About Wesfarmers

From its origins in 1914 as a Western Australian farmers’ cooperative, Wesfarmers has grown into one of Australia’s largest listed companies. With headquarters in Western Australia, its diverse business operations cover: supermarkets, liquor, hotels and convenience stores; home improvement; department stores; office supplies; and an Industrials division with businesses in chemicals, energy and fertilisers, industrial and safety products and coal. Wesfarmers is Australia’s largest private sector employer with around 220,000 employees and has a shareholder base of approximately 530,000.

About this report

This annual report is a summary of Wesfarmers’ and its subsidiary companies’ operations, activities and financial position as at 30 June 2016. In this report, references to ‘Wesfarmers’, ‘the company’, ‘the Group’, ‘we’, ‘us’ and ‘our’ refer to Wesfarmers Limited (ABN 28 008 984 049) unless otherwise stated. References in this report to a ‘year’ are to the financial year ended 30 June 2016 unless otherwise stated. All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated. All references to ‘Indigenous’ people are intended to include Aboriginal and/or Torres Strait Islander people.

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

The primary objective of Wesfarmers is to provide a satisfactory return to its shareholders.
CHAIRMAN’S MESSAGE

It is with great pleasure that I introduce Wesfarmers’ annual report for 2016. It was a real privilege for me to have been invited last year to return as Chairman of the company from which I retired as Chief Executive Officer 10 years earlier. I take this opportunity to pay particular tribute to Bob Every AO, who retired as Chairman during the year. Bob served the company with distinction, focused at all times on protecting shareholder interests, ensuring ethical behaviour and guarding the Wesfarmers culture. We thank him for his significant contribution.

The 2016 year was one of mixed results for the company, with very strong performances from the larger businesses offset to some extent by difficult trading conditions in some others. Underlying profit after tax fell 3.6 per cent to $2,353 million. After accounting for the impairments of Curragh and the Target retail business, as well as restructuring costs in Target, statutory net profit was $407 million compared with $2,440 million in 2015. The Board declared a final dividend of 95 cents per share (2015: 111 cents), bringing the full year payment to $1.86 per share, a reduction of 7.9 per cent on the previous year, broadly in line with the 2015 trend for the year, excluding the acquisition of Homebase.

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

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

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

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

Michael Chaney AO
Chairman

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

During the last year, the company made its first significant move offshore with the purchase of the Homebase hardware business in the United Kingdom and Ireland. Entering any new country is always challenging – and there are many examples of Australian companies which have tried and failed – but this investment was only made after a very extensive analysis of the business, the market and the prospects. Bunnings looks forward to applying the skills it has acquired in understanding customer needs, supply chain management and merchandising, and the size of the Homebase investment, while not small, is very manageable given the Group’s balance sheet. This, I believe, is a very good example of the growth philosophy of ‘logical incrementalism’ which has proven successful for the company over the years while also ensuring that the success of such a venture is guaranteed, the Bunnings team will give it their best shot.

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

Australia has increased its net debt position by more than 6 per cent in the last year and has decreased the emissions intensity of our business by more than 30 per cent.

Outlook

Your Board considers the outlook for the company to be strong. Notwithstanding the challenges described above, the economic environment around the globe, the Wesfarmers businesses generate strong cash flows which, in combination with a strong balance sheet and financial discipline, should enable us to cope with competition and take advantage of growth opportunities.

Your Board considers the outlook for the company to be strong. Notwithstanding the challenges described above, the economic environment around the globe, the Wesfarmers businesses generate strong cash flows which, in combination with a strong balance sheet and financial discipline, should enable us to cope with competition and take advantage of growth opportunities.

We look forward to continuing the company’s record of providing satisfactory shareholder returns.

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

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

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

Our financial results in the 2016 year reflect the diversification of our portfolio and some of the challenges of operating these businesses in the world today. We made non-cash impairments to Target and our Carnarvon coal mining operation (totaling $2.116 million), reflecting the operating performance and environment of those businesses. These impairments, along with restructuring charges in Target, meant our underlying profit was 3.6 per cent lower than last year. That is why your dividend reduced this year – it does, however, reflect a very healthy (89 per cent) payout ratio, and we understand how important the dividend is to you. Importantly, we have increased the value of Westfarmers with Coles, Bunnings, Kmart, Officeworks and our Chemicals, Energy and Fertilisers businesses all increasing in value over time.

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

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

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

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

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

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

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

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

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

Our businesses make additional community contributions last year totalling more than $110 million, and of course, when we find opportunities we invest for growth. In the 2016 financial year we invested $665 million expanding the Group with the acquisition of Homebase, our first offshore retail acquisition. We believe this is a great opportunity to deliver long-term earnings growth for the Group and value for our shareholders. In addition, we invested $1.9 billion in our existing businesses which generated more economic activity in the communities where that investment was made.

It is so important for the wellbeing of the economies we operate in that businesses are successful. The private sector is the engine room of an economy and having an environment which encourages businesses to take appropriate risks, invest, deploy more working capital and employ more people is critical. Business success will determine whether economies grow.

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

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

People

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

Ben Lawrence, the Group’s Chief Human Resources Officer, recently announced his intention to retire mid-next year and I thank him for his contribution and support in that role over the past nine years. I am delighted Jenny Bryant will succeed Ben as Chief Human Resources Officer, effective 3 October 2016, to ensure a smooth transition. Jenny joined the Group in 2011 as Human Resources Director at Coles, where she has made an outstanding contribution, and I welcome her to the Westfarmers Executive Leadership Team.

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

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

Richard Goyder AO
Managing Director
EXECUTIVE LEADERSHIP TEAM

Richard Goyder AO
Managing Director, Wesfarmers Limited
Richard was appointed Chief Executive Officer and Managing Director of Wesfarmers in 2005. He has held a number of executive positions in Wesfarmers, including Managing Director of Wesfarmers Landmark and Finance Director of Wesfarmers. Before joining Wesfarmers in 1993, Richard held a number of senior positions with Tubeformers 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 Freestar Airways' inaugural Chief Financial Officer before rejoining Wesfarmers in 2005 as Managing Director, Wesfarmers Industrial and Safety. Terry became Finance Director, Coles in 2007 before being appointed Finance Director, Wesfarmers in 2009.

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

John Durkan
Managing Director, Coles
John was appointed Managing Director of Coles in July 2014. John joined Coles in July 2006 as Merchandise Director and was subsequently appointed Chief Operating Officer in June 2013. He brings a wealth of consumer, product and buying knowledge having worked for 17 years with Safeway Stores PLC and as the Chief Operating Officer for Carphone Warehouse in the UK.

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

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

Bob Scott
Managing Director, Wesfarmers Industrials
Bob was appointed Managing Director of the Wesfarmers Industrials division in August 2012. Bob 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 joined Wesfarmers in business development in 2004 before being appointed Managing Director of Wesfarmers Industrial in 2007 and then Finance Director of Coles in February 2013. He was appointed to the role of Managing Director, Financial Services in October 2014.

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

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

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

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

*Jenny will transition to the role of Chief Human Resources Officer in October 2016.*
On behalf of the Board, I’m very pleased to present the operating and financial review of Wesfarmers for shareholders.

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

This operating and financial review sets out the Group’s objective, values, growth enablers and strategies directed at achieving its primary objective of providing a satisfactory return to shareholders.

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

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

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

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

The primary objective of Wesfarmers is to provide a satisfactory return to shareholders. The measure used by the Group to assess satisfactory returns is total shareholder return (TSR) over time. We measure our performance by comparing shareholder return (TSR) over time. We group to assess satisfactory returns is total return on equity (ROE) as a key internal performance indicator.

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

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

ACQUISITION APPROACH

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

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

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

ACQUISITION FILTERS

Industry structure
Industry scale
Competitive position
Business criteria
Financial criteria

GROWTH ENABLERS

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

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

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

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

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

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

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

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

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

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

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

OPERATING EXCELLENCE

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<tr>
<th>OUR STRATEGIES</th>
<th>OUR ACHIEVEMENTS</th>
<th>OUR FOCUS FOR THE COMING YEARS</th>
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<tbody>
<tr>
<td>Strengthen existing businesses through operating excellence and satisfying customer needs</td>
<td>- Continued to make improvements in our customer offers, including reinvesting in value to drive business growth and improving merchandise ranges.</td>
<td>- Continue to make improvements in our customer offers, including reinvesting in value to drive business growth and improving merchandise ranges.</td>
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<td>- Further optimised and invested in our retail store networks and digital channels.</td>
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<td>- Focused on production plant efficiency and maintaining customer relationships in our industrial businesses.</td>
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<td></td>
<td>- Made further operational productivity improvements and reduced costs across our businesses.</td>
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<td>- nozzle aims to grow through continued price leadership, better ranges, store network growth and a high performance culture. The business will continue to focus on delivering increased productivity and improving the quality of ranges. Niche initiatives will be supported by higher levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification.</td>
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<td>- OfficeWorks will continue to deliver a unique “one-stop shop” via its ‘every channel’ strategy while extending reach across all channels through new categories and services, and drive further productivity improvements.</td>
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<td>- Chemicals, Energy and Fertilisers (HoeCh) will continue to focus on maintaining strong operational performance. The business is well positioned to take advantage of value-creating opportunities as they arise.</td>
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<td>- Industrial and Safety will invest in sales and service, merchandising, digital and supply chain, supported by the simplification of its business model. Workwear Group will shift focus from integration to turnover and Comigas will further develop new channels to market.</td>
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<td>- Resources will maintain focus on cost control, productivity improvement and capital discipline. Low-cost plant expansions and counter-cyclical investments will be implemented where satisfactory returns can be achieved.</td>
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OPERATING SUSTAINABLY

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

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<td>Renew the portfolio through value-adding transactions</td>
<td>- Acquired Homebase, the second largest home improvement and garden retailer in the United Kingdom and Ireland, from Home Retail Group.</td>
<td>- Maintain a strong focus and capability to evaluate growth opportunities where long-term shareholder value can be created.</td>
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| | - Continued to actively contribute to the communities in which we operate. | - Consider innovative investment approaches to complement traditional growth models and provide future opportunity.
| | - Maintained a strong balance sheet. | - Ensure a patient, disciplined and broad scanning approach to investment opportunities is maintained. |
| | - Continued to promote diversity in our workplaces, with increased female participation across all businesses, providing value and quality to customers. | - Apply rigorous due diligence and post-acquisition integration processes. |
| | - Continued to focus on driving long-term value creation through strengthening its core business, including creating better experiences for customers, investing in new and existing stores, and delivering greater digital reach. Bunnings United Kingdom and Ireland will focus on building strong business foundations and establishing pilot Bunnings Warehouse stores. | - Maintain a strong balance sheet to enable the Group to act opportunistically. |
| | - Target will continue to embed its reward strategy, focusing on completing the conversion to everyday low prices, prioritising volume lines, further reducing inventory levels and improving the quality of ranges. These initiatives will be supported by higher levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification. | - Consider opportunities to direct assets either in full or in part, where long term shareholder value can be created. |
Overview
The Group reported a net profit after tax (NPAT) of $407 million for the 2016 financial year. This result included non-cash impairments of Target and Curragh totalling $2,116 million (pre-tax), as well as $145 million (pre-tax) of restructuring costs and provisions to exit Target. Excluding these significant items, NPAT for the full-year decreased 3.6 per cent to $2,353 million.

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

In a competitive environment, the Group’s underlying earnings or EBIT from its core operations were partially offset by working capital, including initiatives to improve stock availability in Homebase and investments made to support sales growth across the retail businesses, as well as the effect of a lower Australian dollar. These effects were partially offset by working capital improvements across the Industries businesses.

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

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

Capital expenditure
The Group retains very strong disciplines in respect to capital expenditure, with generally conservative business cases and appropriate hurdle rates commensurate with project risks. Gross capital expenditure of $1,899 million was $340 million or 15.2 per cent lower than last year, mainly due to lower expenditure on new store openings in Bunnings and Coles. Growth and refurbishment of retail store networks which deliver strong incremental returns on capital was a key driver of capital expenditure. Coles and Bunnings combined accounted for 70.3 per cent of total expenditure, with these businesses delivering a return on capital, excluding goodwill, of 30.0 per cent and 48.6 per cent respectively for the year.

Net capital expenditure of $1,356 million was $216 million or 13.9 per cent lower than last year mainly due to lower expenditure on new store openings and lower capital expenditure in Bunnings and Coles, with these businesses delivering a return on capital, excluding goodwill, of 30.0 per cent and 48.6 per cent respectively for the year.

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

Divisional financial performances are outlined in pages 20 to 49.

Operating cash flow
Operating cash flows of $3,385 million were $426 million or 11.2 per cent below last year. Lower operating cash flows mainly reflected higher working capital investments across the retail portfolios, including initiatives to improve stock availability in Homebase and investments made to support sales growth across the retail businesses, as well as the effect of a lower Australian dollar. These effects were partially offset by working capital improvements across the Industries businesses.

Capital expenditure
The Group retains very strong disciplines in respect to capital expenditure, with generally conservative business cases and appropriate hurdle rates commensurate with project risks. Gross capital expenditure of $1,899 million was $340 million or 15.2 per cent lower than last year, mainly due to lower expenditure on new store openings in Bunnings and Coles. Growth and refurbishment of retail store networks which deliver strong incremental returns on capital was a key driver of capital expenditure. Coles and Bunnings combined accounted for 70.3 per cent of total expenditure, with these businesses delivering a return on capital, excluding goodwill, of 30.0 per cent and 48.6 per cent respectively for the year.

Net capital expenditure of $1,356 million was $216 million or 13.9 per cent lower than last year mainly due to lower expenditure on new store openings and lower capital expenditure in Bunnings and Coles, with these businesses delivering a return on capital, excluding goodwill, of 30.0 per cent and 48.6 per cent respectively for the year.

OVERVIEW
OPERATING AND FINANCIAL REVIEW
SUSTAINABILITY GOVERNANCE DIRECTORS’ REPORT
BOOKS AND REPORTS
INFORMATION
Debt management and financing
The Group’s strategy is to diversify its funding sources, pre-fund upcoming maturities and maintain a presence in key markets.

In February 2016, the Group established $500 million of three-year bank facilities and $115 million of one-year bank facilities (totalling $1,115 million) to fund the Homebase acquisition and provide working capital to the business.

In July 2015, the Group repaid €500 million and £115 million of one-year bank facilities and £515 million of three-year bank facilities, utilising existing facilities and cash on hand.

In May 2016, the Group repaid US 144A bonds due to the short-term impact of the ratings during the year. Moody’s Investors Service’s rating remained unchanged at A3 (stable) and Standard & Poor’s revised the Group’s outlook from ‘stable’ to ‘negative’, while retaining the A- rating, due to the short-term impact of the Homebase acquisition on the Group’s credit metrics.

