8 | 7 | 7 | 0 | 0 | 3 | 3 | 1 | 1 |
| W G Osborn[3] | 1 | 1 | | | 2 | 2 | 1 | 1 | | |
| D L Smith-Gander[4] | 6 | 6 | 6 | 6 | | | 2 | 2 | 1 | 1 |
| V M Wallace[5] | 0 | 0 | 0 | 0 | | | 0 | 0 | | |
| D C White | 8 | 8 | 7 | 7 | | | 3 | 3 | 1 | 1 |
| **Previous directors** | | | | | | | | | | |
| P A Cross[6] | 7 | 7 | | | 4 | 4 | 2 | 2 | 0 | 0 |

Notes:

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

2 (B) = number of meetings attended.

3 W G Osborn was appointed a director on 24 March 2010 and has attended eligible Board and committee meetings.

4 D L Smith-Gander was appointed a director on 27 August 2009 and has attended eligible Board and committee meetings.

5 V M Wallace was appointed a director on 6 July 2010 and accordingly did not attend any Board or committee meetings during the 2009/10 financial year.

6 P A Cross resigned as a director on 24 March 2010.

## Insurance and indemnification of directors and officers

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

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

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

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

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

## Indemnification of auditors

The Company's auditor is Ernst & Young.

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

During the financial year:

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

## Directors' and other officers' remuneration

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and company performance are contained in the remuneration report on pages 150 to 165 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 Institute of Chartered Secretaries. She joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of Bunnings Property Management Limited, the responsible entity for the listed Bunnings Warehouse Property Trust. Linda is also Company Secretary of a number of Wesfarmers group subsidiaries.

## Review of results and operations

The operations of the consolidated entity during the financial year and the results of those operations are reviewed on pages 2 to 52 of this Annual Report and in the accompanying financial statements. This review includes information on the financial position of the consolidated entity and its business strategies and prospects for future financial years. In the opinion of the directors, disclosure of further material relating to those matters is likely to result in unreasonable prejudice to the interests of the Company and the consolidated entity. That material has therefore been omitted from the review.

## 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 up from $50,982 million to $51,827 million
- profit for the year up from $1,522 million to $1,565 million
- dividends per share up from $1.10 to $1.25
- total assets up from $39,062 million to $39,236 million
- shareholders' equity up from $24,248 million to $26,694 million
- net borrowings down from $4,435 million to $4,035 million
- net cash flows from operating activities up from $3,044 million to $3,327 million

## Significant events after the balance date

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

- on 19 August 2010, a fully franked final dividend of 70 cents per share resulting in a dividend payment of $810 million was declared for payment on 30 September 2010 (the date of payment is subject to change);
- on 6 July 2010, Wesfarmers announced the appointment of Ms Vanessa Wallace as a new non-executive director to the Board of Wesfarmers, with effect from that date; and
- on 16 September 2010, Wesfarmers announced the resignation from the Board of Wesfarmers of Mr David White effective from the Company's Annual General Meeting scheduled for 9 November 2010.

## Likely developments and expected results

Likely developments in, and expected results of, the operations of the consolidated entity in subsequent years are referred to elsewhere in this report, particularly on pages 6 to 52 of this Annual Report. In the opinion of the directors, disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the Company and the consolidated entity. That material has therefore been omitted from the directors' report.

## Non-audit services

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2010 and received, or is due to receive, the following amounts for the provision of these services:

| | $000s |
|---|---|
| Tax compliance | 575 |
| Assurance related | 1,076 |
| Other | 14 |
| Total | 1,665 |

The Audit 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 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 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 page 149).

The directors received the following declaration from Ernst & Young:


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

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


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

In relation to our audit of the financial report of Wesfarmers Limited for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

**Ernst & Young**

**G H Meyerowitz**
Partner
Perth
16 September 2010



## Environmental regulation and performance

The activities of the consolidated entity are subject to environmental regulation by various authorities throughout Australia and New Zealand.

Licences granted to the consolidated entity regulate the management of air and water quality, 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 adhered to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (which were issued in 2007). The Company's corporate governance statement is on pages 58 to 66 of this Annual Report.

## Corporate information

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

## Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

# Remuneration report 2010 (audited)

## 2010 REMUNERATION SUMMARY

This summary provides an overview of Wesfarmers' remuneration framework and illustrates how our performance for the 2010 financial year has resulted in the reported remuneration outcomes.

The Wesfarmers Board (Board) is committed to ensuring that our executive remuneration framework remains focused on driving a performance culture by rewarding executive performance for the achievement of the Company's short-term and long-term strategy and business objectives and, ultimately, generating satisfactory returns for shareholders.

**Key developments**

During the year, the Board has taken the following steps in relation to senior executive remuneration:

- implemented a freeze for the 2010 financial year (given the challenging economic environment) on fixed remuneration increases for senior executives and fees for non-executive directors;
- introduced mandatory deferral of annual incentive payments above 60 per cent of Fixed Annual Remuneration into shares for senior executives to strengthen the link between at risk remuneration and longer term Company performance, resulting in a strong alignment between the interests of management and shareholders;
- crystallised much of the Company's liability under the historical retention plan (which, while closed in 2009, provided for a service-based retention payment, calculated by reference to total target remuneration, to many of our longer serving senior executives); and
- agreed to seek shareholder approval for any future long-term incentive awards for executive directors.

**Link to performance**

Wesfarmers performance for the 2010 financial year was achieved with earnings improvements across most divisions. Overall financial performance for the Coles, Home Improvement and Office Supplies, Target, Kmart, Energy, Insurance and Resources divisions, and overall Group performance, met or exceeded financial targets set by the Board for 2010. This resulted in the annual incentive plan delivering at or above target bonuses for the executive directors and for senior executives in those divisions. The financial performance for the Industrial and Safety, and Chemicals and Fertilisers divisions were below target levels, which was reflected in the annual incentives for senior executives in those divisions.

A limited number of senior executives also received an allocation of shares this year under the Wesfarmers Long Term Incentive Plan (WLTIP), linking a part of their at-risk remuneration to achieving strong relative growth in return on equity for our shareholders.

**Group Managing Director**

In line with a decision of the Board, the Group Managing Director's fixed remuneration was frozen for the 2010 financial year. Mr Goyder's total reported remuneration for the 2010 financial year is $7,958,071, as shown in the table on page 162. This comprises fixed remuneration (cash salary), non-monetary benefits and post-employment benefits (including superannuation) of $3,228,075 and an annual incentive cash payment of $1,890,000, totalling $5,118,075.

Mr Goyder did not receive a long-term incentive for the 2010 financial year. The performance rights granted to him in September 2008 under the Group Managing Director Long Term Incentive Plan did not satisfy the challenging performance condition set at the time of the initial grant, which requires a return on equity of 12.5 per cent to be achieved in two consecutive years prior to 30 June 2014. The earliest possible vesting date for these performance rights is now 30 June 2012. Mr Goyder did, however, receive the maximum award available under his annual incentive, reflecting achievement of the performance conditions set by the Board linked to 2010 Group financial performance and the 2010 performance of the Coles division. His 2010 reported remuneration also includes an amount of $2,839,996, which represents an accounting expense in relation to his participation in the 2008 Group Managing Director Long Term Incentive Plan, 2008 award under the WLTIP and the deferred component of this 2010 annual incentive. These amounts are disclosed and included in the total reported remuneration under share-based payments, value of shares.

**Managing Director, Coles division**

As described in last year's report, the Managing Director, Coles division, participates in the Coles Long Term Incentive Plan. The Plan is designed to incentivise and reward the Coles Managing Director for implementing turnaround strategies during the first five years of Wesfarmers ownership which generate significant returns to Wesfarmers and its shareholders.

At the end of the second year of the five year turnaround period and, having delivered a 15.8 per cent increase in divisional earnings before interest and tax (EBIT) and an 18 per cent increase in return on capital, compared to the 2009 financial year, $8.4 million has been contributed to the compensation award pool under the Coles Long Term Incentive Plan for the Coles Managing Director, Mr McLeod, with an associated accounting accrual of $4.38 million (being the amount including in our remuneration disclosures this year). This compares with a $6.8 million contribution to the pool in 2009 with the relevant accounting accrual for Mr McLeod in 2009 of $1.53 million. The Plan requires ongoing service with the Coles division over the five year period. No part of the award is payable prior to 30 June 2011 (when a part of any cumulative award will become payable) with the balance payable in annual instalments between 30 June 2011 and 30 June 2013.

Further details of the remuneration framework and actual outcomes for the 2010 financial year are set out below.

# Remuneration report 2010 (audited) (continued)

## OVERVIEW OF REMUNERATION COMPONENTS

| Remuneration component | | Participants: Non-executive directors | Participants: Group Managing Director | Participants: Finance Director/ senior executives | Participants: Coles executives |
|---|---|---|---|---|---|
| Fixed | Fixed Annual Remuneration | | ✓ (page 154) | ✓ (page 154) | ✓ (page 154) |
| | Fees | ✓ (page 152) | | | |
| Annual incentive | | | ✓ (page 154) | ✓ (page 154) | ✓ (page 154) |
| Long-term incentive | | | ✓ (page 159) | ✓ (page 156) | ✓ (page 157) |
| Post-employment (termination) arrangements | Superannuation | ✓ (page 152) | ✓ (page 154) | ✓ (page 154) | ✓ (page 154) |
| | Retention plan | | ✓ (page 160) | ✓ (page 160) | |

## SECTION 1: KEY MANAGEMENT PERSONNEL

Key Management Personnel (KMP) encompasses all directors (executive and non-executive) as well as those executives who have authority and responsibility for planning, directing and controlling the activities of a major revenue-generating division of Wesfarmers. In this report, the terms:

- 'executive directors' refers to the Group Managing Director (Group MD) and Finance Director; and
- 'senior executives' refers to the KMP, excluding the directors.