Finance costs decreased 2.2 per cent to $380 million, driven by a 9.5 basis points reduction in the Group’s all-in effective borrowing cost to 4.5 per cent, as a result of active management of debt sources and the benefit of a lower bank bill swap rate.

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

Dividends
A key component of shareholder returns is the dividends paid to shareholders. Wesfarmers’ dividend policy seeks to deliver growing dividends over time, subject to the Group’s earnings, cash flows and available franking credits.

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

The final dividend is the 15 consecutive trading days from and including the third trading day after the record date, being 2 September 2016 to 22 September 2016. The last date for receipt of applications to participate in, or to cease or vary participation in the Plan, was 31 August 2016.

The Board’s decision to continue the operation of the Dividend Investment Plan (the ‘Plan’). The allocation price for shares issued under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 15 consecutive trading days from and including the third trading day after the record date, being 2 September 2016 to 22 September 2016.

Prospects
Competition in the retail sector is expected to remain robust, with value continuing to be important to customers. Within this environment, the Group’s retail businesses are well-positioned to continue to deliver growth and improve profitability.

The Group will continue to focus on improving operational efficiency while its earnings will be largely dependent on export coal prices and exchange rates, the business will report lower depreciation and lower hedge losses in the 2017 financial year. The Group continues to evaluate all strategic options for this business.

The outlook for WesCEF is subject to international commodity pricing, exchange rates, competitive factors and seasonal conditions. Industrial and Safety will continue to invest in capability and performance improvements across the business, supported by transformation savings, to mitigate ongoing sales and margin pressures.

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

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

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

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

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

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

Further information on risk management, including policies, responsibility and certification, can be found on page 64 of this annual report and in the corporate governance section of the company’s website at www.wesfarmers.com.au/cg
Coles opened its first store in Collingwood, Melbourne in 1914 and has grown into an iconic Australian retailer. Today it operates Coles Supermarkets, Coles Express, Liquorland, Vintage Cellars, First Choice Liquor, Spirit Hotels, Coles Financial Services and Coles Online.

### Year in Review

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>$39,242M</td>
<td>$1,860M</td>
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</table>

#### Key Financial Indicators

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<thead>
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</thead>
<tbody>
<tr>
<td>Revenue ($m)</td>
<td>34,117</td>
<td>35,780</td>
<td>37,391</td>
<td>38,201</td>
<td>39,242</td>
</tr>
<tr>
<td>Earnings before interest and tax ($m)</td>
<td>1,356</td>
<td>1,533</td>
<td>1,672</td>
<td>1,783</td>
<td>1,860</td>
</tr>
<tr>
<td>Capital employed (R12) ($m)</td>
<td>15,572</td>
<td>16,114</td>
<td>16,272</td>
<td>16,276</td>
<td>16,541</td>
</tr>
<tr>
<td>Return on capital employed (%)</td>
<td>8.7</td>
<td>9.5</td>
<td>10.3</td>
<td>11.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Capital expenditure ($m)</td>
<td>1,218</td>
<td>1,181</td>
<td>1,018</td>
<td>937</td>
<td>769</td>
</tr>
</tbody>
</table>

1. 2014 excludes a $34 million provision relating to future Liquor restructuring activities (reported as a non-trading item).

### Performance Drivers

Coles’ earnings increased 4.3 per cent to $1,860 million for the full-year, with revenue growth of 2.7 per cent. Food and liquor recorded sales growth of 5.8 per cent, increasing $1,780 million in a competitive market, driven by improvements in value, quality and service. The key metrics of transaction volumes, basket size and sales density improved as a result of continued investment in the customer offer.

Coles’ sales growth in food continues to be led by the fresh food category. A focus on delivering outstanding quality, with market-leading service, at great prices, continues to drive growth in weekly transactions. A focus on trusted value continued through the year. At 30 June, there were more than 3,100 products on ‘Every Day’ prices, representing Coles’ ongoing commitment to lowering the cost of the weekly shop. This marks the seventh consecutive year that Coles has lowered prices for customers, with cumulative deflation of 7.5 per cent recorded since the 2009 financial year.

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

Coles Express recorded revenue (including fuel) of $6.7 billion for the year, 10.0 per cent lower than the previous year due to lower fuel volumes and lower fuel prices. Despite a decline in fuel sales, convenience store sales increased by 11.1 per cent for the year as the compelling value offering continues to resonate with customers.

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

**PROSPECTS**

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

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

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

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

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

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John Durkan  
Managing Director  
Coles
Australian sourcing

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

Supplier relationships

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

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

Supporting small business

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

Coles is proud of its Australian Sourcing Policy, which aims to support Australian farmers and manufacturers.

Our business

Coles provides fresh food, groceries, general merchandise, liquor, fuel and financial services, with more than 21 million customer transactions on average each week, via its store network and online platforms.

Coles has more than 102,000 team members and operates 2,431 retail outlets nationally.

Our market

Coles operates in Australia’s highly dynamic and evolving food, grocery, liquor and convenience sector. It has a store network of 787 supermarkets, 465 liquor stores, 89 hotels and 680 convenience outlets across the nation, from as far west as Geraldton in Western Australia to as far east as Ocean Shores in the Northern Rivers region of New South Wales.

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

Sustainability

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

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

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

FOOD AND LIQUOR

GROWTH STRATEGIES

- More than 3,700 items on ‘Every Day’ pricing at the end of the year
- Improved Coles’ delivery in full and on-time metric by more than 100 basis points as distribution centres became more efficient and store delivery scheduling improved
- Improved Coles Online over 25 per cent transaction growth and opened the first stand-alone online supermarket
- More than 5.7 million active households across Australia participated in Flybuys during the year
- Flybuys entered a new partnership with Etihad Airways and launched Flybuys travel
- Return to comparable sales growth
- Strong transaction growth delivered with Liquidity being the key driver
- Further improvements made to the store network, with 35 undergoing stores closed this year
- More than 350 team members participated in the graduate program and more than 8,000 team members received craft skill training
- The number of Indigenous team members rose to more than 2,300 in the 2015 financial year, which is 2.2 per cent of Coles’ workforce
- The First Step Program – Coles Indigenous retail training program – was recognised in December 2015 by the Australian Human Rights Commission, winning the 2015 Australian Human Rights Business Award

ACHIEVEMENTS

- Deliver more than 350 team members
- Build the right culture and capabilities in store to further engage customers
- Continue to nurture talent through the Retail Leaders Program and the Graduate Program
- Increase the percentage of Indigenous team members to three per cent
- Provide greater value to customers by extending Coles’ ‘Every Day’ value to more products throughout the store, resulting in stronger sales
- Deliver a better store network and continue to target supermarket network space growth between two and three per cent per annum
- Deliver better value, quality, availability and the right offer in every store
- Seek long-term agreements and deepen collaboration opportunities with key suppliers
- Continue to invest in team member capabilities to improve service
- Deliver profitable growth in Coles Online
- Grow Flybuys by providing more personalised offers that are meaningful for customers and provide choice in how customers earn and convert their points
- Align financial services growth to value proposition
- Build a better store network and continue to target supermarket net space growth between two and three per cent per annum
- Deliver better value, quality, availability and the right offer in every store
- Seek long-term agreements and deepen collaboration opportunities with key suppliers
- Continue to invest in team member capabilities to improve service
- Becomes a trusted price leader and further reduce the cost of the weekly shopping basket
- Drive targeted marketing through Flybuys and customer insights
- Deliver further supply chain efficiencies through improved long-term, and end planning
- Improve direct sourcing capabilities, customer-led range simplification and trading terms
- Deliver profitable growth in Coles Online
- Grow Flybuys by providing more personalised offers that are meaningful for customers and provide choice in how customers earn and convert their points
- Align financial services growth to value proposition
- Continue the five-year turnaround strategy and invest in value, range and the store network
- Offer more exclusive brands and a liqueur direct offer to allow customers to shop in a more flexible way
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FOOD AND LIQUOR

GROWTH STRATEGIES

ACHIEVEMENTS

FOCUS FOR THE COMING YEARS

- Opened 31 new Coles Express sites
- Provide greater value to customers by extending Coles’ ‘Every Day’ value to more products throughout the store, resulting in stronger sales
- Deliver a better store network and continue to target supermarket network space growth between two and three per cent per annum
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STRATEGY

Coles continues to offer greater value to Australians through lower prices, improving the quality and availability of fresh food, and providing a better shopping experience as a result of store refurbishments and team member training. By investing in new and improved supermarkets, convenience and liquor outlets, Coles delivers bigger, better stores with new features tailored to the needs of local shoppers. Coles continues to build long-term strategic partnerships with Australian producers in its journey to become Australia’s leading fresh food retailer, and to further simplify operations in its supply chain, leading to further reductions in costs, greater efficiency and increased productivity.

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

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

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

RISK

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

CONVENIENCE

ACHIEVEMENTS

FOCUS FOR THE COMING YEARS

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FINANCIAL REPORTS

ANNUAL REPORTS

PAID TO KNOW
PROSPECTS

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

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

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

Performance drivers

Bunnings

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

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

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

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

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

Homebase

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

Core ranges are being quickly reshaped to focus on the home improvement and garden market. Wider product choices and deeper stock holdings are being established. New marketing, pricing and operational strategies have also been implemented. On a like-for-like trading basis for the period from sale completion to the end of June 2016, customer participation (as measured by transactions) has increased by 7.5 per cent.

John Gillam
Chief Executive Officer
Bunnings Group

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

YEAR IN REVIEW

REVENUE

$11,571M

EBIT

$1,214M


Revenue ($m) 7,162 7,661 8,546 9,534 11,571
Earnings before interest and tax ($m) 841 904 979 1,088 1,214
Capital employed (R12) ($m) 3,250 3,492 3,343 3,244 3,599
Return on capital employed (%) 25.9 25.9 29.3 33.5 33.7
Capital expenditure ($m) 563 531 531 711 538

PROSPECTS

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John Gillam
Chief Executive Officer
Bunnings Group
Sustainability

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

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

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

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

Community support

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

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

Bunnings also worked closely with emergency services throughout the year. For the third consecutive year, all Australian stores raised funds for local volunteer fire brigades and emergency services through the ‘Aussie Day Weekend Fundraiser BBQ’. Through the generous support of customers, volunteers, and team members, more than $497,000 was raised nationally. New Zealand stores supported local emergency services during this time as part of Anniversary Weekends in the Auckland, Wellington and Nelson regions.
WESFARMERS 2016 ANNUAL REPORT

HOME IMPROVEMENT

Ethical sourcing and product safety

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

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

Waste reduction and recycling

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

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

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

Queensland store and a trial to recycle plastic strapping

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

Energy efficiency

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

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

Waste reduction and recycling

Bunnings Australia and New Zealand achieved a 0.9 per cent reduction in the number of inquiries recorded and an 11.1 per cent reduction in the total recordable injury frequency rate.

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

Further training and forums for forklift operators, a continued focus on manual handling, and training for leaders on mental health, have been key additional safety practices.

Further training and forums for forklift operators, a continued focus on manual handling, and training for leaders on mental health, have been key additional safety practices.

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

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

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

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

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

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

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

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

**REVENUE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>8,646</td>
</tr>
<tr>
<td>2015</td>
<td>7,991</td>
</tr>
<tr>
<td>2014</td>
<td>7,710</td>
</tr>
<tr>
<td>2013</td>
<td>7,825</td>
</tr>
<tr>
<td>2012</td>
<td>7,793</td>
</tr>
</tbody>
</table>

**EBIT**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>275</td>
</tr>
<tr>
<td>2015</td>
<td>522</td>
</tr>
<tr>
<td>2014</td>
<td>452</td>
</tr>
<tr>
<td>2013</td>
<td>480</td>
</tr>
<tr>
<td>2012</td>
<td>512</td>
</tr>
</tbody>
</table>

**Performance drivers**

Revenue for the Department Stores division was $8.6 billion for the year, an increase of 8.2 per cent, driven by Kmart. Earnings for the division of $275 million were 47.3 per cent lower than the prior year, with strong growth in Kmart offset by a loss of $195 million in Target. Target’s earnings included $145 million of restructuring costs and provisions incurred as part of a revised strategy to reset the business.

During the period, a pre-tax, non-cash impairment of $1,266 million was recorded in the carrying value of Target, with $1,208 million recorded as a writedown of Target’s share of goodwill arising on the acquisition of the Coles Group.
Our business
Target operates a national network of more than 300 stores as well as an online business. Its objective is to provide quality, fashion and basics for everyone at low prices. Target employs more than 16,000 team members across its stores, support offices and direct sourcing operations in Asia.

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

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

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

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

Energy efficiency
Target continues to focus on minimising environmental impacts and costs across its property portfolio and supply chain. Recent activities include leveraging improvements to reduce costs across the business, including initiatives to restructure and relocate the store support centre, streamlining the supply chain and reduce inventory. On an underlying basis, the business recorded a loss of $10 million due to high levels of stock clearance and the impact of a lower Australian dollar.

Performance drivers
Target’s revenue increased 0.5 per cent to $3.456 billion for the year, with an operating loss of $195 million reported. The result included restructuring costs and provisions of $145 million to significantly reset the business, including initiatives to restructure and relocate the store support centre, streamline the supply chain and reduce inventory. On an underlying basis, the business recorded a loss of $10 million due to high levels of stock clearance and the impact of a lower Australian dollar.

KEY FINANCIAL INDICATORS
FOR THE YEAR ENDED 30 JUNE
2012 2013 2014 2015
Revenue ($m) 3,738 3,658 3,501 3,438
Earnings before interest and tax ($m) 244 136 86 90
Capital employed (R12) ($m) 1,416 1,329 1,361 1,312
Capital expenditure ($m) 84 4.6 2.9 3.6
Return on capital employed (%) 6.2

Performance drivers
Target’s revenue increased 0.5 per cent to $3.456 billion for the year, with an operating loss of $195 million reported. The result included restructuring costs and provisions of $145 million to significantly reset the business, including initiatives to restructure and relocate the store support centre, streamline the supply chain and reduce inventory. On an underlying basis, the business recorded a loss of $10 million due to high levels of stock clearance and the impact of a lower Australian dollar.

KEY FINANCIAL INDICATORS
FOR THE YEAR ENDED 30 JUNE
2012 2013 2014 2015
Revenue ($m) 4,055 4,167 4,209 4,553
Earnings before interest and tax ($m) 268 344 366 432
Capital employed (R12) ($m) 1,416 1,329 1,361 1,312
Capital expenditure ($m) 136 91 81 122
Return on capital employed (%) 18.9 25.9 26.9 32.9

Performance drivers
Kmart delivered revenue of $5.2 billion for the year, up 14.0 per cent on the prior year, with earnings growing 8.8 per cent to $470 million. Sales growth was achieved through growth in customer transactions and units sold, driven by a continued focus on providing Australian and New Zealand families with the lowest prices on everyday items. All categories achieved sales growth, driven by cost ranges in home, lighting, kids, general merchandise.

Earnings growth was delivered through ongoing enhancement of Kmart’s range architecture, as well as end-to-end productivity improvements to reduce costs of doing business. The growth in earnings, combined with a continued focus on working capital management, resulted in a 479 basis points improvement in return on capital to 37.7 per cent.

OUR COMPANY
SUSTAINABILITY
GOVERNANCE
DIRECTORS’ REPORT
OVERVIEW
FINANCIAL REVIEW
REPORTS
SHAREHOLDER AND ASX INFORMATION
BACK
DEPARTMENT STORES

STRATEGY

Target
Following the creation of the Department Stores division in February 2016, Target's vision and supporting strategies have been reset. Target's vision is to deliver quality fashion and basics to everyone at low prices. Target has adopted the following strategic framework to refresh the business:

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

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

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

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

TARGET GROWTH STRATEGIES

<table>
<thead>
<tr>
<th>STRATEGIES</th>
<th>ACHIEVEMENTS</th>
<th>FOCUS FOR THE COMING YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products volume, quality, fashion and basics</td>
<td>Referenced inventory – 10 weeks at June 2016 (1-2 weeks at March 2016)</td>
<td>Continue to reduce inventory and SKUs</td>
</tr>
<tr>
<td></td>
<td>Identified volume lines</td>
<td>Fix merchandise planning systems</td>
</tr>
<tr>
<td></td>
<td>Reused cost base</td>
<td>Increase volume and 305 lines</td>
</tr>
<tr>
<td></td>
<td>Progress clearance of aged, seasonal and slow-moving inventory</td>
<td>Reset quality and fashion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct sourcing on one critical path</td>
</tr>
<tr>
<td>Price: low prices everyday</td>
<td>Startled lowering of prices</td>
<td>Introduce a “clear as you go” marketplace policy</td>
</tr>
<tr>
<td></td>
<td>Accelerated the conversion to everyday low prices (EDLP)</td>
<td>Implement a consistent price and range architecture across “Good, Better, Best”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Complete EDLP conversion</td>
</tr>
<tr>
<td>Promotion: brand love with mass reach</td>
<td>Reduced marketing investment to be more effective, tailored and relevant</td>
<td>Leverage customer insights</td>
</tr>
</tbody>
</table>
| | Reduced point of sale to amplify store 
| | operations and customer messaging | Develop and implement a clear brand strategy |
| | Retained catalogue strategy to fewer distributions per year | Brand relaunch |
| Place: great stores and locations | Progressive implementation of a revised Department stores division network plan | Complete trial store formats |
| | Reviewed store renewal program | |
| People: inspired team, living our values | Refit vision and values | Build on good safety culture |
| | Retail leaders program further progressed | Embed new organisational structure |
| | Initial store support office | Drive values and behaviours |
| | Simplification and restructure | |
| | Safety performance further improved | |
| Easiest customer experience | Improved customer navigation in-store | Simplify store operations to reduce cycle times |
| | Accelerated supply chain offshore closure plans | Improve stock management |

KMART GROWTH STRATEGIES

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

RISK

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

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

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

RISKS MITIGATION

**Target**

- Implementation of strategic plan
  - New leadership team with previous tenure and experience
  - Revised and focused strategy with operational plans that underpin key strategic initiatives
  - Clear accountabilities, objectives and performance indicators

- Operating model change
  - Merchandising and spending discipline, including management of critical path
  - Increased direct sourcing
  - Business simplification and cost bases realigned to reduce activity

- Exchange rate volatility
  - Hedging, and product and pricing frameworks will be used to effectively manage foreign exchange movements

**Kmart**

- Exchange rate volatility
  - Hedging, and product and pricing frameworks will be used to effectively manage foreign exchange movements
Officeworks is Australia’s leading retailer and supplier of office products and solutions. Officeworks seeks to be a one-stop shop for those looking to start, run and grow a business, as well as for students and households.

### YEAR IN REVIEW

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue ($m)</td>
<td>1,851</td>
<td>1,714</td>
<td>1,575</td>
<td>1,506</td>
<td>1,482</td>
</tr>
<tr>
<td>Earnings before interest and tax ($m)</td>
<td>1,18</td>
<td>103</td>
<td>93</td>
<td>93</td>
<td>85</td>
</tr>
<tr>
<td>Capital employed (R12) ($m)</td>
<td>1,210</td>
<td>1,147</td>
<td>1,097</td>
<td>1,034</td>
<td>994</td>
</tr>
<tr>
<td>Return on capital employed (%)</td>
<td>7.1</td>
<td>8.1</td>
<td>9.4</td>
<td>11.4</td>
<td>13.5</td>
</tr>
<tr>
<td>Capital expenditure ($m)</td>
<td>24</td>
<td>16</td>
<td>28</td>
<td>32</td>
<td>41</td>
</tr>
</tbody>
</table>

### PROSPECTS

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

Key focus areas in the 2017 financial year will include strengthening and expanding the customer offer by adding new products and ranges, strengthening Officeworks’ position as a one-stop shop for small-to-medium size businesses, students and households. Improving and extending more value-adding services to complement the existing range will also be a priority. Officeworks will continue to focus on providing more value to customers by delivering the lowest prices and great customer service through an engaged team.

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

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

13.6 PER CENT INCREASE IN EARNINGS TO $134M

Our business

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

Our market

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

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

Sustainability

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

Environment

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

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

Responsible sourcing

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

People

Through a number of local community involvement initiatives, Officeworks helped to raise more than $1.1 million for local communities. This included $325,000 of indirect and in-kind product donations to The Women’s Weekly and the Australian Literary and Namecarry Foundation.

Officeworks continued to invest in safety initiatives and reduced its all injury frequency rate by 17.2 per cent. Officeworks remains committed to lifting team member diversity, including women in leadership positions. Officeworks also celebrated National Reconciliation Week as part of its Indigenous engagement program.

GROWTH STRATEGIES

<table>
<thead>
<tr>
<th>STRATEGIES</th>
<th>ACHIEVEMENTS</th>
<th>FOCUS FOR THE COMING YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen and expand the customer offer</td>
<td>- Introduced new and expanded ranges</td>
<td>- Continuously invest in innovation and differentiation in products</td>
</tr>
<tr>
<td></td>
<td>- Introduced exclusive international brands</td>
<td>- Strengthen position in furniture</td>
</tr>
<tr>
<td>Extend our every channel' reach</td>
<td>- Go new stores</td>
<td>- Make customer engagement easier – new stores, new formats</td>
</tr>
<tr>
<td></td>
<td>- Delivered an even more relevant online experience</td>
<td>- Ongoing investment in seamless ‘every channel’ service proposition – Clicks and bricks working together</td>
</tr>
<tr>
<td>Embed great service in ‘every channel’</td>
<td>- Implemented a new point of sale system</td>
<td>- Make it easier for customers to shop through ‘every channel’</td>
</tr>
<tr>
<td></td>
<td>- New self-serve print and copy offer in stores</td>
<td>- Make it easier for our team to provide great service</td>
</tr>
</tbody>
</table>
| | - Additional service hours through ongoing task reduction and process efficiencies | - 

Do things better

- Implemented layout and design changes across selected stores
- Transformed a new consolidated supply chain facility in Queensland
- Rolled out ‘Step from Shore’ in regional locations

Invest in talent, diversity and team safety

- Delivered a range of development programs to the team
- Remained committed to diversity, with a specific focus on Women in Leadership and Indigenous engagement
- Reduced the all-female frequency rate by 17.2 per cent

Make a positive difference in the community

- Collected 547,349 printer cartridges
- Installed LED lighting in 40 stores
- Facilitated more than $1.1 million in community contributions
- Lift recycling levels, reduce energy consumption further
- Continue to find ways to do things that are better for the environment
- Continue to foster community partnerships

Develop more value-adding services

- New and enhanced self-serve print and copy service
- Embedded the Mailman offer
- Continue to enhance the print and copy offer in all stores
- Develop new access solutions for Mailman
- Deliver services to help customers to start, run and grow their business

RISK

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

STRATEGY

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

Officeworks will continue to drive growth by:

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

Sustainability

- Approximate to increasing safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.
- Efforts to improve safety behaviours and outcomes.

OFFICEWORKS

HIGHLIGHTS

‘EVERY CHANNEL’ STRATEGY CONTINUES TO RESONATE WITH CUSTOMERS

RETURN ON CAPITAL INCREASE OF 207 BASIS POINTS TO 13.6 PER CENT
The Industrials division was formed in August 2015 by combining Wesfarmers’ three industrial businesses: Chemicals, Energy and Fertilisers; Industrial and Safety; and Resources. The organisational restructure streamlined reporting and decision-making, enhanced sharing of knowledge and ideas, and better positioned the division for future growth.

### YEAR IN REVIEW

**REVENUE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4,672</td>
</tr>
<tr>
<td>2013</td>
<td>4,991</td>
</tr>
<tr>
<td>2014</td>
<td>4,977</td>
</tr>
<tr>
<td>2015</td>
<td>4,985</td>
</tr>
<tr>
<td>2016</td>
<td>4,977</td>
</tr>
</tbody>
</table>

**EBIT**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4,672</td>
</tr>
<tr>
<td>2013</td>
<td>353</td>
</tr>
<tr>
<td>2014</td>
<td>482</td>
</tr>
<tr>
<td>2015</td>
<td>562</td>
</tr>
<tr>
<td>2016</td>
<td>887</td>
</tr>
</tbody>
</table>

**KEY FINANCIAL INDICATORS**

For the Year ended 30 June

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>Earnings before interest and tax ($m)</th>
<th>Capital employed (R12) ($m)</th>
<th>Return on capital employed (%)</th>
<th>Capital expenditure ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5,608</td>
<td>887</td>
<td>3,957</td>
<td>22.4</td>
<td>638</td>
</tr>
<tr>
<td>2013</td>
<td>4,991</td>
<td>562</td>
<td>3,999</td>
<td>14.1</td>
<td>393</td>
</tr>
<tr>
<td>2014</td>
<td>4,977</td>
<td>482</td>
<td>4,125</td>
<td>11.7</td>
<td>386</td>
</tr>
<tr>
<td>2015</td>
<td>4,985</td>
<td>353</td>
<td>4,245</td>
<td>8.3</td>
<td>355</td>
</tr>
<tr>
<td>2016</td>
<td>4,977</td>
<td>887</td>
<td>4,244</td>
<td>1.1</td>
<td>290</td>
</tr>
</tbody>
</table>

### Performance drivers

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

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

Industrial and Safety reported earnings of $50 million, 10.0 per cent below the prior year, reflecting one-off costs associated with the implementation of the ‘Fit for Growth’ improvement program. On an underlying basis, earnings increased by 8.9 per cent to $98 million, driven by cost savings and simplifications delivered through ‘Fit for Growth’. As a result, Industrial and Safety will benefit from the simplification of its business model and a reduction in operating costs delivered through the ‘Fit for Growth’ program.

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

Chemicals, Energy and Fertilisers will continue to focus on maintaining strong operational performance, with earnings expected to be 1.1 per cent lower than the prior year. Industrial and Safety will continue to focus on improving operational productivity, cost control and capital discipline. Safety continues to remain the highest priority across the Industrials division and the business will continue to implement training programs and other measures to build awareness and minimise the risk of injury.

Rob Scott
Managing Director
Industrials
CHEMICALS, ENERGY AND FERTILISERS

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

Our market
Chemicals include:
- the manufacture and supply of ammonia, ammonium nitrate (AN) and industrial chemicals primarily to the Western Australian resource and industrial sectors through CSBP
- Queensland Nitrites (QNP): CSBP’s 50 per cent joint venture with Cyanogas Chemicals which manufactures and supplies ammonium nitrate to the resource sector in the Bowen Basin coal fields
- Australian Gold Bragens (AGB): CSBP’s 75 per cent joint venture with Cosper Chemicals which manufactures and supplies sodium cyanide to the West Australian and international gold mining sector
- Australian Vynils which supplies polyvinyl chloride (PVC) to the West Australian and international industrial sectors
- ModWood which manufactures wood plastic composite decking and screening products

Kleenheat extracts LPG from natural gas and distributes bulk and bottled LPG to the residential and commercial markets in Western Australia and the Northern Territory. It distributes bulk LNG through its subsidiary, EVOL LNG, primarily to the remote power generation market in Western Australia. Kleenheat is also a retailer of natural gas to residential and commercial markets, and electricity to businesses in Western Australia. CSBP Fertilisers manufactures, imports and distributes phosphate, nitrogen and potash-based fertilisers for the Western Australian agricultural sector. CSBP Fertilisers also provides technical support services through a network of employees and accredited partners in regional Western Australia.

Westfarmers owns a 13.7 per cent interest in Quadrant Energy which supplies domestic and Western Australian oil and coal seam gas production to businesses in Western Australia. Earnings from this interest are included in WestCFS’s results.

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

WestCFS continued to support a range of community organisations, including sponsorships with the Clontarf Gillmore College, Moorditj Koort, and the WACA Regional Junior Cricket Program, as well as STEM-based initiatives delivered through its ‘Safe Person, Safe Process, Safe Place’ program and the development of WesCEF’s STEM (science technology, engineering, mathematics) project as one of its key community investment activities.

GROWTH STRATEGIES

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

FOR THE COMING YEARS

- Increased sales of AN into domestic and export markets following expansion of production capacity
- Record sales of AN, sodium cyanide and fertilisers
- AN and sodium cyanide plants operating at full-expansion production capacity
- Successfully rolled out a customised web portal, nutritional data management and mapping interface for fertilizer customers
- Ongoing commitment to improve safety performance and capability
- Ongoing focus on regulatory compliance
- Maintain a strong focus on operating facilities in a manner which minimises the affect on the environment

FOCUS FOR THE COMING YEARS

- Optimise AN sales
- Secure contract extensions
- Actively pursue new volumes
- Strengthen export capability
- Supplement sales with supply to CSBP Fertilisers
- Maintain a strong focus on plant reliability, process efficiency and productivity improvements
- Continue investments to grow and expand export facilities
- Strengthen fertilizer channels to market

RISKS

WestCFS manages risk as an intrinsic part of its business and is committed to conducting business in a way that ensures the continued growth of shareholder value in a sustainable manner.