The following table lists all the KMP referred to in this report, including the five highest remunerated executives of the Company and the Group.

| Executive directors | | Non-executive directors | |
|---|---|---|---|
| R J B Goyder | Group Managing Director | R L Every | Chairman (non-executive) |
| T J Bowen | Finance Director | C B Carter | Director (non-executive) |
| **Senior executives** | | P A Cross | Director (non-executive) – resigned 24 March 2010 |
| S A Butel | Managing Director, Resources division | J P Graham | Director (non-executive) |
| J C Gillam | Managing Director, Home Improvement and Office Supplies division | A J Howarth | Director (non-executive) |
| | | C Macek | Director (non-executive) |
| K D Gordon | Director, Industrial divisions – resigned 13 November 2009 | W G Osborn | Director (non-executive) – appointed 24 March 2010 |
| | | D L Smith-Gander | Director (non-executive) – appointed 27 August 2009 |
| L K Inman | Managing Director, Target division | V M Wallace | Director (non-executive) – appointed 6 July 2010 |
| I J W McLeod | Managing Director, Coles division | D C White | Director (non-executive) |

## SECTION 2: NON-EXECUTIVE DIRECTORS

### Policy

The key principle underpinning non-executive director remuneration is the need to attract skilled and experienced directors to direct the large and diverse business that is the Wesfarmers Group now and into the future.

The Board periodically reviews its approach to non-executive director remuneration and seeks independent advice to ensure it remains in line with the 25 largest companies listed on the ASX, company practice and principles of good corporate governance. The Board decided that no increases would be made to fees in the 2010 financial year given the challenging economic environment. The next fee review will take place effective 1 January 2011.

To preserve the independence and impartiality of the non-executive directors, no element of their remuneration is linked to the performance of the Company. However, to create alignment with shareholders' interests, non-executive directors have the facility to acquire shares out of their fees through a share acquisition plan. Further details regarding the Plan are set out on page 153 of this report.

The Company makes superannuation contributions on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations, and each director may sacrifice part of their fee in return for a further superannuation contribution by the Company. No additional benefits are paid to non-executive directors upon retirement from office.

### Non-executive director fees

Total fees, including committee fees, are set within the maximum aggregate amount approved by shareholders at the 2007 Annual General Meeting – being $3,000,000. The table below provides details of Board and committee fees (inclusive of superannuation) for the 2010 financial year and current committee membership. Fees did not increase in the 2010 financial year. Members of the Nomination Committee do not receive additional fees.

| Main Board | $ |
|---|---|
| Chairman – R L Every | **540,000** |
| Members – all non-executive directors | **170,000** |
| **Audit Committee** | |
| Chairman – A J Howarth | **50,000** |
| Members – R L Every, C Macek, D L Smith-Gander, D C White, V M Wallace (appointed 6 July 2010) | **30,000** |
| **Remuneration Committee** | |
| Chairman – R L Every | **30,000** |
| Members – C B Carter, J P Graham, W G Osborn, C Macek (appointed 14 July 2010) | **15,000** |

## Remuneration report 2010 (audited) (continued)

**Non-executive director remuneration for 2010**

The fees received by the non-executive directors in the 2010 financial year are set out below:

| Non-executive director | | Fees and allowances $ | Short-term benefits[1] $ | Post employment benefits – superannuation and other[2] $ | Total $ |
|---|---|---|---|---|---|
| C B Carter | **2010** | **170,539** | **9,880** | **14,461** | **194,880** |
| | 2009 | 167,255 | 11,272 | 13,745 | 192,272 |
| R L Every[3] | **2010** | **585,539** | **9,880** | **14,461** | **609,880** |
| | 2009 | 382,472 | 33,893 | 56,145 | 472,510 |
| J P Graham[4] | **2010** | **278,600** | **9,880** | **0** | **288,480** |
| | 2009 | 281,550 | 8,538 | 0 | 290,088 |
| A J Howarth | **2010** | **181,099** | **9,880** | **38,901** | **229,880** |
| | 2009 | 158,683 | 8,538 | 53,567 | 220,788 |
| C Macek | **2010** | **182,000** | **9,880** | **18,000** | **209,880** |
| | 2009 | 160,997 | 14,241 | 36,253 | 211,491 |
| W G Osborn[5] | **2010** | **46,342** | **217** | **3,930** | **50,489** |
| | 2009 | 0 | 0 | 0 | 0 |
| D L Smith-Gander[6] | **2010** | **141,363** | **5,874** | **27,685** | **174,922** |
| | 2009 | 0 | 0 | 0 | 0 |
| D C White | **2010** | **180,000** | **9,880** | **20,000** | **209,880** |
| | 2009 | 176,662 | 14,425 | 25,588 | 216,675 |
| **Former non-executive director** | | | | | |
| P A Cross[5] | **2010** | **126,250** | **8,750** | **12,500** | **147,500** |
| | 2009 | 131,806 | 17,384 | 49,194 | 198,384 |
| T R Eastwood[3] | **2010** | **0** | **0** | **0** | **0** |
| | 2009 | 147,818 | 3,181 | 110,861 | 261,860 |
| **TOTAL** | **2010** | **1,891,732** | **74,121** | **149,938** | **2,115,791** |
| | 2009 | 1,607,243 | 111,472 | 345,353 | 2,064,068 |

1 The benefits included in this column are director and officer insurance. In 2009, this benefit also included business-related travel and entertainment expenses.

2 Superannuation contributions are made on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations. This includes any part of a non-executive director's fees which have been sacrificed into superannuation.

3 T R Eastwood retired as Chairman and director on 13 November 2008. R L Every was appointed as Chairman on 13 November 2008.

4 J P Graham's fees are paid to Gresham Partners Limited for participation on the boards of Wesfarmers Limited, Wesfarmers Insurance Pty Ltd and Wesfarmers General Insurance Limited. Of the fees above, $194,880 (2009: $198,288) relate to the parent company.

5 W G Osborn was appointed as a director on 24 March 2010. P A Cross resigned as a director on 24 March 2010.

6 D L Smith-Gander was appointed as a director on 27 August 2009.

**Non-executive director share acquisition plan**

As a result of recent amendments to the tax legislation affecting employee share schemes, the Board suspended the previous Non-Executive Director Share Plan (which was a fee sacrifice plan), and no allocations were made under the Plan in the 2010 financial year.

In order to maintain alignment with shareholders' interests, in March 2010, the Board approved the implementation of a post-tax share purchase plan for non-executive directors under the Wesfarmers Employee Share Acquisition Plan (WESAP). Participation in the plan is voluntary, and enables non-executive directors to use their fees (after deduction of taxation and superannuation) to acquire Wesfarmers shares. The shares are purchased on market, on a monthly basis, and are subject to a 12 month trading restriction, during which time the shares are held by the plan trustee. The plan will operate from 1 July 2010 to 30 June 2011.

**NEW DEVELOPMENTS: 2010 FINANCIAL YEAR**

**Post-tax share acquisition plan introduced**

From 1 July 2010, non-executive directors have the opportunity to regularly acquire shares through a post-tax share acquisition plan.

## SECTION 3: EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

**Remuneration policy and principles**

Given the diversified nature of the Wesfarmers business, the Board considers it essential to have a remuneration framework which reflects this diversity and is structured to reward executives for performance at both a Group level and, for divisional executives, at a divisional level.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on remuneration policies for the Group, including, in particular, the policies governing KMP. The Remuneration Committee seeks independent advice in setting the structure and levels of remuneration. PricewaterhouseCoopers was engaged during the year to provide advice to the Board on remuneration matters. Their advice during the last year covered the supply of market benchmarking data, advice on broader market remuneration practices, and governance updates. Further information regarding the objectives and role of the Remuneration Committee is contained in its Charter, which is available in the Corporate Governance section of the Company's website at www.wesfarmers.com.au

Wesfarmers' remuneration policy for senior executives is guided by the following key principles:

- **be market competitive** – to attract and retain the best people for the job, Wesfarmers positions fixed remuneration and incentives to be competitive with executives in the 25 largest ASX listed companies, with an opportunity for highly competitive total remuneration for superior performance;
- **be performance linked** – a significant proportion of each executive's remuneration is dependent upon Wesfarmers' success and their individual performance; and
- **be shareholder value-aligned** – measures used in the performance incentive plans were chosen to ensure there is a strong link between remuneration paid and the achievement of performance that leads to a satisfactory return to shareholders.

The executive remuneration framework is driven by these key principles and consists of the following components (provided at no cost to the executive):

- base salary (called Fixed Annual Remuneration or 'FAR'); and
- incentive or 'at risk' components including:
  (1) annual incentives, which are heavily weighted to return and earnings-based measures, and are designed to reward executives for meeting financial and non-financial goals which seek to achieve our corporate objectives; and
  (2) long-term incentives, which have a performance hurdle based on growth in return on equity (ROE) in order to ensure a strong link with the creation of shareholder value. Wesfarmers operates a specific plan for the Group MD and for select Coles executives.

Wesfarmers targets a mix of fixed and at risk components for each of the executives disclosed in the remuneration report, which for the 2010 financial year was as follows:

| | Total target annual remuneration | |
|---|---|---|
| | Fixed remuneration % | Incentive or 'at-risk' % |
| Group MD | 40 | 60 |
| Managing Director, Coles division | 20 | 80 |
| Other senior executives | 40 | 60 |

**Fixed Annual Remuneration**

Fixed Annual Remuneration (FAR) consists of base salary and statutory superannuation contributions.