Risks deemed unacceptable are transferred through contractual arrangements or insurance, issued by or purchased by WestCFS or its subsidiaries.

Reduction in demand for products
Establishing a balance of long-term contracts with minimum volume requirements and established pricing mechanisms (predominantly with domestic customers) with short-term spot agreements, including pricing products into export markets from time to time.

RISKS MITIGATION

Long-term contracts
Maintain a strong focus on operating facilities in a manner which minimises the impact on the environment

New material input price and exchange rate volatility
Mitigate earnings volatility from raw material price movements through a variety of price pass-through arrangements with customers, and detailed demand planning and forecasting processes, including regular reviews of exposure to market volatility.

- Exchange rate impacts on raw material costs are monitored closely and are included as a criterion for product pricing decisions.
- Maintain a strong focus on operating facilities in a manner which minimises the impact on the environment.

SERIOUS INJURY, SAFETY OR ENVIRONMENTAL INCIDENT
- Continue to invest in improving safety culture and performance for the safe operation of its facilities and distribution to products in a way that minimises any adverse effect on people, the environment or the communities in which it operates.
- Maintain a strong focus on operating facilities in a manner which minimises the impact on the environment.

FINANCIAL REVIEW

REVENUE

YEAR IN REVIEW

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues ($m)</td>
<td>1,820</td>
<td>1,839</td>
<td>1,812</td>
<td>1,805</td>
</tr>
<tr>
<td>EBIT ($m)</td>
<td>294</td>
<td>233</td>
<td>229</td>
<td>224</td>
</tr>
</tbody>
</table>

KEY FINANCIAL INDICATORS

FOR THE YEAR ENDED 30 JUNE

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue ($m)</td>
<td>1,786</td>
<td>1,805</td>
<td>1,812</td>
<td>1,839</td>
</tr>
<tr>
<td>Earnings before interest and tax ($m)</td>
<td>258</td>
<td>249</td>
<td>221</td>
<td>233</td>
</tr>
<tr>
<td>Capital employed (R12) ($m)</td>
<td>1,282</td>
<td>1,400</td>
<td>1,539</td>
<td>1,535</td>
</tr>
<tr>
<td>EBIT ($m)</td>
<td>294</td>
<td>233</td>
<td>229</td>
<td>224</td>
</tr>
<tr>
<td>Capital expenditure ($m)</td>
<td>167</td>
<td>263</td>
<td>172</td>
<td>56</td>
</tr>
</tbody>
</table>

Dividends

2015 $50, 2016 $50

Performance drivers
Operating revenue of $1.8 billion was one per cent below the prior year, with higher volumes in Kleenheat’s east coast LNG operations in February 2015. EBIT of $294 million was 26.2 per cent higher than last year, including $32 million in closure costs associated with the planned cessation of PVC manufacturing. Excluding these costs, EBIT of $326 million was 46.2 per cent higher than last year, with higher earnings reported across all businesses.

For the year ended 30 June 2016, the following was included in WestCFS’s results:

- $153 million of one-off restructuring costs associated with the decision to cease PVC manufacturing.
- $60 million of one-off restructuring costs associated with the decision to cease PVC manufacturing.
- $10 million gain comprised insurance proceeds and the gain on the closure of facilities in connection with the planned cessation of PVC manufacturing.
- $32 million of one-off restructuring costs associated with the decision to cease PVC manufacturing.

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WESFARMERS 2016 ANNUAL REPORT
SIGNED
STRATEGY

Industrial and Safety will seek to drive growth through implementing its new, simplified platform to improve performance in Blackwoods by investing in:
- Sales and service: improve targeting of customer-specific segments and industries with dedicated technical expertise and service support;
- Merchandising: range reviews aligned to customer needs, improve pricing disciplines and stronger preferred supplier relationships;
- Supply chain: improve inventory management and operational processes to deliver on customer promises; and
- Digital: development of online innovations that target offers to specific customer segments utilizing the latest technology, analytics and platforms.

Our market

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

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

Sustainability

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

GROWTH STRATEGIES

Implementation of a more customer-centric and competitive Blackwoods platform

- Consolidated five brands into the new Blackwoods with 18 branch and four distribution centre mergers completed
- Reduced complexity in structures, operations and brand
- Eliminated internal competition and duplication
- Increased focus on customers’ needs and channels to market

Turnaround performance in Workwear Group

- Integration complete
- New leadership team in place
- Reduce complexity and improve speed to market
- Improve range and pricing architecture
- Drive a results-focused culture

Grow Corogas through new distribution channels

- Established multiple channels including Blackwoods gas to serve large customers and ‘Trade N Go Gas’ to serve the trade market through partnering with Bunnings
- Further develop new distribution channels in Coregas

RISKS

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

RISK

Mitigation

Subsidiar market conditions in traditional customer segments of mining and resources

- Implement the new Blackwoods platform in Australia and New Zealand for growth across different market sectors
- Continue to execute performance improvement plans in Blackwoods and Workwear Group
- Further develop new distribution channels in Coregas

New digital entrant

- Develop a more customer-centric and relevant platform
- Develop and launch new digital capabilities

Safety or environmental incident

- Establish quality systems and ensure compliance with standards
- Fully operational safety program including regular monitoring and continuing the safety culture
- Active safety engagement by senior management
**RESOURCES**

**Our business**

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

**Curragh (100 per cent)**

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

**Bengalla (40 per cent)**

The business has a 40 per cent interest in the Bengalla mine, located south-west of Muswellbrook in the Hunter Valley region of New South Wales. Bengalla produces steaming coal for export markets and has a 10.7 mtpa run-of-mine capacity (100 per cent).

**Our market**

Curragh

Curragh is reliable, Safe and one of a select few independent Australian producers of metallurgical coal. It has a well-established and geographically diverse customer portfolio with a number of long-standing relationships with world-leading steel-makers. In the 2016 financial year, Curragh’s metallurgical exports by volume went to Japan (39 per cent), South Asia (28 per cent), North Asia (20 per cent), Europe (8 per cent) and other (4 per cent).

Bengalla

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

**Sustainability**

Wesfarmers Resources strives to be a highly ethical business that puts the safety and wellbeing of its people first. This is achieved by focusing on workplace health and safety to prevent accidents and injuries. No lost time injuries were recorded at Curragh during the 21 months period to 30 June 2016. The business is committed to operating in a sustainable manner and takes its environmental and social responsibilities seriously. It seeks to make a positive and lasting contribution to the communities in which it operates and to the nation through its economic activity.

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

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**KEY FINANCIAL INDICATORS**

For the Year Ended 30 June 2012 2013 2014 2015 2016

<table>
<thead>
<tr>
<th>Revenue ($m)</th>
<th>2,132 1,539 1,544 1,374 1,008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings before interest and tax ($m)</td>
<td>439 148 130 50 (910)</td>
</tr>
<tr>
<td>Capital employed (R12) ($m)</td>
<td>1,488 1,490 1,459 1,452 1,351</td>
</tr>
<tr>
<td>Return on capital employed (%)</td>
<td>29.5 10.0 8.9 3.4 (22.9)</td>
</tr>
<tr>
<td>Capital expenditure ($m)</td>
<td>392 76 163 137 116</td>
</tr>
</tbody>
</table>

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

2. The 2016 earnings before interest and tax excludes the $850 million in the carrying value of Curragh.

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**RISK**

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

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**GROWTH STRATEGIES**

**ACHIEVEMENTS**

**FOCUS FOR THE COMING YEARS**
Wesfarmers is a major investor in the BWP Trust. Gresham Partners and Wespine Industries.

BWP TRUST
Wesfarmers’ investment in the BWP Trust (the Trust) contributed earnings of $77 million, compared to $52 million last year. The Trust was established in 1998 with a focus on warehouse retailing properties and, in particular, Bunnings warehouses leased to Bunnings Group Limited. BWP Management Limited, the responsible entity for the Trust, is a wholly owned subsidiary of Wesfarmers Limited. Units in the Trust are listed on the Australian Securities Exchange and Wesfarmers holds, through a wholly owned subsidiary, 24.8 per cent of the total units issued by the Trust as at 30 June 2016. During the 2016 financial year, the Trust acquired one site adjoining a Trust-owned Bunnings Warehouse property, and completed two Bunnings Warehouse upgrades. The Trust also completed the sale of one industrial property. The Trust’s portfolio as at 30 June 2016 consisted of a total of 81 properties: 79 established Bunnings warehouse properties, eight of which have adjacent retail showrooms that the Trust owns and are leased to other retailers; and two fully-leased stand-alone showroom properties.

WESPINE INDUSTRIES
The 50 per cent-owned Wespine Industries operates a plantation softwood sawmill in Dardanup, Western Australia. Timber sales for the 2016 financial year decreased by 24 per cent largely due to the deterioration in Western Australian house building activity. Operating margins also deteriorated during the year, due to increased competition from imported timbers and an overall surplus in supply volumes. Safety performance improved with a 20 per cent reduction in the total recordable injury frequency rate for the year, achieving a period of 98 continuous days injury-free. The management team is continuing its focus on the identification and mitigation of occupational risks, notably manual handling.

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

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

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

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

This year we are proud of our progress in the following areas:
- Total recordable injury frequency rate reduced by 15.2 per cent.
- Promoted diversity in our workplaces, with more than 3,300 employees identifying as Indigenous.
- Improved the transparency of our supply chain with more than 3,000 factories in our audit program.
- Contributed more than $110 million to the community through direct support and contributions from our customers and team members.
- Reduced our scope one and two emissions by more than two per cent in the last year, and decreased the emissions intensity of our business by more than 30 per cent over five years.

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

Our full sustainability report will be available in October 2016 at sustainability.wesfarmers.com.au.
We have 10 principles related to sustainability issues that have been identified as being most ‘material’ to the Group.

SAFETY

We maintain a relentless focus on providing safe workplaces.

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

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

Our safety performance

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

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

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

Our safety initiatives

Each of our divisions has undertaken safety initiatives this year that target their particular safety risks:

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

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

- As part of creating a mentally healthy workplace, Coles launched the ‘Mind Your Health’ program with three pillars of the strategy being awareness, leadership and risk reduction.

- Target delivered a new team member safety training program, upgraded the Target incident reporting database and held a safety focus week.

- Wesfarmers’ Industrial and Safety Blackwoods business, branch and warehouse teams have been self-supported during the branch merger program with careful risk management planning, resilience training and leadership tools and resources.

In Wesfarmers’ Industrial and Safety Blackwoods business, branch and warehouse teams have been self-supported during the branch merger program with careful risk management planning, resilience training and leadership tools and resources.

The four core objectives of the Wesfarmers Diversity Policy are:

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

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

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

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

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

Gender diversity

While Wesfarmers’ workforce is made up of 55 per cent women and 45 per cent men, a key opportunity for the Group is to increase the percentage of leadership positions held by women. Women hold 44 per cent of salaried roles and 56 per cent of award or Enterprise Bargaining Agreement (EBA) roles.

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

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

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

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

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

Coles is our largest consumer business and a critical source of ethical benefits for us and our stakeholders. Our position within the supply chain allows us to develop sustainable, long-term agreements with suppliers around Australia.

Australian first at Coles

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

Supporting small business

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

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

- Ashley Wiese and his business partners from Three Farmers in Western Australia, who have used a $500,000 grant to help build mainland Australia’s first quinoa processing plant.
- Three Families, which has invested a further $1 million processing Australian white quinoa and supplying Coles brand, replacing imports from South America.

- Australian Fresh Leaf Herbs in outer Melbourne, which has used an interest-free loan of more than $30,000 to build a state-of-the-art greenhouse, which uses cloud technology to help advise the best time to plant, pick and pack their herbs.
- The Clark family from Westernway Raspberry Farm in Tasmania, who have used a $200,000 grant from Coles to adopt new freezing technology to supply Tasmanian frozen raspberries to customers.
- Onion and garlic grower Moonrocks, which has used a $400,000 grant to help grow and pack garlic in remote Queensland, extending the availability of Australian-grown garlic in that state.
- Family business Harvey Citrus which has used a $500,000 grant to develop Western Australia’s first seedless lemons and has planted thousands of additional lime and mandarin trees to provide locally-grown produce for the upcoming citrus season.

Food and Grocery Code of Conduct

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

Coles and dairy farmers

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

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

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

In response, Coles highlighted that:

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

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

This year, our audit program covered 3,211 factories used to manufacture house-brand products for resale. Factories in the audit program are required to have a current audit certificate, which means they have been audited by us or another party whose audits we accept.

Ethical sourcing training

We deliver training on ethical sourcing requirements to our team members, third party auditors, suppliers and factories to ensure they understand ethical sourcing risks and the standards expected by our divisions. During the year, our divisions delivered more than 2,500 hours of training.

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

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

Timber procurement

As the leading timber product retailer in Australia and New Zealand, Bunnings’ material ethical sourcing risk relates to the procurement of sustainable timber and wood-based products. Bunnings’ timber and wood products purchasing policy has been part of Bunnings’ mandatory supplier 101 trading terms since 2003, requiring all timber and wood products to originate from legal and well-managed forest operations.

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

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

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

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

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

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

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

Ethical sourcing audit programs

To mitigate the risk of unethical practices occurring in our supply chains, the relevant Wesfarmers businesses (Coles, Bunnings, Target, Kmart, Officeworks and Wes and WSI) apply an ethical sourcing audit program to certain suppliers. Suppliers are audited based on the risk they operate in more regulated countries, or if they are supplying recognised international brands.
We make a positive contribution to the communities in which we operate.

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

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

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

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

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

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

Financial and in-kind emergency relief support was provided by Wesfarmers and a number of its businesses to the West Australian communities of Esperance and Yarloop, who both suffered devastating bushfires over the 2015/16 summer. Many of our divisions have major, long-term partnerships at a national level. However, a significant part of the contribution from our businesses is directed towards local community groups, either through financial or in-kind donations. For example, some of our retail businesses support local community groups by providing gift vouchers for use in their stores, or facilitate the collection of customer donations for local fundraising initiatives.
We strive to improve the emissions intensity of our businesses and improve their resilience to climate change.

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

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

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

Our position on climate change

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

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

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

Managing our emissions

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

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

This year, we emitted a total of 3.9 million tonnes carbon dioxide equivalent (CO₂-e) in scope one and two emissions, which was more than two per cent lower than last year.

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

This year, WesCEF’s GHG emissions increased by 6.3 per cent compared to last year as a result of increased operating hours across its plants. The performance of the nitrates sludge abatement technology installed at CBH’s sinter acid plants continues to minimise GHG emissions.

An average 90 per cent total nitrous oxide abatement was achieved during the year, which equates to a reduction of 1,226,422 tonnes of CO₂-e.

Adapting for climate change

Natural resource management

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

Helping customers reduce their emissions

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

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

Internal shadow carbon price

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

WASTE AND WATER USE

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

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

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

Recycling and waste

This year, we increased our waste to landfill by 11 per cent to 151,000 tonnes and increased our waste recycled by 17 per cent to 356,000 tonnes. This is primarily due to improved data capture methods as required by law and recorded in the Wesfarmers Group accounts. Any donations above a level determined in Federal legislation must be disclosed annually to the Australian Electoral Commission and will be published on its website.

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

Reducing water use

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

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

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

As part of ongoing efforts to improve the energy efficiency of its business operations, Bunnings has been tracking renewable stores generation projects since 2003.

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

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BOARD OF DIRECTORS

Michael Chaney AO, age 66
Chairman
BSc, MBA, Hon LLD (W.Aust), FAICD, FIA
Term: Chairman since November 2015; Director since June 2015.

Skills and experience: After an early career in petroleum geology and corporate finance, Michael joined Wesfarmers in 1990 as Company Secretary and Administration Manager. He became Finance Director in 1994 and was appointed Managing Director in July 1992. He retired from that position in July 2003.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Chairman of Woodside Petroleum Limited (since July 2007)
- Chancellor of The University of Western Australia (since December 2005)
- Member of Commonwealth Science Council (since October 2014)
- Chairman of Gresham Partners Holdings Limited (retd May 2013)
- Chairman of National Australia Bank Limited (retd December 2013)
- Member of Prime Minister’s Business Advisory Council (retd December 2013)

Ricky Goyer AO, age 56
Managing Director
BCom, FAICD
Term: Director since July 2002.

Skills and experience: Richard joined Wesfarmers in 1985 after working in various commercial roles at Yabumakers of Australia Limited. He was Managing Director of Wesfarmers Landmark Limited in 1990 until he became Finance Director of Wesfarmers Limited in 2002 and then Deputy Managing Director and Chief Financial Officer in 2004. Richard assumed the role of Managing Director and Chief Executive Officer in July 2005.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of Gresham Partners Holdings Limited (since July 2005)
- Director of Wesfarmers General Insurance Limited (resigned June 2014)

James Graham AM, age 68
BE (Chem)/(Hon), MBA (UNSW), FIE Aust, FIA, CA, SF Fin
Term: Director since May 1998.

Skills and experience: James has had an active involvement in corporate governance, and was previously as Managing Director of Great Southern Limited, and previously as Managing Director of Rutherford Australia Limited. He was also previously Chairman of Rabobank Australia Limited, Chairman of the Darling Harbour Authority and a director of Hill Samuel Australia Limited.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Chairman of the Advisory Council of the Institute for Neuroscience and Muscle Research (since 1999)
- Director of Wesfarmers General Insurance Limited (resigned June 2014)

Tony Howarth AO, age 64
CGWA, Hon LLD (W.Aust), SF Fin, FAICD
Term: Director since July 2007.

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

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of WPG Management Limited (October 2012)
- Chairman of BMA Offshore Limited (director since July 2001, Chairman since August 2006)
- Director of St John of God Health Care Inc (since January 2006)
- Member of the Australian Rugby Union Inc (since September 2015)
- Director of alma holdings Pty Ltd (since March 2011)
- Director of International Topper Distributors of Commerce, Australia Limited (retd March 2014)

Wayne Osborn, age 65
Dip Elect Eng, MBA, FAICD, FTSE
Term: Director since March 2016.

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

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of Suncorp Limited (May 2010)
- Director of Astra Holdings Pty Ltd since March 2013
- Director of Baka Resources Limited (retd May 2016)
- Chairman of the Australian Institute of Marine Science (retd December 2016)
- Chairman of China National Copper Limited (June 2013)
- Director of Astra Holdings Pty Ltd (since March 2011)
- Director of International Topper Distributors of Commerce, Australia Limited (retd March 2014)

Terry Bowen, age 49
Finance Director
BCom, FIPA
Term: Director since May 2009.


Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of Gresham Partners Holdings Limited (since April 2009)
- Director of Gresham Partners Group Limited (since April 2008)
- Chairman of the West Australian Opera Company Incorporated (since April 2014)
- President of the National Executive of the Group of 100 Inc (retd December 2013)
- Director of Harry Perkins Institute for Medical Research Incorporated (retd May 2013)

Paul Bassat, age 48
B.Com, LL.B (Melb)
Term: Director since November 2012.

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

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of Gresham Partners Holdings Limited (since April 2009)
- Director of Gresham Partners Group Limited (since April 2008)
- Chairman of the West Australian Opera Company Incorporated (since April 2014)
- President of the National Executive of the Group of 100 Inc (retd December 2013)
- Director of Harry Perkins Institute for Medical Research Incorporated (retd May 2013)

Jennifer Westacott, age 56
BA (Hons), FAICD, FIPAA
Term: Director since August 2009.

Skills and experience: Jennifer is Chief Executive of the Business Council of Australia. Prior to that, she was a Board director and lead partner at PwC and has more than 30 years’ experience in critical leadership positions in the New South Wales and Victorian governments.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Adjunct Professor at the Asia Institute Research Centre of the University of New South Wales Co-chair, Advisory Board, Australia/One Hundred Year Agricultural and Food Safety Partnership (since January 2013)
- Chair of the Mental Health Council of Australia (since January 2013)
- Chair of the Australia-China Economic Leadership Forum Organising Committee (since February 2010)
- Executive Chairman of Strategix (Japan) Inc (April 2013 – retd June 2016)
- Director of Rose & Company entities in Australia, New Zealand, Thailand and Indonesia (ceased tenure through to February 2013)

Diane Smith-Gander, age 58
B.Com, MBA, D (UNSW), FAICD, FIA, MAR
Term: Director since August 2009.

Skills and experience: Diane has extensive experience in corporate governance and providing strategic advice to corporations in Australia. Diane was previously a Director of the Board of Directors of McKinsey & Company in the USA, and was a member of McKinsey & Company’s Board of Directors in Australia in 2016 and has more than a decade of executive experience in the banking industry.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of Brunswick Limited (formerly known as Woolworths Services Limited), which delisted in June 2016 (director since October 2010, Chairman since March 2011, retired September 2014)
- Chair Safe Work Australia (since February 2016)
- CSOAN – Committee on Economic Development of Australia (since September 2014, director since November 2014)
- Chair of Keyneton Home Loans (since July 2016)
- Board member of Henry Davis York (since July 2016)
- Commissioner of Tourism WA (appointed expired June 2015)
- Chair of Co-operative Bulk Handling Limited and CBH Grain Limited (resigned February 2014)
- Deputy Chairman of NAB Co Limited (National Broadband Network) (resigned September 2013)

Vanessa Wallace, age 53
Term: Director since July 2010.

Skills and experience: Vanessa is an experienced management consultant who had been with the Boston Consulting Group for almost 20 years. She has deep experience in the financial services sector across the spectrum of wealth management, retail banking and insurance, with particular functional depth in risk management, post-merger integration and capturing business opportunities associated with channels, customers and markets.

Directorships of listed entities (last three years), other directorships/offices (current and recent):
- Director of AMP Limited (since March 2010)
- Chair of AMP Capital Holdings Limited (director since March 2010, Chairman since December 2015)
- Co-chair of the Australia-China Economic Leadership Forum Organising Committee (since February 2010)
- Member of the Macquarie University Business School (since January 2013)
- Co-chair of the Australia-China Economic Leadership Forum Organising Committee (since February 2010)
- Member of the Prime Minister’s Expert Advisory Panel on the Reform of the Federation (concluded December 2012)
- Board member of Urban Renewal Authority South Australia (retd July 2017)
- Member of the Prime Minister’s Cyber Security Review Panel (concluded April 2014)
The Board of Wesfarmers Limited is committed to providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders.

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

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

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

Roles and responsibilities of the Board and management

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

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

The Wesfarmers Managing Director has responsibility for the day-to-day management of Wesfarmers and its businesses, and is supported in this function by the Wesfarmers Leadership Team. Details of the members of the Wesfarmers Leadership Team are set out under the Governance section of the company’s website at www.wesfarmers.com.au/cg.

The Board maintains ultimate responsibility for strategy and control of Wesfarmers and its businesses. In fulfilling its roles and responsibilities, some key focus areas for the Board during the 2016 financial year are set out below.

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

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

Structure and composition of the Board

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

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

Roles and responsibilities of committees

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Role of the Remuneration Committee

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

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

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

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

Role of Audit and Risk Committee

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

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

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

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

- Reviewing and assessing the Group’s processes which ensure the integrity of financial statements and reporting, and associated compliance with accounting, legal and regulatory requirements
- Reviewing the processes and controls around the recognition of commercial income by the retail divisions to ensure recognition is in accordance with Accounting Standards and accepted industry practice
- Monitoring the ethical sourcing of products for resale through the Group’s retail networks to ensure that there are appropriate safeguards and processes in place
- Monitoring the Group’s cyber security framework and the reporting structure and escalation process on information security risks
- Reviewing and evaluating the adequacy of the Group’s insurance arrangements to ensure appropriate cover for identified operational and business risks
- Monitoring the retail shrinkage control measures and reporting procedures in the Group’s divisions
- Monitoring the Group’s tax compliance program both in Australia and overseas to ensure its obligations are met in the jurisdictions in which the Group operates
- Reviewing and making a recommendation to the Board on the adequacy of the Group’s insurance arrangements
- Reviewing and making a recommendation to the Board on the Group’s cyber security framework and the reporting structure and escalation process on information security risks
- Reviewing and assessing the Group’s processes which ensure the integrity of financial statements and reporting, and associated compliance with accounting, legal and regulatory requirements
- Reviewing the processes and controls around the recognition of commercial income by the retail divisions to ensure recognition is in accordance with Accounting Standards and accepted industry practice
- Monitoring the ethical sourcing of products for resale through the Group’s retail networks to ensure that there are appropriate safeguards and processes in place
- Monitoring the Group’s cyber security framework and the reporting structure and escalation process on information security risks
- Reviewing and evaluating the adequacy of the Group’s insurance arrangements to ensure appropriate cover for identified operational and business risks
- Monitoring the retail shrinkage control measures and reporting procedures in the Group’s divisions
- Monitoring the Group’s tax compliance program both in Australia and overseas to ensure its obligations are met in the jurisdictions in which the Group operates
The information appearing on pages 2 to 65 forms part of the directors’ report for the financial year ended 30 June 2016 and is to be read in conjunction with the following information:

Results and dividends

The following dividends have been paid by the company, or declared by the directors since the commencement of the financial year ended 30 June 2016:

(i) out of the profits for the year ended 30 June 2015 and retained earnings on the fully-paid ordinary shares:
   - fully-franked final dividend of 111 cents (2014: 105 cents) per share paid on 30 September 2015 (as disclosed in last year’s directors’ report):
     1,247
   - fully-franked special ‘Centenary’ dividend of 10 cents per share paid on 9 October 2014:
     114
   - fully-franked interim dividend of 91 cents (2015: 89 cents) per share paid on 7 April 2016:
     1,025
   - fully-franked final dividend of 95 cents (2015: 111 cents) per share to be paid on 5 October 2016:
     1,070

(ii) out of the profits for the year ended 30 June 2016 on the fully-paid ordinary shares:
   - a fully-franked dividend component of 25 cents per fully-paid ordinary share paid on 16 December 2014:
     287
   - a capital return of 75 cents per fully-paid ordinary share paid on 16 December 2014:
     364
   - capital management

The following distributions have been paid by the company in the financial year ended 30 June 2015:

(i) fully-franked final dividend of 111 cents (2014: 105 cents) per share paid on 30 September 2015:
   - 1,247
(ii) fully-franked dividend of 95 cents (2015: 111 cents) per share to be paid on 5 October 2016:
   - 1,070

Directors’ report – Wesfarmers Limited and its controlled entities

Directors

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

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

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

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

Directors’ 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:

<table>
<thead>
<tr>
<th>Director</th>
<th>Wesfarmers Limited</th>
<th>WLP Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>M A Chaney</td>
<td>254,406</td>
<td>795,626</td>
</tr>
<tr>
<td>R J B Goyder*</td>
<td>254,406</td>
<td>795,626</td>
</tr>
<tr>
<td>T J Bowen</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>P M Bassat</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>J P Graham</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>A J Howarth</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>W G Osborn</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D L Smith-Gander</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>V M Wallace</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>J A Westacott</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

1. (A) = number of meetings eligible to attend.
2. (B) = number of meetings attended.
3. M A Chaney and J P Graham were ineligible to attend one Board meeting due to a conflict of interest.
4. R L Every retired as Chairman and as a director of the company on 12 November 2015 at the conclusion of the 2015 Annual General Meeting.

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

Directors’ meetings

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

<table>
<thead>
<tr>
<th>Director</th>
<th>Board Meetings</th>
<th>Audit and Risk Committee Meetings</th>
<th>Remuneration Committee Meetings</th>
<th>Nomination Committee Meetings</th>
<th>Gresham Mandate Review Committee Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>M A Chaney</td>
<td>11</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R J B Goyder (Chairman)</td>
<td>11</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>T J Bowen (Group Managing Director)</td>
<td>11</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>P M Bassat (Finance Director)</td>
<td>11</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>J P Graham (Director)</td>
<td>11</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>A J Howarth (Director)</td>
<td>11</td>
<td>11</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>W G Osborn (Director)</td>
<td>11</td>
<td>11</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>D L Smith-Gander (Director)</td>
<td>11</td>
<td>11</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>V M Wallace (Director)</td>
<td>11</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>J A Westacott (Director)</td>
<td>11</td>
<td>11</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
</tbody>
</table>

1. (A) = number of meetings eligible to attend.
2. (B) = number of meetings attended.
3. M A Chaney and J P Graham were ineligible to attend one Board meeting due to a conflict of interest.
4. The 2013 WLTIP performance rights of 88,000 and 55,000 respectively are subject to a four-year performance period, being 1 July 2013 to 30 June 2017. The 2014 WLTIP performance rights of 73,166 and 49,406 respectively are subject to a four-year performance period, being 1 July 2014 to 30 June 2018. The 2015 WLTIP performance rights of 67,220 and 69,007 respectively are subject to a four-year performance period, being 1 July 2015 to 30 June 2019. In general, if the relative total shareholder return and compound annual growth rate in equity performance conditions are met, executives will be allocated Wesfarmers fully-paid ordinary shares at the end of the performance period. For further details, please see the remuneration report on pages 71 to 84 of this annual report.
Insurance and indemnification of directors and officers

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

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

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

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

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

Indemnification of auditors

The company’s auditor is Ernst & Young.