Given the challenging economic environment, the Board implemented a freeze on fixed remuneration increases for senior executives continuing in their current roles for the 2010 financial year, resulting in a zero per cent increase at the annual review in October 2009. The next FAR review will take effect on 1 October 2010.

The amount of FAR for each executive director and senior executive is approved annually by the Board. The initial reference for market relativity is the median of salaries for executives in comparable companies being the group of the 25 largest ASX listed companies, with further consideration given to business and individual performance as well as the ability to retain key talent.

Additional sector-specific data for some senior executives based on major industry sector/particular employment markets is also analysed to capture specific industry trends.

Executive directors and senior executives may also elect to have a combination of benefits provided out of their FAR, including additional superannuation and the provision of a motor vehicle. The value of any non-cash benefits provided to them includes the costs of any fringe benefits tax payable by Wesfarmers as a result of providing the benefit.

**Annual incentives**

**NEW DEVELOPMENTS: 2010 FINANCIAL YEAR**

**Mandatory deferral of a portion of the annual incentive into shares introduced**

(i.e. mandatory deferral of annual incentive payments above 60 per cent of FAR introduced to further align senior executive remuneration with growth in shareholder value and link part of the reward for short-term performance with long-term sustainable Company performance).

**Annual incentive – actual performance 2010 financial year**

Wesfarmers' performance for the 2010 financial year was achieved with earnings improvements across most divisions. Overall financial performance for the Coles, Home Improvement and Office Supplies, Target, Kmart, Energy, Insurance and Resources divisions, and overall Group performance, met or exceeded financial targets set by the Board for 2010. This resulted in the annual incentive plan delivering at or above target bonuses for the executive directors and for senior executives in those divisions. The financial performance for the Industrial and Safety and Chemicals and Fertilisers divisions were below target levels, which was reflected in the annual incentives for senior executives in those divisions.

Specific information relating to the actual annual incentive awards is set out in the table on page 161.

| | | |
|---|---|---|
| What is the annual incentive and who participates? | The annual incentive provides a cash award up to 60 per cent of FAR, with the balance (if any) provided in the form of restricted shares, subject to the satisfaction of performance conditions.<br>All senior executives are eligible to receive an annual incentive. | |
| What is the amount the executive can earn? | **Group MD** | |
| | **% of target performance** | **% of FAR received** |
| | ≤ 92.5% | 0% |
| | 100% | 100% |
| | ≥ 110% | 120% |
| | Pro-rata between these points | |
| | **Senior executives** | |
| | **% of target performance** | **% of FAR received** |
| | ≤ 92.5% | 0% |
| | 100% | 60% |
| | ≥ 110% | 120% |
| | Pro-rata between these points | |
| What are the performance conditions for the 2010 financial year? | **Group MD** | |
| | **Financial (60 per cent)** | **Non-financial (40 per cent)** |
| | – Group Net Profit after Tax (NPAT) with a Group ROE hurdle gate<br>– Coles group turnaround (i.e. EBIT, return on capital and relative comparative store sales growth) | – Individual objectives (i.e. agreed objectives and safety measures) |
| | **Senior executives** | |
| | **Financial (48 to 80 per cent)** | **Non-financial (20 to 52 per cent)** |
| | For Group executives:<br>– Group NPAT<br>For divisional executives:<br>– divisional EBIT<br>– divisional return on capital (ROC) | For Group and divisional executives:<br>– Individual objectives (i.e. agreed objectives, succession and talent management)<br>For divisional executives:<br>– divisional specific objectives (i.e. safety measures, comparative store sales growth, net inventory days) |
| Why were these performance conditions chosen? | The financial performance measures were chosen principally because of their impact on ROE, which is a contributor to achievement of satisfactory returns to shareholders of the Wesfarmers Group.<br>In addition, due to the significant turnaround effort required, the Group MD has a separate performance condition which is dependent on the performance of the Coles division. | |
| When are the performance conditions tested? | Incentive awards are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the Group MD (and in the case of the Group MD, by the Board).<br>The Board reviews the results and can exercise discretion for incentive calculation purposes, based on overall personal and group performance.<br>Annual incentive cash payments and restricted share awards are generally made in September, after the reviews are completed. | |
| What are the key terms of the restricted shares? | As outlined above, the Board has determined that, for the 2010 financial year, a portion of the incentive (i.e. any payment above 60 per cent of FAR for senior executives and the Group MD) will be mandatorily deferred into shares. The shares are subject to a three year trading restriction while the executive remains an employee of Wesfarmers and subject to forfeiture if the executive resigns within one year of the share allocation. The Board determined this enhancement to link annual incentive payments to sustainable longer term performance. | |

## Remuneration report 2010 (audited) (continued)

### Long term incentive plans

#### Summary of plans

| Plan | Participants | Performance/ service period | Discussion |
|---|---|---|---|
| Wesfarmers Long Term Incentive Plan (WLTIP) – current plan | Finance Director and senior executives | 3 years (2008 – 2011) | Page 156 |
| Coles Senior Executive Long Term Incentive Plan (CLTIP) – current plan | Managing Director, Coles division and select Coles executives | 5 years (2008 – 2013) | Page 157 |
| Group Managing Director Long Term Incentive Plan (Rights Plan) – legacy plan | Group MD | 3 to 6 years (2008 – 2014) | Page 159 |

#### Wesfarmers Long Term Incentive Plan (WLTIP)

**2009 WLTIP (for shares allocated in November 2009)**

WLTIP allocations were made in November 2009 and are set out in the table on page 163 of this report.

| | |
|---|---|
| What is the WLTIP and who participates? | The WLTIP links reward with ongoing creation of shareholder value through the annual allocation of shares, subject to satisfaction of long-term performance conditions.<br>All senior executives, other than the Group MD and Coles division executives, participate in the WLTIP.<br>As outlined in the 2009 Annual Report, certain senior executives received a multi-year grant of shares under the 2008 WLTIP, equal to three years' worth of WLTIP shares. The Board approved these allocations as a retention strategy, to assist in attracting new executives and to provide meaningful equity in the Group and alignment with the Group's objectives. It is intended that these executives will not receive full allocations under the WLTIP until 2011, but may receive smaller 'top-up' long-term incentive awards to allow for salary increases, increased performance, new roles or responsibilities or adjustments to remain market competitive. |
| How is the WLTIP allocation determined? | Target performance will generally result in an allocation that is 80 per cent of FAR (although the Group MD may recommend a greater allocation up to 160 per cent of FAR to reward exceptional performance). |
| What are the key terms of awards under the WLTIP? | Shares are allocated to participating executives and only vest upon achievement of the future three year performance condition.<br>Shares allocated to executives are subject to a two year forfeiture condition until 30 June 2011 and an additional restriction period until November 2012 whilst the executive remains employed by Wesfarmers. The shares are held in trust for this period. At the end of the restriction period (and subject to shares not being forfeited) the executive is free to sell or transfer the shares.<br>If shares remain in the trust after the restriction period, the shares may be forfeited if the employment of the executive is terminated because of fraud, theft or other gross misconduct. |
| What are the performance conditions applicable to the annual grants made under the WLTIP? | Wesfarmers' compound annual growth rate (CAGR) in ROE over the performance period must exceed the 50th percentile of the CAGR in ROE of the S&P/ASX 50 Index before shares vest. |
| Why was this performance condition chosen? | The Board considers CAGR in ROE is an appropriate performance hurdle for the 2009 WLTIP on the basis that it:<br>– is a key driver of Wesfarmer's long-term business success and creation of shareholder value;<br>– is the best internal measure of total shareholder return and avoids the unintended consequences of share market volatility; and<br>– creates alignment between Group MD and senior executives, as the Rights Plan (in which the Group MD participates) is also measured against ROE hurdles.<br>Following the completion of the performance period, the Board tests the performance condition on finalisation of the annual accounts. The performance period of 1 July 2008 to 30 June 2011 was chosen to align the performance period for the 2009 WLTIP allocations with that of senior executives who received a multi-year grant in 2008. |
| What happens in the event of a change of control? | The Board has discretion to waive the performance condition attached to the shares in the event of a change of control. |
| What happens if the executive ceases employment during the performance period? | Shares are subject to forfeiture if the executive leaves prior to the end of the three year performance period, or if the future ROE hurdle is not met.<br>If an executive ceases employment during the forfeiture period:<br>– by reason of redundancy, ill health, death or other circumstances approved by the Board, the executive will generally be entitled to a pro-rata number of shares based on achievement of the ROE hurdle for the financial year in which they cease employment; or<br>– for any other reason, the executive will forfeit their shares. |

## Coles Long Term Incentive Plan (CLTIP)

### CLTIP award

At the end of the second year of the initial five year turnaround period of Wesfarmers' ownership, the Coles division is showing encouraging earnings growth and continues to meet Wesfarmers' expectations in line with its ambitious five year plan.

Coles divisional EBIT of $962 million exceeded the target for 2010 under the CLTIP, with performance highlights including:

- Coles division EBIT growth of 15.8 per cent against the 2009 financial year;
- Coles division revenue (excluding fuel sales) growing to $24,430 million (approximately $1 billion higher than the 2009 financial year);
- Coles division ROC increasing to 6.5 per cent (up from 5.5 per cent in the 2009 financial year); and
- Coles division exceeding key health of business factors including new store formats, customer and employee satisfaction score improvements and on-shelf availability of fresh and grocery products.

As indicated in prior years, the turnaround of the Coles division following its acquisition by Wesfarmers in November 2007 presents a significant opportunity to the Group.