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

During the financial year:

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

Directors’ and other officers’ remuneration

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

Options

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

Company Secretary

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

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

Significant changes in the state of affairs

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

- Revenue from ordinary activities up from $62,447 million to $65,981 million
- Profit for the year down from $2,440 million to $407 million (including net of tax impairment of Target and Curragh of $1,844 million)
- Dividends per share of $1.86 (2015: $2.00 per share)
- Total assets up from $40,402 million to $40,783 million
- Net cash flows from operating activities down from $3,791 million to $3,365 million

Review of results and operations

The operations, financial position, business strategies and prospects for future financial years of the consolidated entity are detailed in the operating and financial review on pages 10 to 58 of this report.

Events after the reporting period

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

Dividend

On 24 August 2016, a fully-franked final ordinary dividend of 95 cents per share resulting in a total dividend of $1.070 million was declared for a payment date of 5 October 2016. This dividend has not been provided for in the 30 June 2016 full-year financial statements.

Non-audit services

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

<table>
<thead>
<tr>
<th>Service</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax compliance</td>
<td>1,096</td>
</tr>
<tr>
<td>Assurance related</td>
<td>2,215</td>
</tr>
<tr>
<td>Other</td>
<td>882</td>
</tr>
<tr>
<td>Total</td>
<td>4,223</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

Ernst & Young
D S Lewsen
Partner
21 September 2016

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

Environmental regulation and performance

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

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

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

Proceedings on behalf of the company

No proceedings have been brought on behalf of the company, nor have any applications been made in respect of the company.

Corporate governance

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

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.

Operational reorganisation

The reorganisation of the Group’s four main operating divisions (Coles, Home Improvement, Department Stores and Industrials) and the confirmation of our four divisional leaders, resulted in a material reorganisation. As part of the structural reorganisation, the Group has reviewed which of our senior executives have the requisite authority and responsibility within the Group to meet the definition of key management personnel for the purpose of disclosure in this report. The directors in this report reflect this change from previous years.

Key management personnel changes

As part of the structural reorganisation, the Group has reviewed which of our senior executives have the requisite authority and responsibility within the Group to meet the definition of key management personnel for the purpose of disclosure in this report. The change in roles for a number of our executives prompted a review of the appropriate remuneration for these roles, which considered the market rates for comparable roles and the activity in the market for key talent over the past year (particularly as major competitors attempted to replace senior executives), in light of the current market rates for the fixed remuneration (including annual bonus and incentive opportunities) of a number of our senior executives. The Board, upon recommendation of the Remuneration Committee, is satisfied that these changes are not only justified, but also necessary for the Group and our senior executives, and the interests of protecting the significant investment made by the Group in developing its key talent.

Fixed remuneration

The fixed remuneration of our Group Managing Director was not increased this year and has not changed since October 2011. The change in roles for a number of our executives prompted a review of the appropriate remuneration for these roles, which considered the market rates for comparable roles and the activity in the market for key talent over the past year (particularly as major competitors attempted to replace senior executives), in light of the current market rates for the fixed remuneration (including annual bonus and incentive opportunities) of a number of our senior executives. The Board, upon recommendation of the Remuneration Committee, is satisfied that these changes are not only justified, but also necessary for the Group and our senior executives, and the interests of protecting the significant investment made by the Group in developing its key talent.

Annual incentives

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

Sting results in the 2016 financial year across most of our retail businesses resulted in above average target annual incentive outcomes for the leaders of these divisions. Despite the more difficult conditions faced by our Industries division, the annual incentive of our Industries division leader increased this year.

Following the recognition of Target’s Managing Director during the year, the 2016 annual incentive opportunity was forfeited and he did not receive any payment.

As a result of the organisational restructure and in light of divisional performance, the Group Managing Director recommended to the Board, and the Board agreed, that it exercise its discretion to pay an amount equal to 60 per cent of fixed remuneration at target (rather than 45 per cent) in respect of the fixed remuneration for 2016 and divisional CEO incentives. Awards under the annual incentive plan will be deferred in cash up to 80 per cent of fixed remuneration and deferred into restricted equity for amounts awarded above that. The maximum opportunity continued to be capped at 130 per cent of fixed remuneration for these roles.

Long-term incentives

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

Review of remuneration structure

Our current remuneration structures, comprising fixed, annual bonus and an annual grant (including a deferred component) and an annual grant (including a deferred component) are designed to enable internal succession to the Group’s senior roles. Accordingly, we will implement a new remuneration structure for our divisional CEOs for 2017. The new plan, to be called the Key Executive Equity Performance Plan (KEEP), will provide for individual rewards to be determined annually within an approved range based on divisional performance (including annual EBIT and ROIC targets, together with the Board’s recommendation to the Committee) and the Committee’s recommendation to the Board in equity and the equity will comprise both restricted and performance shares that are awarded to the Committee, both of which are required to be held for the long term. Further details of the operation of the plan will be included in next year’s remuneration report.

The Group Managing Director and Finance Director will continue to participate in WILTP for the 2017 financial year. Performance will be measured solely against relative TSR. It was not considered appropriate to use corporate or divisional annual growth rate in ROE given the asset and performance changes taken against Target and Curragh in the 2015 financial year and the material effect these have had on FY2015 ROE (which would be the starting point from which performance would be measured).
2. Framework

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

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

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

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

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

Our executive remuneration framework comprises fixed annual remuneration, an annual incentive and a long-term incentive.

The graphs below show each of the components as a percentage of total target annual remuneration for the 2016 financial year:

- **Group Managing Director**: FAR 34, FAR 42, STI 33
- **Other senior executives**: FAR 34, FAR 42, STI 33

### 2.1 Four guiding principles

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

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

- Ownership aligned – remuneration arrangements should encourage Wesfarmers’ senior executives to behave like long-term ‘owners’.

  There should be a strong link between remuneration earned and the achievement of sustainable performance that leads to satisfactory returns for shareholders.

- Performance focused – remuneration arrangements should reward strategic, operational and financial performance of the business.

  As shown below, a significant proportion of each executive’s remuneration is dependent upon Wesfarmers’ success and individual performance.

- Consistent and market competitive – a common set of remuneration practices will generally apply to all senior executive roles.

  Wesfarmers positions remuneration to be competitive, with an opportunity for highly competitive total remuneration for superior performance.

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

  Key result areas for the role: All outcomes in the individual’s position description.

### 2.2 Remuneration framework

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

<table>
<thead>
<tr>
<th>Component</th>
<th>Performance measure</th>
<th>Strategic objective/performance link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FAR</strong> (Fixed annual remuneration)</td>
<td>At risk weight</td>
<td>Reward performance above target, considering statutory superannuation.</td>
</tr>
<tr>
<td><strong>STI</strong> (Short-term incentive)</td>
<td>Key result areas</td>
<td>At risk pay – annual incentive (STI)</td>
</tr>
<tr>
<td><strong>LTI</strong> (Long-term incentive)</td>
<td>Total Shareholder Return (TSR) 50% weighting</td>
<td>At risk pay – long-term incentive (LTI)</td>
</tr>
</tbody>
</table>

The remuneration mix is designed to reflect the diversified nature of the Wesfarmers business and is structured to reward executives for performance at both Group and divisional levels, as well as at a divisional level, and to align executive and stakeholder interests through share ownership.

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1. As a result of the organisational restructuring in line with the diversification of the business, the Group Managing Director recommended to the Board, and the Board agreed, that it exercise its discretion to pay an amount equal to 100 per cent of FAR at target (rather than 80 per cent of FAR at target) for the year to the Finance Director and divisional CEOs.
3. Outcomes

3.1 Overview of company performance

The Group reported NPAT of $407 million for the 2016 financial year. This result included non-cash impairments of Target and Curragh totalling $1,844 million (post-tax), as well as $102 million (post-tax) of restructuring costs and provisions to reset Target. Despite a challenging environment, Wesfarmers’ other businesses have continued to demonstrate strong performance against key financial measures and relative to its peers. The table below summarises details of Wesfarmers’ performance for key financial measures over the past five financial years.

Financial year ended 30 June

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit after tax (NPAT) ($m)</td>
<td>2,128</td>
<td>2,261</td>
<td>2,669</td>
<td>2,440</td>
<td>407</td>
</tr>
<tr>
<td>Adjusted NPAT (encore)</td>
<td>2,128</td>
<td>2,261</td>
<td>2,669</td>
<td>2,440</td>
<td>407</td>
</tr>
<tr>
<td>Total dividends per share (declared) (cents)</td>
<td>185</td>
<td>200</td>
<td>200</td>
<td>186</td>
<td>186</td>
</tr>
<tr>
<td>Closing share price ($ as at 30 June)</td>
<td>29.90</td>
<td>39.60</td>
<td>41.84</td>
<td>39.03</td>
<td>45.95</td>
</tr>
<tr>
<td>Capital management distribution (paid) (cents)</td>
<td>50</td>
<td>1.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Earnings per share (cents)</td>
<td>184.2</td>
<td>195.9</td>
<td>234.63</td>
<td>216.1</td>
<td>38.2</td>
</tr>
<tr>
<td>Return on equity (rolling 12) (%)</td>
<td>9.9</td>
<td>10.5</td>
<td>9.6</td>
<td>9.2</td>
<td>1.7</td>
</tr>
</tbody>
</table>

3.2 Fixed annual remuneration

Wesfarmers’ practice is not to increase fixed remuneration by reference to inflation or indexation as a matter of course. Increases are material; or as a result of internal relativities.

As a result of this review, changes were made to the fixed remuneration of a number of senior executives during the 2016 financial year.

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

As part of the organisational restructure, the Group undertook a review of the roles and responsibilities of our senior executives. As Wesfarmers operates in an environment that is highly competitive for talent and the divisional leaders are akin to CEOs of stand-alone entities (albeit without ASX-listed responsibilities), Team following the restructure as well as external comparisons and factors. As Wesfarmers operates in an environment that is highly competitive for talent and the divisional leaders are akin to CEOs of stand-alone entities (albeit without ASX-listed responsibilities), Team following the restructure as well as external comparisons and factors.

(a) Weighting of performance conditions and outcomes

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

(b) Annual Incentive outcomes – 2016 financial year

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

Annual incentive cash payments are made, and deferred restricted shares were allocated on 26 August 2016 for the current year. The number of shares is determined based upon the allocation share price on 26 August 2016. The shares were purchased on market at an average price of $44.2169.
3.4 Long-term incentive overview

The long-term incentive is issued as performance rights granted under the WLTIP. Key terms of this scheme are detailed in section 3.7.

(a) LTI awarded during the year

Performance rights were allocated to executives under the 2015 WLTIP on 13 November 2015, and are subject to a four-year performance period but not subject to any additional trading restrictions. Awards are subject to two hurdles (detailed in section 3.7).

Rights granted1  Award value ($)  Value at grant2 ($)  
R J B Goyder  87,220 2,565,996 2,381,427  
T J Brown  68,657 2,795,899 1,869,206  
J P Durkan  79,858 2,180,998 2,226,278  
J C Gillam  65,876 2,033,998 1,805,629  
G A Russo3  55,725 2,259,967 1,505,345  
R G Scott4  34,299 1,378,710 959,167  

Former senior executive

S B Machin  29,853 1,199,995 924,834  

1 The number of performance rights allocated is determined based upon the 10-day volume weighted average price of Wesfarmers shares over the period immediately following the full year results announced in August i.e., 21 August to 3 September 2015 (being 424.108/). Performance rights have no intrinsic value.

2 For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2: Share-Based Payment. The rights subject to market conditions (TSR hurdle) have been independently valued using the Monte Carlo simulation using the Black-Scholes framework. The rights subject to non-market conditions (CAGR in ROE hurdle) have been independently valued using the Monte Carlo simulation using the Black-Scholes framework. The value per right for executive directors for the TSR performance hurdle and ROE hurdle have been valued using the Black-Scholes option pricing model. The value per right for executive directors for the TSR performance hurdle and ROE hurdle has been valued using the Black-Scholes option pricing model. The value per right for executive directors for the TSR performance hurdle and ROE hurdle has been valued using the Black-Scholes option pricing model.

3 In 2015, R G Scott was granted performance rights under the WLTIP for the first time. The number of performance rights granted for the R G Scott is half the number of performance rights granted to the other executive directors.

4 R G Scott was appointed as the Managing Director, Industrials on 1 September 2015. R G Scott was appointed as the Managing Director, Industrials on 1 September 2015.

(b) LTI vesting during the year

The table below shows the performance of the Group against the targets for the 2015 WLTIP award, whose four-year performance period ended on 30 June 2016. The threshold vesting levels were not achieved and therefore none of the 2015 WLTIP grant vested into shares and all the performance rights lapsed.

<table>
<thead>
<tr>
<th>Vesting condition</th>
<th>Outcome (2015-2016)</th>
<th>Percentile ranking vs ASX 50</th>
<th>% of maximum award</th>
<th>Total % of shares vested</th>
<th>Number of shares vested</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR in ROE (75% of the award)</td>
<td>33,345%</td>
<td>28.89%</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TSR (75% of the award)</td>
<td>62.93%</td>
<td>45.65%</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Held at 1 July 2015</th>
<th>Granted during year</th>
<th>Lapsed during the year</th>
<th>Held at 30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>R J B Goyder</td>
<td>267,186</td>
<td>80,220</td>
<td>180,000</td>
<td>72,782</td>
</tr>
<tr>
<td>T J Brown</td>
<td>154,406</td>
<td>69,657</td>
<td>83,000</td>
<td>19,657</td>
</tr>
<tr>
<td>J P Durkan</td>
<td>95,149</td>
<td>72,628</td>
<td>-</td>
<td>72,628</td>
</tr>
<tr>
<td>J C Gillam</td>
<td>126,973</td>
<td>65,676</td>
<td>-</td>
<td>47,743</td>
</tr>
<tr>
<td>G A Russo</td>
<td>108,663</td>
<td>55,725</td>
<td>-</td>
<td>20,803</td>
</tr>
<tr>
<td>R G Scott</td>
<td>-</td>
<td>34,299</td>
<td>-</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Former senior executives

S B Machin | 75,082 | 29,853 | - | 104,935 | - |
| T J P O’Leary | 87,381 | - | - | 87,381 | - |

1 Reflects prior year WLTIP allocations which are subject to performance conditions at that time which remain unvested (i.e., under the 2012, 2013 and 2014 WLTIP allocation of performance rights).

2 Reflects the TSR WLTIP allocations subject to performance conditions at that time which remain unvested (i.e., the 2013, 2014 and 2015 TSR WLTIP rights).