To ensure Coles generates acceptable levels of shareholder return for Wesfarmers over the longer term, the CLTIP was designed to attract top global talent, and to reward executives who contribute to the full five year turnaround period.

| | |
|---|---|
| Who participates in the CLTIP? | This Plan provides an increasing incentive pool over the life of the CLTIP to a select number of key executives within the Coles division (including the Coles division Managing Director), for generating earnings beyond an annual EBIT threshold set by the Board. |
| What is the performance period and when do awards become payable? | This is a five year incentive plan (for the initial participants this is 1 July 2008 to 30 June 2013) aligned to the Coles turnaround. Annual performance awards are made over the five year period based on performance. However, the full amount of each award is subject to ongoing service with the Coles division until 30 June 2013. A part (40 per cent) of cumulative awards becomes payable on 30 June 2011, with an additional amount payable from cumulative awards on 30 June 2012 and the balance on 30 June 2013. |
| How is the annual award pool contribution determined and what are the performance conditions? | Each year of the five year turnaround plan an award opportunity is available to participants determined by reference to the Coles division's EBIT performance for that year against the targets approved by the Board.<br><br>If EBIT performance for a year is below a threshold level of EBIT approved by the Board (which is set at an average of 94 per cent of the business plan EBIT target in each year of the plan), no award pool will be available for that year. Once this 'gateway' is passed, an award pool is made available.<br><br>The size of the available pool each year increases as the Coles division's EBIT increases to reflect the greater returns generated for Wesfarmers and its shareholders. In order to encourage exceptional performance, there is no upper limit on the size of the award pool, but award contributions greatly diminish as a percentage of EBIT performance above 100 per cent of the Coles five year performance improvement plan approved by the Board.<br><br>Once the available award pool is determined, the individual entitlement of a CLTIP participant out of that pool is determined by performance against the following conditions applicable to each year of the plan:<br><br>**Financial (80 per cent):**<br>– Annual growth in Coles revenue (excluding fuel sales) against targets<br>– Return on capital invested by Wesfarmers against targets<br><br>**Non-financial (20 per cent):**<br>– Health of Coles business in areas such as customer and employee satisfaction, on-shelf availability, delivery of new stores and ongoing succession planning<br><br>These performance conditions have been selected to provide incentives for achieving annual milestones in the turnaround plan for the Coles division over the first five years of Wesfarmers' ownership which are, in addition to the EBIT improvements, important indicators of a long-term structural turnaround in the Coles business. In particular, these conditions were chosen as:<br>– sustainable profit growth from Coles is a key driver of Wesfarmers' total shareholder return;<br>– maximising revenue growth in the competitive retail markets in which Coles operates is a key indicator of the market attractiveness of, and the quality of management of, Coles' offer which in turn is a key contributor to future profitability; and<br>– achieving a satisfactory return on capital invested in Coles correlate closely with shareholders receiving satisfactory returns to shareholders over time.<br><br>As the Plan is intended to reward longer-term performance designed around the five year turnaround plan for the Coles division, the Board has retained discretion to review and, where appropriate, amend the applicable performance conditions to take account of changed circumstances.<br><br>Noting the five year turnaround period, an additional performance condition relating to key management succession planning applies to the 2012 and 2013 financial years. If the Board does not approve the succession plan in either year, no award accrues for that year. |

## Remuneration report 2010 (audited) (continued)

| | |
|---|---|
| When is performance determined? | Performance against each of the financial targets (EBIT, revenue growth and ROC performance of the Coles division) is determined annually by the Board upon finalising the financial statements.<br>The Board also annually assesses each participant's performance against the non-financial conditions in August or September, at which time the actual award for each participant is determined. |
| Are awards payable in cash or shares? | At least 50 per cent of each award made available to participants each year is payable in cash progressively between 30 June 2011 and 30 June 2013.<br>Up to 50 per cent of any award available to a participant in relation to the 2010 financial year could have been taken in the form of Wesfarmers shares (at the election of participants earlier in the year) which will generally be restricted and remain subject to forfeiture in specified circumstances until 30 June 2013. |
| What happens in the event of a change of control of Wesfarmers or the sale of the Coles division? | The Board may determine that the restrictions applicable to accrued awards under CLTIP do not apply in the event of a change of control.<br>In the event of the sale of the Coles division, the Board has discretion to vest all or part of the award for the year in which the sale occurs. |
| What happens if the executive ceases employment during the performance period? | No amount is payable under the CLTIP if a participant ceases employment prior to 30 June 2011.<br>After this date, if Wesfarmers terminates a participant's employment (other than for cause) all accrued awards vest at that time (i.e. those referable to earlier years performance).<br>If a participant resigns after 30 June 2011 but before 30 June 2012, 40 per cent of any awards for the 2009, 2010 and 2011 financial years will be paid/released. If resignation occurs between 30 June 2012 and 30 June 2013, 60 per cent of any awards for the first four years of the five year plan will be paid/released. |
| What are the specific targets under the CLTIP for future years? | The financial targets for the Coles division are aligned to the five year turnaround of this business as approved by the Board following the acquisition of Coles, and are commercially sensitive and therefore not disclosed. |
| What amount is shown as remuneration for Mr McLeod on an annual basis? | Recognising that performance awards under the CLTIP are made annually, and the payment of awards is subject to an ongoing service condition, an amount of the award pool is accrued in each year of the CLTIP.<br>The accounting accrual for the 2010 financial year in relation to Mr McLeod's potential awards earned over the first two years of operation of the CLTIP (as shown in the table on page 162) was $4.38 million. This compares to the amount of $1.53 million accrued in relation to the award pool created in the 2009 financial year (when there was still four years of the five year service condition to be completed). The accounting accrual reflects the amortisation of the pool contributions as required under accounting standards over the period of the CLTIP. |
| What amounts have been contributed to the award pool and what potential awards are available to Mr McLeod in future years of the CLTIP? | The CLTIP is performance based and contribution to the award pool in respect of Mr McLeod in the first two years ($6.8 million in the 2009 financial year and $8.4 million in the 2010 financial year) has been $15.2 million. Assuming the current Board approved business plan for Coles is achieved, the average amount for the next three years of the Plan that could be allocated to Mr McLeod would approximate $7.5 million per annum. The actual amount contributed, if any, to the award pool in future years is based on the actual EBIT achieved.<br>As indicated above, the plan is uncapped, however, award contributions to the pool greatly diminish as a percentage of EBIT performance above 100 per cent of the Coles five year performance improvement plan approved by the Board. All award pool contributions are subject to meeting the performance and ongoing service conditions applicable under the CLTIP. |

## SECTION 4: SERVICE AGREEMENTS

The remuneration and other terms of employment for the executive directors and senior executives are covered in formal employment contracts. All service agreements are for unlimited duration, except for Mr McLeod who is employed under a service agreement with a duration of five years (expiring 30 June 2013). Details of awards under the relevant incentive plans are set out earlier in this report.

| Name | Notice periods/Termination payment |
|---|---|
| R J B Goyder | 12 months notice (or payment in lieu)<br>May be terminated immediately for serious misconduct |
| I J W McLeod | 12 months notice by either party except during the final year of his contract, in which case, notice is for the balance of the contract<br>In addition to notice, Mr McLeod is entitled to a payment equal to his FAR plus target annual incentive<br>If terminated by the Company between 1 July 2011 and 30 June 2013, this termination payment is reduced by an amount equal to any accrued entitlement under the CLTIP<br>May be terminated immediately for serious misconduct |
| T J Bowen[1] | Three months notice by either party<br>May be terminated immediately for serious misconduct |
| Other senior executives[1] | Three months notice by either party, and six months notice in the case of redundancy<br>May be terminated immediately for serious misconduct |

1 As outlined on page 160, a portion of the retention incentive previously earned for satisfying the applicable service condition, equal to nine months FAR, is payable to these executives at the time of termination of employment (except in the case of termination for serious misconduct).

Each of the service agreements of current KMP (excluding Mr Bowen) were entered into prior to the amendments to the *Corporations Act 2001* regarding the payment of benefits on termination coming into effect on 24 November 2009. In accordance with the Federal Government's intentions, entitlements under the pre-existing contracts will, in general, not be subject to the new limits on termination payments. Following the operational restructure, as announced to the market on 8 February 2010, and the resultant changes to Mr Bowen's role, the Company entered into a new service agreement with Mr Bowen which has been drafted in compliance with the new legislative provisions. The Company is also mindful that the new provisions will apply to agreements entered into with any new KMP.

## SECTION 5: LEGACY ARRANGEMENTS

### Group Managing Director Long Term Incentive Plan (Rights Plan) – 2008 grant

During 2008, the Group MD was granted 100,000 performance rights under the Rights Plan. Each performance right entitles the Group MD to one ordinary share, subject to satisfaction of a performance hurdle which is based on sustained growth in ROE over the performance period, being 1 July 2008 to 30 June 2014. Under the terms of the Plan, an additional 100,000 performance rights (up to a maximum of 400,000) are available for each one per cent that actual ROE exceeds the initial stretch hurdle during the performance period and that is sustained for two consecutive years.

For the performance rights granted to the Group MD to vest, ROE for the Group must exceed 12.5 per cent per annum sustained over a consecutive two year period during the performance period. The actual ROE generated by the Wesfarmers Group for the 2010 financial year was 6.4 per cent. Given that the threshold performance condition was not met this year, the earliest time the performance rights can now vest is 30 June 2012. For the maximum number of additional rights to be granted to the Group MD, Wesfarmers ROE must equal or exceed 16.5 per cent in two consecutive years prior to 30 June 2014.

Details of the initial grant made to the Group MD on 30 September 2008 are set out in the table below. The earliest possible vesting date for these performance rights is now 30 June 2012.

| Executive director | Held at 1 July 2009[1] | Vested during year | Forfeited during year | Held at 30 June 2010 |
|---|---|---|---|---|
| R J B Goyder | 100,000 | – | – | 100,000 |

1 Based on the probability of reaching the ROE hurdle of 12.5 per cent, no accrual was recognised in the 2010 financial year.