3 Reflects the period until R G Scott ceased to be a member of the KMP on 1 September 2015.

4 Reflects the period until S B Machin ceased to be a member of the KMP on 23 February 2016.

5 Reflects the period until T J P O’Leary ceased to be a member of the KMP on 31 August 2015, prior to the 2015 WLTIP allocation.


## REMUNERATION REPORT 2016 (AUDITED)

### 3.7 At risk component

The key details of Wesfarmers annual incentive plan and long-term incentive plan, known as WLTIP, are summarised below.

#### Annual incentive plan

<table>
<thead>
<tr>
<th>Executives</th>
<th>Annual incentive (STI)</th>
<th>Long-term incentive (LTI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R J B Goyder</td>
<td>$3,348,935</td>
<td>$58,433</td>
</tr>
<tr>
<td>T J Bowen</td>
<td>$1,705,552</td>
<td>$30,833</td>
</tr>
<tr>
<td>J P Durkan</td>
<td>$950,125</td>
<td>$17,167</td>
</tr>
<tr>
<td>G A Russo</td>
<td>$763,414</td>
<td>$13,005</td>
</tr>
<tr>
<td>T J P O'Leary</td>
<td>$979,934</td>
<td>$17,500</td>
</tr>
<tr>
<td>– Finance Director</td>
<td>$1,110,000</td>
<td>$30,833</td>
</tr>
<tr>
<td>– Managing Director, Coles</td>
<td>$1,327,923</td>
<td>$23,333</td>
</tr>
<tr>
<td>– Managing Director, Wesfarmers Resources</td>
<td>$950,125</td>
<td>$17,167</td>
</tr>
<tr>
<td>– Managing Director, Industrials</td>
<td>$1,206,076</td>
<td>$17,500</td>
</tr>
</tbody>
</table>

*Note: The above figures include performance-related adjustments for Wesfarmers Limited (WES) performance.

#### Long-term incentive plan

- **Grant date**: Wesfarmers resources in the second half of August or the following February. Shares are allocated in late August, and vesting begins in the following year. The Board may determine that shares are released between the third and fifth years. If the recipient ceases employment before the end of the vesting period, their entitlement to the rights will depend on the circumstances of cessation. All rights will lapse in the event of their resignation or if an executive resigns or is terminated for cause within one year of the share allocation.

#### Performance hurdles

- **WES**: 10% outperformance compared to the median of the ASX 200
- **ROE**: Between the 50th and 75th percentile
- **TSR**: Between the 25th and 75th percentile

#### Change of control

- Shares allocated on vesting of the rights after the four-year performance period are not subject to any additional trading restrictions. An executive can, however, elect to forfeit for an additional trading restriction of up to 10 years, with the vesting date being the 15th anniversary of the grant date.

### Change of control

- The terms of the STI and LTI plans contain mechanisms for the Board to clawback or adjust any incentive awards which vest or may vest as a result of a material establishment or material change of control. The plans require the return of the incentive awards if the change of control is a result of the executive’s misconduct or if the executive fails to satisfy any of the performance hurdles or other conditions set forth in the plans.

- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

- Any incentive awards not subject to additional trading restrictions may be forfeited in the event of termination for cause. Shares granted after the four-year performance period are subject to additional trading restrictions for an additional 10 years, with the vesting date being the 15th anniversary of the grant date.

- Shares allocated to the executive’s account on vesting are subject to a lock-up period of 10 years from the grant date. The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

- Any incentive awards not subject to additional trading restrictions may be forfeited in the event of termination for cause. Shares granted after the four-year performance period are subject to additional trading restrictions for an additional 10 years, with the vesting date being the 15th anniversary of the grant date.

- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

- Any incentive awards not subject to additional trading restrictions may be forfeited in the event of termination for cause. Shares granted after the four-year performance period are subject to additional trading restrictions for an additional 10 years, with the vesting date being the 15th anniversary of the grant date.

- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

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- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

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- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

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- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

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- The Board may determine the treatment of awards if the executive ceases employment following the completion of the vesting period. Shares that vest following the change of control cannot be sold until the vesting date.

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- Any incentive awards not subject to additional trading restrictions may be forfeited in the event of termination for cause. Shares granted after the four-year performance period are subject to additional trading restrictions for an additional 10 years, with the vesting date being the 15th anniversary of the grant date.
Non-executive director remuneration

4. Framework and outcomes

4.1 Overview of non-executive directors remuneration policy and arrangements

Policy objectives
- To be market competitive: aim to set fees at a level competitive with non-executive directors in comparator companies, and
- To safeguard independence: to not include any performance-related element, to preserve the independence of non-executive directors.

Aggregate fees approved by shareholders

The current maximum aggregate fee pool for non-executive directors of $3,600,000 was approved by shareholders at the 2015 Annual General Meeting. Fees paid to Wesfarmers' non-executive directors for membership of Wesfarmers' divisional boards, in addition to Wesfarmers' Board and Committee fees and superannuation contributions made on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations, are included in this aggregate fee pool.

Regular reviews of remuneration

The Board periodically reviews the level of fees paid to non-executive directors, including seeking external advice. A review was undertaken during the 2016 financial year with the assistance of 3 degrees consulting.

Main Board non-executive directors fees were increased by 3.8 per cent and the Chairman fee increased by 1.6 per cent effective 1 January 2016, in order to remain competitive in the market having regard to the size, complexity and market position of the Group. No change was made to the Audit and Risk Committee fees or Remuneration Committee fees, as the current level of fees were considered appropriate.

4.2 Non-executive director fees and other benefits

The fees shown in the table below (inclusive of superannuation) took effect from 1 January of the relevant financial year. Members of the Nomination Committee and Gresham Mandate Review Committee do not receive any additional fees.

<table>
<thead>
<tr>
<th>Fees/benefits</th>
<th>Description</th>
<th>2016 $</th>
<th>Included in shareholder approved cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board fees</td>
<td>Main Board</td>
<td>750,000</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Chairman – R L Every (until retirement on 12 November 2015)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Members – all non-executive directors</td>
<td>225,000</td>
<td></td>
</tr>
<tr>
<td>Committee fees</td>
<td>Audit and Risk Committee</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chairman – A J Howarth</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Members – R L Every (until retirement on 12 November 2015), D L Smith-Gander, J A Westacott</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remuneration Committee</td>
<td>Chairman – M A Chaney</td>
<td>52,000</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Members – R L Every (until retirement on 12 November 2015), V M Wallace and P M Bassat</td>
<td>26,000</td>
<td></td>
</tr>
<tr>
<td>Superannuation</td>
<td>to Wesfarmers' Group Superannuation Plan or another regulated superannuation fund. An amount is deducted from gross fees to meet statutory superannuation obligations.</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Other Group fees</td>
<td>Other benefits</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>5. Former non-executive directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>R L Every (referred to in 12/11/15)</td>
<td>264,311</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>M A Chaney</td>
<td>705,215</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>C B Carter (referred to 12/11/14)</td>
<td>81,314</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>C Macleay (referred to 12/11/14)</td>
<td>95,855</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total remuneration</td>
<td>2,492,801</td>
<td>99,700</td>
</tr>
</tbody>
</table>

4.3 Non-executive director remuneration

The fees paid or payable to the non-executive directors in relation to the 2016 financial year are set out below:

<table>
<thead>
<tr>
<th>Non-executive directors</th>
<th>Fees – Wesfarmers Limited $</th>
<th>Fees – Wesfarmers Group $</th>
<th>Other benefits $</th>
<th>Superannuation $</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td>P M Bassat</td>
<td>222,090</td>
<td>-</td>
<td>7,482</td>
<td>19,310</td>
<td>248,482</td>
</tr>
<tr>
<td>M A Chaney</td>
<td>542,150</td>
<td>-</td>
<td>7,482</td>
<td>19,310</td>
<td>569,942</td>
</tr>
<tr>
<td>J P Graham</td>
<td>242,000</td>
<td>-</td>
<td>7,482</td>
<td>19,310</td>
<td>249,482</td>
</tr>
<tr>
<td>A J Howarth</td>
<td>276,090</td>
<td>99,700</td>
<td>7,482</td>
<td>19,310</td>
<td>403,162</td>
</tr>
<tr>
<td>W G Osborne</td>
<td>248,890</td>
<td>-</td>
<td>7,482</td>
<td>19,310</td>
<td>275,482</td>
</tr>
<tr>
<td>D L Smith-Gander</td>
<td>235,215</td>
<td>-</td>
<td>6,987</td>
<td>18,785</td>
<td>254,087</td>
</tr>
<tr>
<td>V M Wallace</td>
<td>222,090</td>
<td>-</td>
<td>7,482</td>
<td>19,310</td>
<td>249,482</td>
</tr>
<tr>
<td>J A Westacott</td>
<td>235,215</td>
<td>-</td>
<td>6,987</td>
<td>18,785</td>
<td>254,087</td>
</tr>
</tbody>
</table>

1. The benefit indicated in this column is a proportion of the premium paid on a policy for directors and officer insurance. In 2015, this benefit also included the cost to the company (inclusive of fringe benefits tax) of a retirement gift for R L Every.

2. Superannuation contributions are made on behalf of non-executive directors in accordance with Wesfarmers’ statutory superannuation obligations. Also included is any part of a non-executive director’s fees that have been sacrificed into superannuation.

3. Former non-executive directors:
   - M A Chaney was appointed as a non-executive director on 12 July 2015 and appointed as Chairman on 12 November 2015.
   - C B Carter and C Macleay retired from the Board at the conclusion of the 2015 Annual General Meeting on 12 November 2015.
   - A J Howarth receives fees for participation on the Board of BWP Management Limited.
   - R L Every retired as Chairman at the conclusion of the 2015 Annual General Meeting on 12 November 2015. C B Carter and C Macek retired at the conclusion of the 2016 Annual General Meeting.

4. As from 1 January 2014, the Chairman of the Board no longer receives a separate fee for sitting on any of the Board’s committees.
Other remuneration information

5. Remuneration governance

5.1 Responsibility for setting remuneration
Responsibility for setting remuneration policy and determining non-executive director, executive director and senior executive remuneration rests with the Board.

The Remuneration Committee is delegated responsibility to review and make recommendations to the Board. Management and remuneration consultants provide information to assist the Board and Remuneration Committee, but do not substitute for the Board and committee processes.

Detail of the composition of the Remuneration Committee is set out on page 88 of this annual report. Further information regarding the objectives and role of the Remuneration Committee is contained in its charter, which is available on the Corporate Governance section of the company’s website at www.wesfarmers.com.au

5.2 Use of remuneration advisers during the year
3 degrees consulting was engaged by the Remuneration Committee to provide independent advice to the Remuneration Committee on a range of matters, including KMP remuneration. In the 2016 financial year, 3 degrees consulting provided remuneration recommendations as defined in section 98 of the Corporations Act 2001 in relation to the senior executive remuneration framework for the KMP which has resulted in the introduction of the KEEPP for the 2017 financial year, the level of participation of the KMP in that new program and levels of our non-executive director fees. 3 degrees consulting was paid $114,710 excluding GST and disbursements for these services.

The Board is satisfied that the recommendations were made free from any undue influence by the member or members of KMP to whom the recommendations relate. In addition to adhering to Board approved protocols, 3 degrees consulting provided a formal declaration in this regard.

In addition to providing remuneration recommendations, 3 degrees consulting acted as the independent remuneration adviser to the Remuneration Committee. 3 degrees consulting provided a broad range of services to Wesfarmers and the Wesfarmers Group during the year, including human resources strategy and forward planning, undertaking a comprehensive review of the senior executive remuneration framework which commenced in 2015 and continued throughout 2016, providing advice on other aspects of the remuneration of the Group’s senior executives and related governance and legal advice. Services also included advice regarding senior executive employment terms (including advice on the terms of employment of executives and other changes in light of the organisational restructure and the Group’s investment through the Home Improvement division in, and the transfer of key executives to, the United Kingdom), advice relating to executives who ceased employment during the year, internal and external stakeholder communications (including assistance in relation to the Remuneration Report) and the provision of market data regarding peer remuneration practices. 3 degrees consulting was paid a total of $735,525 excluding GST and disbursements for these services to the Wesfarmers Group for the 2016 financial year.

5.3 Senior executive and director share ownership
The Board considers it an important foundation of the Wesfarmers executive remuneration framework that the senior executive team and directors hold a significant number of Wesfarmers shares to encourage executives to behave like long-term ‘owners’.

– All senior executive KMP hold approximately one year’s FAB in Wesfarmers shares, with the majority holding significantly more.
– Directors are required to hold a minimum of 1,000 Wesfarmers shares within two months of appointment.
– Directors are also expected to increase their holdings in Wesfarmers shares to the equivalent of their annual main board fee within a five-year period of appointment.

Non-executive directors have the facility to acquire shares out of their fees under the Wesfarmers Employee Share Acquisition Plan (WESAP). Participation in the plan is voluntary and enables non-executive directors to use their after-tax fees to acquire Wesfarmers shares. Shares are purchased on a monthly basis (except during blackout periods) by the plan trustee and are subject to a 12-month trading restriction, during which time the shares are held by the plan trustee.

For the 2016 financial year, M Wallace and J A Westacott elected to utilise the WESAP. A total of 1,135 shares were purchased on behalf of Ms Wallace (with a total value of $43,813.72) and 284 shares were purchased on behalf of Ms Westacott (with a total value of $10,912.78) at share prices ranging between $37.40 and $39.51. Shares were purchased on-market at an average price per share of $38.43.

The Board determined that the non-executive director share plan be suspended effective 1 December 2015 and that no further acquisitions or offers to participate be made until further notice. All shares acquired and held under the plan to date continue to be subject to the terms and conditions of the plan.

The following table sets out the number of shares held directly, indirectly or beneficially by directors and senior executives (including their related parties).