**Retention incentive plan**

The Group retention incentive plan was closed to new participants effective from February 2009. As a result of the original design of the plan, however, the Company's liability continues to increase in line with increases in a participant's remuneration. Accordingly, the Board has taken positive steps this year to crystallise and cap the Company's liability under the plan.

**NEW DEVELOPMENTS: 2010 FINANCIAL YEAR**

Company's liability largely crystallised and capped, with participant's future entitlements commuted to shares and accrued entitlements paid out.

Historically, this plan offered to certain key Group executives, a retention payment of a maximum of one times Total Target Remuneration (or one times FAR in the case of the Group MD) that accrued proportionately over the first five years of a participant's employment as a senior executive. Total Target Remuneration (TTR) comprises FAR plus target annual incentive (60 per cent of FAR) plus target annual long-term incentive (80 per cent of FAR). Payment was not subject to performance, only continued service.

Except in the case of the Group MD, a portion of each participant's 'earned' retention incentive equal to nine months' FAR will be retained in its present form – that is the amount of the retention incentive payable upon termination of employment. A participant will forfeit his or her entitlement to this payment where he or she breaches a material provision of his or her service agreement, is summarily dismissed or breaches applicable post-employment restraints.

As each of these senior executives currently only has a contractual entitlement to three months' notice on termination of employment and current market practice indicates that these executives would normally be entitled to 12 months' notice (or payment in lieu of notice), the reservation of this part of the retention incentive to be paid at the time of termination of employment approximates market practice in this regard.

The Company offered to pay out any part of the retention incentive in excess of nine months' FAR that was 'earned' by the participants (i.e. related to that part of the five year service condition that had been completed as at 30 June 2010). Payments totalling $7.6 million were made to five KMP on 30 June 2010 (calculated by reference to TTR at 30 June 2010). These amounts had previously been provided for by the Company and were entitlements of participants. Accordingly, the liability of the Group for this amount has been determined and no further liability will arise where remuneration of these participants is increased in future years.

The Company also offered to commute all 'unvested' entitlements (i.e. those related to that part of the five year service condition not served as at 30 June 2010) into restricted shares. This agreement introduced a link between the continuing benefits under this Plan and changes in shareholder value. Details of the shares allocated to KMP on 30 June 2010 (allocation date) are set out in the table below.

| Name | Number allocated[1] | Value at allocation | Share price at allocation | Forfeiture date |
|---|---|---|---|---|
| S A Butel | 22,730 | $662,380 | $29.14 | 11 September 2011 |
| L K Inman | 61,768 | $1,799,995 | $29.14 | 23 November 2012 |

1 The number of shares awarded is determined based upon the share price at the date of allocation. For accounting purposes, the grant date for the shares is 12 April 2010.

These shares remain subject to the same service condition (i.e. the participant must remain employed until the end of the original five year period) and vest progressively in line with the original payout factor provided for under the Plan. The shares are forfeited where the participant breaches a material provision of their service agreement, is summarily dismissed, or resigns prior to the forfeiture date set out above.

As outlined above, the Board believes the close out of the retention plan is in the best interests of the Company as it removes a purely service based retention incentive that increases in line with a participant's remuneration throughout their employment and which provides no further incentive or retention element once the five year service period is completed.

## SECTION 6: REMUNERATION TABLES AND DATA

### Awards under the annual incentive plans

| Executive directors | Total annual incentive[1] $ total | Total incentive awarded (% of maximum award)[2] Year ended 30 June 2010 |
|---|---|---|
| R J B Goyder | $3,780,000 | 100% |
| T J Bowen | $1,800,000 | 100% |
| **Senior executives** | | |
| S A Butel | $745,200 | 90.0% |
| J C Gillam | $1,344,000 | 100% |
| K D Gordon[3] | $376,000 | 33.3% |
| L K Inman | $1,338,750 | 89.3% |
| I J W McLeod[4] | $1,462,810 | 61.0% |

1 Annual incentive awards for the 2010 financial year were paid in cash to a maximum of 60 per cent of FAR, with the balance mandatorily deferred into shares. Detail of the portion of the total annual incentive, paid in cash, is set out in the table on page 162 (under the column titled Short-term benefits, Short-term incentive) and detail of the remainder of the total annual incentive, allocated in shares, is set out in the table below.

2 The maximum annual incentive payment a KMP can earn for the 2010 financial year is 120 per cent of FAR. Any amount not earned/awarded is not paid to the executive. The annual incentive payment for senior executives for target performance is 60 per cent of FAR, and 100 per cent of FAR for the Group MD.

3 K D Gordon resigned on 13 November 2009 and was paid a pro-rata incentive payment for the period of the plan year worked, based on achievement of financial targets and individual performance objectives.

4 I J W McLeod is employed on a fixed term employment contract and is not mandatorily required to defer a portion of annual incentive into shares, and therefore does not appear in the table below.

### Shares allocated under the annual incentive plans

The table below sets out shares allocated to executive directors and senior executives during the 2010 financial year, which is the first year that an allocation has been made under the annual incentive plan. The shares are subject to a three year trading restriction while the executive remains an employee of Wesfarmers and subject to forfeiture if the executive resigns employment within one year of the share allocation. These shares form part of the total annual incentive amount above, with the remainder of the annual incentive paid in cash.

| Name | Date allocated[1] | Number allocated[1] | Value at allocation[2] | Share price at allocation |
|---|---|---|---|---|
| R J B Goyder | 10 September 2010 | 55,834 | $1,889,980.90 | $33.85 |
| T J Bowen | 10 September 2010 | 26,587 | $899,969.95 | $33.85 |
| S A Butel | 10 September 2010 | 9,784 | $331,188.40 | $33.85 |
| J C Gillam | 10 September 2010 | 19,852 | $671,990.20 | $33.85 |
| L K Inman | 10 September 2010 | 17,392 | $588,719.20 | $33.85 |

1 The number of shares awarded is determined based upon the share price at the date of allocation. For accounting purposes, the grant date for the 2010 annual incentive plan is 1 July 2009.

2 44.4 per cent of the value is shown in the table on page 162 (under the column titled Share based payments, Value of shares – short term incentive) as the 2010 annual incentive mandatory deferral into shares commenced vesting from 1 July 2009 and is subject to forfeiture if the executive resigns prior to 10 September 2011, as described above.

## Remuneration report 2010 (audited) (continued)

### Remuneration of the KMP disclosed in the 2010 remuneration report

| | Short-term benefits | | | | Post-employment benefits | | Share-based payments[1] | | Termination benefits | Total | Percentage performance related[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cash salary[3] $ | Short-term incentive $ | Non-monetary benefits[4] $ | Other[4] $ | Superannuation $ | Other benefits[5] $ | Value of shares – short-term incentive & cash settled LTI awards $ | Value of shares – long-term incentive $ | Termination payments $ | $ | % |
| **Executive directors** | | | | | | | | | | | |
| R J B Goyder (Group Managing Director) | | | | | | | | | | | |
| 2010 | 3,001,597 | 1,890,000 | 115,738 | 9,880 | 48,360 | 52,500 | 840,000 | 1,999,996 | 0 | 7,958,071 | 59.4% |
| 2009 | 2,974,457 | 1,100,943 | 156,660 | 8,538 | 38,000 | 202,500 | 0 | 3,644,977 | 0 | 8,126,075 | 58.4% |
| T J Bowen[6] (Finance Director) | | | | | | | | | | | |
| 2010 | 1,243,307 | 900,000 | 12,035 | 328,880 | 23,360 | 1,013,418 | 400,000 | 1,743,998 | 0 | 5,664,998 | 53.7% |
| 2009 | 1,030,833 | 855,693 | 94,774 | 340,391 | 40,000 | 893,359 | 0 | 2,127,995 | 0 | 5,383,045 | 55.4% |
| **Senior executives** | | | | | | | | | | | |
| S A Butel (Managing Director, Resources division) | | | | | | | | | | | |
| 2010 | 593,806 | 414,000 | 49,477 | 9,880 | 48,360 | 76,833 | 147,200 | 763,487 | 0 | 2,103,043 | 63.0% |
| 2009 | 537,041 | 603,118 | 61,895 | 8,538 | 99,453 | 377,312 | 0 | 707,481 | 0 | 2,394,838 | 54.7% |
| J C Gillam (Managing Director, Home Improvement and Office Supplies division) | | | | | | | | | | | |
| 2010 | 1,096,640 | 672,000 | 9,267 | 115,058 | 23,360 | 18,667 | 298,667 | 1,743,998 | 0 | 3,977,657 | 68.2% |
| 2009 | 1,040,547 | 740,970 | 29,102 | 113,716 | 49,453 | 306,667 | 0 | 2,253,988 | 0 | 4,534,443 | 66.0% |
| K D Gordon (Director, Industrial divisions – resigned 13 November 2009) | | | | | | | | | | | |
| 2010 | 326,480 | 376,000 | 23,166 | 3,681 | 9,733 | 55,284 | 0 | 1,521,720 | 119,365 | 2,435,429 | 77.9% |
| 2009 | 841,885 | 169,200 | 64,546 | 8,538 | 49,453 | 1,036,423 | 0 | 1,452,181 | 0 | 3,622,226 | 44.8% |
| L K Inman[7] (Managing Director, Target division) | | | | | | | | | | | |
| 2010 | 1,139,716 | 750,000 | 24,578 | 9,880 | 46,421 | 451,518 | 261,667 | 1,535,486 | 0 | 4,219,266 | 60.4% |
| 2009 | 854,915 | 927,000 | 25,341 | 208,538 | 99,453 | 525,598 | 0 | 1,035,496 | 0 | 3,676,341 | 53.4% |
| I J W McLeod (Managing Director, Coles division) | | | | | | | | | | | |
| 2010 | 1,941,518 | 1,462,810 | 105,699 | 109,880 | 14,461 | 33,333 | 4,380,000 | 0 | 0 | 8,047,701 | 72.6% |
| 2009 | 1,941,710 | 1,488,161 | 164,677 | 81,002 | 13,745 | 33,333 | 1,530,000 | 0 | 0 | 5,252,628 | 57.5% |
| **Former KMPs and senior executives disclosed under the *Corporations Act 2001*** | | | | | | | | | | | |
| G T Tilbrook (Finance Director – retired 1 May 2009) | | | | | | | | | | | |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 2009 | 864,657 | 0 | 69,103 | 7,134 | 87,321 | 198,711 | 0 | 2,824,980 | 0 | 4,051,906 | 69.7% |
| **TOTAL 2010** | **9,343,064** | **6,464,810** | **339,960** | **587,139** | **214,055** | **1,701,553** | **6,327,534** | **9,308,685** | **119,365** | **34,406,165** | |
| 2009 | 10,086,045 | 5,885,085 | 666,098 | 776,395 | 476,878 | 3,573,903 | 1,530,000 | 14,047,098 | 0 | 37,041,502 | |

## Remuneration report 2010 (audited) (continued)

1 Share-based payments: Refer to page 154 for detailed disclosures under the annual incentive plans and pages 156 to 159 for the various long-term incentive plans.

The amounts included for the 'Value of shares – short-term incentives' includes the portion of the 2010 annual incentive that has been deferred into shares and is recognised for accounting purposes over the performance and forfeiture periods, together referred to as the service period. Refer to page 161 for additional information. The amount for I J W McLeod relates to the cash settled award made for the period under the CLTIP, refer to page 157 for additional information.

The amounts included for the 'Value of shares – long-term incentives' for the 2009 WLTIP are detailed on page 163. For accounting purposes, the 2008 WLTIP annual grant and 2008 WLTIP multi-year performance grant continue to be expensed in the 2010 financial year as these shares are subject to performance and forfeiture conditions, together referred to as the service period. Further details of the 2008 WLTIP allocations are provided on page 172 of the 2009 Annual Report.

2 Percentage performance related is the sum of the short-term incentive and long-term incentive (share-based payments) divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year, as compared to the target percentage of remuneration at risk shown on page 154.

3 Unless indicated otherwise, total fixed remuneration was not increased for the 2010 financial year in line with a decision by the Board. Notwithstanding this, the amount of the individual components of fixed remuneration may vary depending on the elections made by executives.

4 Short-term benefits, non-monetary benefits, includes the cost to the Company of providing parking, vehicle, health insurance, life insurance and travel.

Short-term benefits, other, includes the cost of director and officer insurance, relocation assistance, housing allowance and living away from home allowance.

5 Post-employment benefits, other benefits, includes long service leave accrual for the year and retention plan accrual from last year to this year (described on page 160). The retention plan accrual from last year to this year is impacted by any FAR increases as a result of a promotion, or if the executive is still accruing a benefit within the five year service period. As outlined on page 160, participants' future entitlements to retention arrangements were commuted to shares and accrued entitlements in excess of nine months FAR were paid out. Where the retention incentive has previously been recognised for accounting purposes no additional amounts have been shown in the above table. The allocation of restricted shares for any unvested entitlements will be recognised for accounting purposes over the remaining service period.

6 T J Bowen – as disclosed to the market on 8 February 2010, Mr Bowen as Finance Director would also take responsibility for Wesfarmer's three industrial divisions (i.e. CSBP, Wesfarmers Energy and Wesfarmers Industrial and Safety) and participate on the newly formed management committee to ensure coordination between Kmart and Target on strategic and other areas of common interest. His cash salary was adjusted to reflect this increase in workload and responsibility during the year. The short-term other benefits also include an amount of $319,000 which represents a payment for relocation costs (including a housing capital loss) from Melbourne to Perth.

7 L K Inman – as disclosed to the market on 8 February 2010, Ms Inman has been appointed to chair the management coordination committee between Target and Kmart on strategic and other areas of common interest. Her cash salary was adjusted to reflect this increase in workload and responsibility during the year.

### Shares allocated under the long-term incentive plans

The table below sets out shares allocated to executive directors and senior executives during the 2010 financial year (WLTIP 2009 allocation).

| Name | Date allocated[1] | Number allocated[1] | Value at allocation[2] | Share price at allocation date |
|---|---|---|---|---|
| S A Butel | 20 November 2009 | $19,203 | $551,989 | 28.74 |
| L K Inman | 20 November 2009 | $34,788 | $999,979 | 28.74 |

1 The number of shares awarded is determined based upon the share price at the date of allocation. For accounting purposes, the grant date for the 2009 WLTIP is 1 July 2009.

2 50 per cent of the value is shown under share based payments as the 2009 WLTIP annual grant commenced vesting from 1 July 2009 and is subject to forfeiture if the executive resigns prior to 30 June 2011, as described on page 156.

## SECTION 7: OTHER INFORMATION

### Share trading policy

Wesfarmers' share trading policy prohibits executive directors and senior executives from entering into transactions or arrangements which transfer the risk of any fluctuation in the value of shares obtained under an employee share plan for so long as the shares remain subject to a restriction on disposal under the plan. Strict compliance with the share trading policy is a condition of employment. Breaches of the policy are subject to disciplinary action, which may include termination of employment.

The share trading policy requires Wesfarmers directors and senior executives to advise the Company Secretary if they intend to enter into, or have entered into, a margin lending or other security arrangement affecting the Company's securities. The Company Secretary, in consultation with the Chairman, determines if such arrangements are material and require disclosure to the market.

### Company performance

The table below summarises details of Wesfarmers' earnings (shown in the form of earnings per ordinary share and NPAT) and the consequences of that performance on shareholder value for the financial year and the previous four financial years in the form of dividends, changes in share price, any returns of capital and return on equity (in accordance with the requirements of the *Corporations Act 2001*).

| Financial year ended 30 June | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Net profit after tax (NPAT) ($m) | 869[1] | 786 | 1,063[2] | 1,522[5] | 1,565 |
| Dividends per share (cents) | 215 | 225 | 200 | 110 | 125 |
| Closing share price ($ as at 30 June) | 35.33 | 45.73 | 37.30 | 22.76 | 28.67[3] |
| Earnings per ordinary share (cents)[4] | 218.5 | 195.2 | 174.2 | 158.5[5] | 135.7 |
| Return on equity (rolling 12) | 31.1[1] | 25.1 | 8.6 | 7.3[5] | 6.4 |
| Capital returns per share (cents) | – | – | – | – | – |

1 Excluding the sale of ARG.
2 Restated due to finalisation of acquisition accounting for the Coles group.
3 Weighted average closing share price as at 30 June 2010 (WES $28.65, WESN $28.79).
4 2005 to 2008 earnings per share restated for the entitlement offers.
5 Restated due to a change in accounting policy for coal rebates payable and rights to mine.

Information is presented in accordance with International Financial Reporting Standards (IFRS), which were effective from 1 July 2005.

## Remuneration report 2010 (audited) (continued)

**Independent audit of remuneration report**

The remuneration report has been audited by Ernst & Young. Please see page 167 of this Annual Report for Ernst & Young's report on the remuneration report.

This directors' report, including the remuneration report, is signed in accordance with a resolution of the Directors of Wesfarmers Limited.

**R L Every**
Chairman

**R J B Goyder**
Managing Director
Perth, 16 September 2010

# 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 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 2010 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 note 2(b); and

   1.3 there are reasonable grounds to believe that the consolidated entity 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 2010.
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 32 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 33.

On behalf of the Board:

Bob Every

**R L Every**
Chairman

Richard Goyder

**R J B Goyder**
Managing Director
Perth, 16 September 2010

# Independent auditor's report

to the members of Wesfarmers Limited

**Report on the Financial Report**

We have audited the accompanying financial report of Wesfarmers Limited, which comprises the balance sheet as at 30 June 2010, the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

**Auditor's Opinion**

In our opinion:

1. the financial report of Wesfarmers Limited is in accordance with the *Corporations Act 2001*, including:
   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 150 to 165 of the directors' report for the year ended 30 June 2010. 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.

**Auditor's Opinion**

In our opinion the Remuneration Report of Wesfarmers Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

**Ernst & Young**

**G H Meyerowitz**
Partner
Perth
16 September 2010

# Annual statement of coal resources and reserves

as at 30 June 2010

## Coal resources

The table below details the coal resources for the Wesfarmers Group, as at 30 June 2010:

| Mine | Ownership | Beneficial interest | Location of tenement | Likely mining method | Coal type | Coal resources tonnes (millions) Measured | Indicated | Inferred | Total | Resource quality Ash (%) | CV (MJ/kg) | Sulphur (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Premier** | Wesfarmers Premier Coal Limited | 100% | Collie, Western Australia | Open cut | Steaming | 345 | 127 | 67 | 539 | 7.1 | 19.9 | 0.60 |
| **Curragh** | Wesfarmers Curragh Pty Ltd | 100% | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 378 | 140 | 171 | 689 | 16.5 | 29.0 | 0.55 |
| **Bengalla** | Wesfarmers Bengalla Limited | 40% | Hunter Valley, New South Wales | Open cut and underground | Steaming | 30 | 81 | 59 | 170 | 20.6 | 25.1 | 0.60 |

Resource notes:

1 Premier's resource quality is on a 25 per cent moisture basis.

2 Premier's minimum seam thickness for resources is 0.35 metres.

3 Curragh's resource quality is on an air-dried basis.

4 Bengalla's coal resources are **in addition** to coal reserves.

5 Curragh and Premier's coal resources **are inclusive** of coal reserves.

6 Bengalla's resource quality is on an air-dried basis.

7 Bengalla's resources as stated incorporate 100 per cent of the site resources, with Wesfarmers Bengalla Limited's beneficial interest being 40 per cent.

## Coal reserves

The table below details the coal reserves for the Wesfarmers Group, as at 30 June 2010:

| Mine | Ownership | Beneficial interest | Location of tenement | Likely mining method | Coal type | Coal reserves tonnes (millions) Proved | Probable | Total | Reserves quality inclusive of loss and dilution Ash (%) | CV (MJ/kg) | Sulphur (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Premier** | Wesfarmers Premier Coal Limited | 100% | Collie, Western Australia | Open cut | Steaming | 85 | 28 | 113 | 7.7 | 19.4 | 0.63 |
| **Curragh** | Wesfarmers Curragh Pty Ltd | 100% | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 255 | 5 | 260 | 22.0 | 24.9 | 0.53 |
| **Bengalla** | Wesfarmers Bengalla Limited | 40% | Hunter Valley, New South Wales | Open cut | Steaming | 83 | 81 | 164 | 26.5 | 23.0 | 0.60 |

Reserve notes:

1 Premier's reserve qualities are on a 26.5 per cent moisture basis.

2 Curragh's reserve quality ash is on an as-received basis.

3 Curragh's reserve quality Calorific Value (CV) and sulphur is on an air-dried basis.

4 Bengalla's reserve qualities are on an air-dried basis.

5 Bengalla's reserves as stated incorporate 100 per cent of the site reserves, with Wesfarmers Bengalla Limited's beneficial interest being 40 per cent.

6 Reserve qualities are inclusive of mining loss and out-of-seam dilution.

# Annual statement of coal resources and reserves
as at 30 June 2010

## Characteristics of coal reserves and resources

**Premier**

The coal is sub-bituminous and is used in the domestic market, both as steaming coal and in industrial processes. The resource is contained in 65 seams of varying coal quality characteristics. Coal is currently produced from 13 of these seams. Coal is extracted by open cut methods, currently to depths less than 145 metres below the ground surface.

**Curragh**

The coal is bituminous and is used for power generation (principally domestic) and metallurgical processes (primarily steel production overseas). The resource is contained in five seams of varying thickness and quality characteristics. Coal is produced from all of these seams. Coal is extracted by open cut methods and processed through a wash plant using dense medium cyclones and froth flotation.

**Bengalla**

The coal is bituminous and used in domestic and export markets for power generation. Coal is extracted from eight seams of varying thickness and quality characteristics. These seams produce high yielding, high energy, generally low sulphur coals which are well suited to export and domestic power generation. The seams occur at relatively shallow depths and dip gently to the west. Coal is extracted by open cut methods.

## JORC Code compliance

The statement of coal resources and reserves presented in this report has been produced in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, December 2004 (the 'JORC Code').

The information in this report relating to coal resources and reserves is based on information compiled by Competent Persons (as defined in the JORC Code, and listed below). All Competent Persons have at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity they are undertaking, to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

All of the coal resource information is inclusive of coal reserves unless otherwise stated.

**Competent Persons**

**Premier** Mr Damien Addison, a full-time employee of Wesfarmers Premier Coal Limited, a wholly owned subsidiary of Wesfarmers Limited. Member AIG

Mr Johan Ballot, a full-time employee of Wesfarmers Premier Coal Limited, a wholly owned subsidiary of Wesfarmers Limited. Member AusIMM

**Curragh** Mr Paul O'Loughlin, a full-time employee of Curragh Queensland Mining Pty Ltd, a wholly owned subsidiary of Wesfarmers Curragh Pty Ltd. Member AusIMM

Ms Malise Jenkins, a full-time employee of Curragh Queensland Mining Pty Ltd, a wholly owned subsidiary of Wesfarmers Curragh Pty Ltd. Member AusIMM

**Bengalla** Mr Jonathon Buddee, a full-time employee of Rio Tinto Coal Australia Pty Limited. Member AusIMM

Mr Ken Preston, a full-time employee of Rio Tinto Coal Australia Pty Limited. Member AusIMM

Mr John Bamberry, a full-time employee of Rio Tinto Coal Australia Pty Limited. Member AIG

# Shareholder information

Wesfarmers Limited and its controlled entities

## Substantial shareholders

As at the date of this report the Commonwealth Bank of Australia Limited and its subsidiaries, holding 5.15 per cent, is a substantial shareholder for the purposes of Part 6C.1 of the *Corporations Act 2001*.

## Voting rights

Wesfarmers fully paid ordinary shares carry voting rights of one vote per share.

Wesfarmers partially protected shares carry voting rights of one vote per share.

## Distribution of members and their holdings

| Size of holdings | Wesfarmers fully paid ordinary shares number of shareholdings | Wesfarmers partially protected shares number of shareholdings |
|---|---|---|
| 1 – 1,000 | 405,705 | 290,466 |
| 1,001 – 5,000 | 80,117 | 8,957 |
| 5,001 – 10,000 | 8,878 | 560 |
| 10,001 – 100,000 | 4,778 | 244 |
| 100,001 – and over | 211 | 44 |

There were 14,895 holders holding less than a marketable parcel of Wesfarmers fully paid ordinary shares.

There were 6,765 holders holding less than a marketable parcel of Wesfarmers partially protected shares.

Less than 1.21 per cent of shareholders have registered addresses outside Australia.

## Twenty largest shareholders

**Fully paid ordinary shares**

The 20 largest shareholders of ordinary shares on the Company's register as at 16 September 2010 were:

| Name | Number of shares | % of issued capital |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 162,979,673 | 16.21 |
| J P Morgan Nominees Australia Limited | 140,829,444 | 14.01 |
| National Nominees Limited | 78,750,833 | 7.83 |
| Citicorp Nominees Pty Limited | 48,694,660 | 4.84 |
| Cogent Nominees Pty Limited | 10,880,586 | 1.08 |
| Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fnd A/C) | 9,363,186 | 0.93 |
| ANZ Nominees Limited (Cash Income A/C) | 7,790,913 | 0.78 |
| AMP Life Limited | 7,623,703 | 0.76 |
| Queensland Investment Corporation | 6,181,706 | 0.61 |
| Australian Foundation Investment Company Limited | 6,165,951 | 0.61 |
| CPU Share Plans Pty Limited (WES WLTIP Control A/C) | 4,477,810 | 0.45 |
| ARGO Investments Limited | 4,215,376 | 0.42 |
| Perpetual Trustee Company Limited | 3,778,553 | 0.38 |
| Cogent Nominees Pty Limited (SMP Accounts) | 3,022,382 | 0.30 |
| RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C) | 2,971,115 | 0.30 |
| Invia Custodian Pty Limited (Wesfarmers Ltd DIP A/C) | 2,836,947 | 0.28 |
| UBS Wealth Management Australia Nominees Pty Ltd | 2,599,720 | 0.26 |
| Citicorp Nominees Pty Limited (CFSIL CFS WS Aust Shre A/C) | 2,573,950 | 0.26 |
| UBS Nominees Pty Ltd | 2,458,320 | 0.24 |
| M F Custodians Ltd | 2,207,310 | 0.22 |

The percentage holding of the 20 largest shareholders of Wesfarmers fully paid ordinary shares was 50.77.

## Twenty largest shareholders (continued)

**Partially protected shares**

The 20 largest shareholders of partially protected shares on the Company's register as at 16 September 2010 were:

| Name | Number of shares | % of issued capital |
|---|---|---|
| National Nominees Limited | 25,663,384 | 16.89 |
| J P Morgan Nominees Australia Limited | 17,858,550 | 11.76 |
| HSBC Custody Nominees (Australia) Limited | 12,765,920 | 8.40 |
| Citicorp Nominees Pty Limited | 3,339,588 | 2.20 |
| M F Custodians Ltd | 3,022,617 | 1.99 |
| AMP Life Limited | 2,810,535 | 1.85 |
| Brispot Nominees Pty Ltd (House Head Nominee No 1 A/C) | 1,935,786 | 1.27 |
| Australian Foundation Investment Company Limited | 1,400,120 | 0.92 |
| ANZ Nominees Limited (Cash Income A/C) | 1,181,264 | 0.78 |
| CS Fourth Nominees Pty Ltd (Unpaid A/C) | 1,033,583 | 0.68 |
| Cogent Nominees Pty Limited (SMP Accounts) | 1,024,952 | 0.67 |
| Australian Reward Investment Alliance | 880,106 | 0.58 |
| Cogent Nominees Pty Limited | 822,570 | 0.54 |
| Neweconomy Com Au Nominees Pty Limited (SBL Account) | 703,000 | 0.46 |
| Mr Peter Alexander Brown | 684,454 | 0.45 |
| The Myer Family Company Pty Ltd | 639,053 | 0.42 |
| UBS Nominees Pty Ltd | 545,690 | 0.36 |
| Neweconomy Com Au Nominees Pty Limited (900 Account) | 439,948 | 0.29 |
| Perpetual Trustee Company Limited | 438,828 | 0.29 |
| RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C) | 419,083 | 0.28 |

The percentage holding of the 20 largest shareholders of Wesfarmers partially protected shares was 51.08.

# Five year financial history

Wesfarmers Limited and its controlled entities

| All figures in $m unless shown otherwise | 2010 | 2009[1] | 2008 | 2007 | 2006[2] |
|---|---|---|---|---|---|
| SUMMARISED PROFIT AND LOSS | | | | | |
| Sales revenue | **51,485** | 50,641 | 33,301 | 9,667 | 8,818 |
| Other operating revenue | **342** | 341 | 283 | 87 | 41 |
| Operating revenue | **51,827** | 50,982 | 33,584 | 9,754 | 8,859 |
| Operating profit before depreciation and amortisation, net interest paid and income tax | **3,476** | 3,443 | 2,660 | 1,566 | 1,597 |
| Depreciation and amortisation | **(917)** | (856) | (660) | (345) | (283) |
| Net interest paid | **(344)** | (591) | (571) | (116) | (82) |
| Income tax expense | **(650)** | (474) | (366) | (319) | (363) |
| Operating profit after income tax attributable to members of Wesfarmers Limited | **1,565** | 1,522 | 1,063 | 786 | 869 |
| CAPITAL AND DIVIDENDS | | | | | |
| Ordinary shares on issue (number) 000's | **1,157,072** | 1,157,072 | 799,438 | 388,069 | 378,042 |
| Paid up ordinary capital | **23,286** | 23,286 | 18,173 | 2,256 | 1,902 |
| Dividend per ordinary share | **125** | 110 | 200 | 225 | 215 |
| FINANCIAL PERFORMANCE | | | | | |
| Earnings per ordinary share (weighted average) (cents) | **135.7** | 158.5 | 174.2 | 195.2 | 218.5 |
| Earnings per ordinary share growth | **(14.4%)** | (9.0%) | (10.8%) | (10.7%) | 22.5% |
| Return on average ordinary shareholders' funds | **6.4%** | 7.3% | 8.6% | 25.1% | 31.1% |
| Net interest cover – cash basis (times) | **6.8** | 5.0 | 4.9 | 8.7 | 13.8 |
| Income tax expense (effective rate) | **29.3%** | 23.7% | 25.6% | 28.8% | 29.4% |
| FINANCIAL POSITION AS AT 30 JUNE | | | | | |
| Total assets | **39,236** | 39,062 | 37,178 | 12,076 | 7,430 |
| Total liabilities | **14,542** | 14,814 | 17,580 | 8,573 | 4,264 |
| Net assets | **24,694** | 24,248 | 19,598 | 3,503 | 3,166 |
| Net tangible asset backing per ordinary share | **$3.61** | $3.13 | ($1.36) | $2.11 | $4.59 |
| Net financial debt to equity | **16.3%** | 18.3% | 47.3% | 143.6% | 46.1% |
| Total liabilities/total assets | **37.1%** | 37.9% | 47.3% | 71.0% | 57.4% |
| Stock market capitalisation as at 30 June | **33,171** | 26,337 | 29,819 | 17,746 | 13,356 |

1 Restated due to a change in accounting policy for coal rebates payable and rights to mine.

2 Excludes earnings from the sale of ARG.

# Investor information

## Managing your shareholding

The company's share registry is managed by Computershare Investor Services Pty Limited (Computershare).

Computershare's 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 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 email and communication preferences; and
- view transaction history.

Visit www.investorcentre.com/au and click on 'Register' for portfolio membership or simply click on 'Holding Enquiry'.

When communicating with Computershare or accessing your holding online you will need your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also contact Computershare by:

| | |
|---|---|
| Post: | GPO Box 2975 Melbourne, Victoria 3001 Australia |
| Telephone: | Australia: 1300 558 062 |
| International: | (+61 3) 9415 4631 |
| Facsimile: | Australia: (03) 9473 2500 |
| International: | (+61 3) 9473 2500 |
| Email: | web.queries@computershare.com.au |

**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. Shareholders can go online to update their TFN or download the form by visiting www.investorcentre.com/au and clicking on 'Downloadable Forms' in the 'Information' tab.

**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 may be downloaded from www.investorcentre.com/au and clicking on 'Downloadable Forms' in the 'Information' tab.

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.investorcentre.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 following codes:

WES – Ordinary Shares

WESN – Partially Protected Shares.

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 telephone (08) 9327 4366 (within Australia) or (+61 8) 9327 4366 (International) or from the Wesfarmers website.

# Glossary

**Glossary**

| | |
|---|---|
| $ | Australian dollars being the currency for the Commonwealth of Australia |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| ASX Principles | ASX Corporate Governance Principles and Recommendations (Second Edition) |
| Board | Board of Directors of Wesfarmers Limited |
| CLTIP | Coles Long Term Incentive Plan |
| Coles group | Includes Coles food and liquor, fuel and convenience businesses, Target, Kmart, Officeworks and Harris Technology |
| EBIT | Earnings before interest and tax |
| FEED | Front-End Engineering Design |
| Group | Wesfarmers Limited and its subsidiaries |
| IFRS | International Financial Reporting Standards |
| LNG | Liquefied natural gas |
| LPG | Liquefied petroleum gas |
| LTIFR | Lost Time Injury Frequency Rate |
| WESAP | Wesfarmers Employee Share Acquisition Plan |
| WESP | Wesfarmers Employee Share Plan |
| WLTIP | Wesfarmers Long Term Incentive Plan |

# Group structure

Wesfarmers

## RETAIL

- **Coles**
  - COLES/BILO
  - COLES EXPRESS
  - LIQUORLAND
  - VINTAGE CELLARS
  - 1ST CHOICE LIQUOR
  - COLES ONLINE
  - HOTELS
- **Home Improvement and Office Supplies**
  - BUNNINGS (AUST/NZ)
  - OFFICEWORKS
  - HARRIS TECHNOLOGY
- **Target**
  - TARGET
  - TARGET COUNTRY
- **Kmart**
  - KMART (AUST/NZ)
  - KMART TYRE & AUTO SERVICE

## INDUSTRIAL AND OTHER BUSINESSES

- **Resources**
  - CURRAGH
  - PREMIER COAL
  - PREMIER POWER SALES
  - BENGALLA (40%)
- **Insurance**
  - **AUSTRALIA**
    - LUMLEY INSURANCE
    - WFI
    - OAMPS
  - **NEW ZEALAND**
    - LUMLEY
    - CROMBIE LOCKWOOD
  - OAMPS UK
- **Chemicals, Energy and Fertilisers**
  - CSBP
  - AUSTRALIAN GOLD REAGENTS (75%)
  - QUEENSLAND NITRATES (50%)
  - AUSTRALIAN VINYLS
  - AIR LIQUIDE WA (40%)
  - KLEENHEAT GAS
  - ENGEN
- **Industrial and Safety**
  - **AUSTRALIA**
    - BLACKWOODS
    - BULLIVANTS
    - COREGAS
    - TOTAL FASTENERS
    - MOTION INDUSTRIES
    - PROTECTOR ALSAFE
    - SAFETY SOURCE
  - **NEW ZEALAND**
    - NZ SAFETY
    - PROTECTOR SAFETY
    - PACKAGING HOUSE
    - BLACKWOODS PAYKELS
- **Other activities**
  - GRESHAM PARTNERS (50%)
  - WESPINE INDUSTRIES (50%)
  - BUNNINGS WAREHOUSE PROPERTY TRUST (23%)

# Corporate directory

Wesfarmers Limited ABN 28 008 984 049

### Registered office

Level 11, Wesfarmers House
40 The Esplanade, Perth,
Western Australia 6000

| | |
|---|---|
| Telephone: | (+61 8) 9327 4211 |
| Facsimile: | (+61 8) 9327 4216 |
| Website: | www.wesfarmers.com.au |
| Email: | info@wesfarmers.com.au |

### Executive directors

Richard Goyder
*Managing Director and Chief Executive Officer*

Terry Bowen
*Finance Director*

### Non-executive directors

Bob Every, Chairman
Colin Carter OAM
James Graham AM
Tony Howarth AO
Charles Macek
Wayne Osborn
Diane Smith-Gander
Vanessa Wallace
David White

### Company Secretary

Linda Kenyon

### Share registry

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace, Perth,
Western Australia 6000

| | |
|---|---|
| Telephone | |
| Australia: | 1300 558 062 |
| International: | (+61 3) 9415 4631 |
| Facsimile | |
| Australia: | (03) 9473 2500 |
| International: | (+61 3) 9473 2500 |
| Email: | web.queries@computershare.com.au |
| Website: | www.computershare.com.au |

### Financial calendar+

| | |
|---|---|
| Record date for final dividend | 30 August 2010 |
| Final dividend paid | 30 September 2010 |
| Annual General Meeting | 9 November 2010 |
| Half-year end | 31 December 2010 |
| Half-year profit announcement | February 2011 |
| Record date for interim dividend | February 2011 |
| Interim dividend payable | March 2011 |
| Year-end | 30 June 2011 |

+ Timing of events is subject to change

### Annual General Meeting

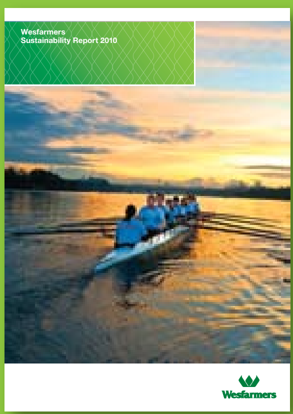
The 29th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia on Tuesday, 9 November 2010 at 1.00 pm (Perth time).

### Website

To view the 2010 Annual Report, shareholder and company information, news announcements, background information on Wesfarmers' businesses and historical information, visit Wesfarmers' website at www.wesfarmers.com.au

## Further information

For more information about Wesfarmers' activities including financial updates, ASX announcements, key dates and other Wesfarmers' corporate reports, visit the 'Investor centre' at **www.wesfarmers.com.au**




**Sustainability Report 2010**


**Shareholder Review 2010**

**www.wesfarmers.com.au > Investor centre**



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