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares not vested at year end1</th>
<th>Number of rights not vested at year end2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P M Baasit</td>
<td>19,411</td>
<td>19,411</td>
</tr>
<tr>
<td>M A Cherry</td>
<td>97,243</td>
<td>97,243</td>
</tr>
<tr>
<td>R L Every3</td>
<td>27,541</td>
<td>27,541</td>
</tr>
<tr>
<td>J P Graham</td>
<td>809,529</td>
<td>796,516</td>
</tr>
<tr>
<td>A J Howarth</td>
<td>16,494</td>
<td>16,494</td>
</tr>
<tr>
<td>W G Osborn</td>
<td>9,989</td>
<td>9,989</td>
</tr>
<tr>
<td>D L Smith-Gander</td>
<td>12,045</td>
<td>12,045</td>
</tr>
<tr>
<td>V M Wallace</td>
<td>12,546</td>
<td>12,546</td>
</tr>
<tr>
<td>J A Westacott</td>
<td>284</td>
<td>284</td>
</tr>
<tr>
<td>Executive directors, senior executives and former senior executives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R J B Goyer</td>
<td>97,113</td>
<td>97,113</td>
</tr>
<tr>
<td>F J Brown</td>
<td>480,761</td>
<td>480,761</td>
</tr>
<tr>
<td>J P Durkan</td>
<td>48,823</td>
<td>48,823</td>
</tr>
<tr>
<td>J C Gillen</td>
<td>491,257</td>
<td>491,257</td>
</tr>
<tr>
<td>G A Russo</td>
<td>304,490</td>
<td>304,490</td>
</tr>
<tr>
<td>R G Scott4</td>
<td>45,803</td>
<td>45,803</td>
</tr>
<tr>
<td>D B March</td>
<td>248,986</td>
<td>248,986</td>
</tr>
<tr>
<td>T J P O’Leary7</td>
<td>418,023</td>
<td>418,023</td>
</tr>
</tbody>
</table>

Total: 3,787,706

1 Where a director or senior executive has ceased to be a director or senior executive throughout the year, the balance at year end reflects the number of shares as at the date they ceased to be a director or senior executive.

2 The number of performance rights not vested reflects the 2015 and 2014 and 2015 WRTIP allocations, which remain subject to performance conditions.

3 R L Every retired on 12 November 2015.

4 The information for R G Scott reflects his time as a member of the KMP from 1 September 2015.

5 The information for D B March reflects his time as a member of the KMP until 23 February 2016.

6 The information for T J P O’Leary reflects his time as a member of the KMP, up until 31 August 2015.

5.4 Share trading restrictions
Wesfarmers’ securities trading policy reflects the Corporations Act prohibition on key management personnel and their closely related parties engaging in any arrangement that would have the effect of limiting the key management personnel’s exposure to risk relating to an element of their remuneration that remains subject to restrictions on disposal.

Wesfarmers directors, the Wesfarmers Leadership Team, and certain members of their immediate family and controlled entities are also required to obtain clearance from the Wesfarmers Company Secretary for the sale, purchase or transfer of Wesfarmers securities and for short selling, short-term trading, security interests, margin loans and hedging relating in Wesfarmers securities. The Wesfarmers Company Secretary refers all requests for clearance to at least two members of the Disclosure Committee. Clearance from the Chairman is also required for requests from Wesfarmers directors. Clearance cannot be requested for dealings that are subject to the Corporations Act prohibition referred to above.

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

The Remuneration Report prepared in accordance with ASX Listing Rule 10.08(a), contains a description of remuneration for the financial year ended 30 June 2016:

Section 5.3 Senior executive and director share ownership

Section 5.4 Share trading restrictions
6. Further information on remuneration

6.1 Service agreements

The remuneration and other terms of employment for the executive directors and senior executives are covered in formal employment contracts. All service agreements are for unlimited duration and may be terminated immediately for serious misconduct. All executives are entitled to receive pay in lieu of any accrued but untaken annual and long service leave on cessation of employment.

In the 2016 financial year, Wesfarmers amended certain key contractual arrangements for a number of Wesfarmers’ most senior executives.

Mr Goyder, Mr Gillam and Mr Russo must give a minimum of 12 months’ notice should they wish to resign. In addition, the restraint and non-solicitation clauses have been strengthened to further protect the business interests of the Wesfarmers Group. In return, Wesfarmers has agreed to give 12 months’ notice should it wish to terminate employment (other than for cause).

Mr Bowen, Mr Durkan and Mr Scott must give a minimum of six months’ notice should they wish to resign. Other executives will progressively move to similar notice, restraint and non-solicitation contractual arrangements.

6.2 Other transactions and balances with key management personnel

Mr Graham, a director of Wesfarmers, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers. Partly owned subsidiaries of Gresham Partners Group Limited have provided office accommodation and financial advisory services to Wesfarmers and were paid fees of $1,698,838 in 2016 (2015: $2,254,746).

From time to time, directors of the company or its controlled entities, or their director-related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

There were no loans made during the year, or remaining unsettled at 30 June 2016, between Wesfarmers and its key management personnel and their related parties.

6.3 Independent audit of remuneration report

The remuneration report has been audited by Ernst & Young. Please see page 133 of this annual report for Ernst & Young’s report on the remuneration report.

The directors’ report, including the remuneration report, is signed in accordance with a resolution of the directors of Wesfarmers Limited.

M A Chaney AO  R J B Goyder AO  
Chairman    Managing Director  
Sydney  
21 September 2016
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED

<table>
<thead>
<tr>
<th>Note</th>
<th>2016 $m</th>
<th>2015 $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1</td>
<td>65,981</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials and inventory</td>
<td>2</td>
<td>(45,523)</td>
</tr>
<tr>
<td>Employee benefits expense</td>
<td>2</td>
<td>(6,847)</td>
</tr>
<tr>
<td>Freight and other related expenses</td>
<td>2</td>
<td>(1,079)</td>
</tr>
<tr>
<td>Occupancy-related expenses</td>
<td>2</td>
<td>(2,350)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>2</td>
<td>(1,239)</td>
</tr>
<tr>
<td>Impairment expenses</td>
<td>2</td>
<td>(2,172)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>3</td>
<td>(2,197)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td></td>
<td><strong>(84,984)</strong></td>
</tr>
<tr>
<td>Other income</td>
<td>1</td>
<td>235</td>
</tr>
<tr>
<td>Share of net profits of associates and joint ventures</td>
<td>16</td>
<td>114</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>349</strong></td>
</tr>
<tr>
<td>Earnings before interest and income tax expense (EBIT)</td>
<td>1</td>
<td>3,146</td>
</tr>
<tr>
<td>Finance costs</td>
<td>2</td>
<td>(509)</td>
</tr>
<tr>
<td><strong>Profit before income tax</strong></td>
<td></td>
<td><strong>1,036</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>3</td>
<td>(831)</td>
</tr>
<tr>
<td><strong>Profit attributable to members of the parent</strong></td>
<td></td>
<td><strong>407</strong></td>
</tr>
<tr>
<td>Earnings per share attributable to ordinary equity holders of the parent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>13</td>
<td>36.2</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>13</td>
<td>36.2</td>
</tr>
</tbody>
</table>

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED

<table>
<thead>
<tr>
<th>Note</th>
<th>2016 $m</th>
<th>2015 $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to members of the parent</td>
<td></td>
<td><strong>407</strong></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that may be reclassified to profit or loss:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation reserve</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Cash flow hedge reserve</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Offset to revaluation of foreign currency denominated debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealised (losses)/gains on cash flow hedges</td>
<td></td>
<td>(34)</td>
</tr>
<tr>
<td>Realised losses transferred to net profit</td>
<td></td>
<td>147</td>
</tr>
<tr>
<td>Realised gains transferred to non-financial assets</td>
<td></td>
<td>(257)</td>
</tr>
<tr>
<td>Share of associates and joint venture reserves</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Tax effect</td>
<td></td>
<td>3.12</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year, net of tax, attributable to members of the parent</strong></td>
<td></td>
<td><strong>329</strong></td>
</tr>
</tbody>
</table>
# Financial Statements

## Balance Sheet

**As at 30 June 2016**

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>2016</th>
<th>2015</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4</td>
<td>611</td>
<td>711</td>
</tr>
<tr>
<td>Receivables - Trade and other</td>
<td>5</td>
<td>1,639</td>
<td>1,463</td>
</tr>
<tr>
<td>Receivables - Finance advances and loans</td>
<td>5</td>
<td>833</td>
<td>836</td>
</tr>
<tr>
<td>Inventories</td>
<td>6</td>
<td>6,200</td>
<td>5,437</td>
</tr>
<tr>
<td>Derivatives</td>
<td>16</td>
<td>54</td>
<td>428</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>296</td>
<td>166</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>5,844</td>
<td>9,039</td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in associates and joint ventures</td>
<td>18</td>
<td>605</td>
<td>562</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>3</td>
<td>1,042</td>
<td>556</td>
</tr>
<tr>
<td>Property</td>
<td>7</td>
<td>2,306</td>
<td>2,475</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>7</td>
<td>7,216</td>
<td>7,730</td>
</tr>
<tr>
<td>Goodwill</td>
<td>8</td>
<td>16,446</td>
<td>14,708</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>8</td>
<td>4,625</td>
<td>4,801</td>
</tr>
<tr>
<td>Derivatives</td>
<td>16</td>
<td>565</td>
<td>494</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>202</td>
<td>181</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>31,090</td>
<td>31,209</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>47,932</td>
<td>40,429</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Liabilities</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>14</td>
<td>5,571</td>
<td>4,615</td>
</tr>
<tr>
<td>Interest-bearing loans and borrowings</td>
<td>14</td>
<td>1,052</td>
<td>1,313</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>9</td>
<td>29</td>
<td>54</td>
</tr>
<tr>
<td>Provisions</td>
<td>9</td>
<td>1,961</td>
<td>1,826</td>
</tr>
<tr>
<td>Derivatives</td>
<td>16</td>
<td>160</td>
<td>142</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>251</td>
<td>241</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>10,424</td>
<td>9,728</td>
<td></td>
</tr>
</tbody>
</table>

| **Non-current liabilities** |       |       |      |
| Interest-bearing loans and borrowings | 14   | 5,571 | 4,615|
| Provisions          | 9     | 1,961 | 1,826|
| Derivatives         | 16    | 160   | 142  |
| Other               |       | 251   | 241  |
| **Total liabilities** | 17,934| 15,827|
| **Net assets**      | 22,998| 24,592|      |

| **Equity**          |       |       |      |
| Equity              |       |       |      |
| Equity attributable to equity holders of the parent |       |       |      |
| Issued capital      | 12    | 21,937| 21,844|
| Reserves            | 12    | (28)  | (311)|
| Retained earnings   | 12    | 874   | 2,742|
| Reserves            | 12    | 166   | 226  |
| **Total equity**    | 22,998| 24,592|      |

## Cash Flow Statement

**For the Year Ended 30 June 2016**

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>2016</th>
<th>2015</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>71,157</td>
<td>67,484</td>
<td></td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td>(88,671)</td>
<td>(82,369)</td>
<td></td>
</tr>
<tr>
<td>Net movement in finance advances and loans</td>
<td>(29)</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Dividends and distributions received from associates</td>
<td>74</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>131</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>(286)</td>
<td>(283)</td>
<td></td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(1,009)</td>
<td>(1,102)</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>4</td>
<td>3,365</td>
<td>3,791</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for property, plant and equipment and intangibles</td>
<td>(1,869)</td>
<td>(2,235)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangibles</td>
<td>563</td>
<td>657</td>
<td></td>
</tr>
<tr>
<td>Net proceeds from sale of controlled entities and associates</td>
<td>1</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>Net investments in associates and joint arrangements</td>
<td>(2)</td>
<td>(44)</td>
<td></td>
</tr>
<tr>
<td>Acquisition of subsidiaries, net of cash acquired</td>
<td>(746)</td>
<td>(339)</td>
<td></td>
</tr>
<tr>
<td>Net investment in loan notes</td>
<td>(47)</td>
<td>(87)</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flows used in investing activities</strong></td>
<td>(2,152)</td>
<td>(1,898)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>3,365</td>
<td>3,791</td>
<td></td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(1,424)</td>
<td>(722)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from exercise of in-substance options under the employee share plan</td>
<td>12</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td>(2,276)</td>
<td>(2,597)</td>
<td></td>
</tr>
<tr>
<td>Capital return paid</td>
<td>-</td>
<td>(864)</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flows used in financing activities</strong></td>
<td>(1,358)</td>
<td>(5,248)</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flows used in investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net decrease in cash and cash equivalents</strong></td>
<td>711</td>
<td>2,087</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>17,834</td>
<td>15,621</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>22,998</td>
<td>24,592</td>
<td></td>
</tr>
</tbody>
</table>
Consolidated statement of changes in equity
For the year ended 30 June 2016

Attributable to equity holders of the parent

<table>
<thead>
<tr>
<th></th>
<th>Issued capital</th>
<th>Reserves (Note 11)</th>
<th>Retained earnings</th>
<th>Hedging reserve</th>
<th>Other reserves</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 30 June 2014</td>
<td>22,708</td>
<td>381</td>
<td>2,001</td>
<td>167</td>
<td>241</td>
<td>25,987</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>-</td>
<td>-</td>
<td>2,441</td>
<td>-</td>
<td>-</td>
<td>2,441</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td>Changes in the fair value of cash flow hedges, net of tax</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>118</td>
<td>-</td>
<td>118</td>
</tr>
<tr>
<td>Remeasurement gain on defined benefit plan, net of tax</td>
<td>12</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Total other comprehensive income for the year, net of tax</td>
<td>12</td>
<td>-</td>
<td>119</td>
<td>-</td>
<td>-</td>
<td>119</td>
</tr>
<tr>
<td>Total comprehensive income for the year, net of tax</td>
<td>12</td>
<td>-</td>
<td>2,441</td>
<td>119</td>
<td>-</td>
<td>2,560</td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Capital return and share consolidation</td>
<td>12</td>
<td>(864)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(864)</td>
</tr>
<tr>
<td>Own shares acquired</td>
<td>12</td>
<td>-</td>
<td>(8)</td>
<td>-</td>
<td>-</td>
<td>(8)</td>
</tr>
<tr>
<td>Proceeds from exercise of in-substance options</td>
<td>12</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Equity dividends</td>
<td>12,11</td>
<td>-</td>
<td>3</td>
<td>(2,001)</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>(864)</td>
<td>(11)</td>
<td>(2,001)</td>
<td>-</td>
<td>-</td>
<td>(3,454)</td>
</tr>
<tr>
<td>Balance at 30 June 2015 and 1 July 2015</td>
<td>21,944</td>
<td>(21)</td>
<td>2,742</td>
<td>(10)</td>
<td>241</td>
<td>24,761</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>-</td>
<td>-</td>
<td>407</td>
<td>-</td>
<td>-</td>
<td>407</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Changes in the fair value of cash flow hedges, net of tax</td>
<td>12</td>
<td>-</td>
<td>(90)</td>
<td>-</td>
<td>-</td>
<td>(90)</td>
</tr>
<tr>
<td>Remeasurement gain on defined benefit plan, net of tax</td>
<td>12</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Total other comprehensive income for the year, net of tax</td>
<td>12</td>
<td>-</td>
<td>(91)</td>
<td>-</td>
<td>-</td>
<td>(91)</td>
</tr>
<tr>
<td>Total comprehensive income for the year, net of tax</td>
<td>12</td>
<td>-</td>
<td>406</td>
<td>(91)</td>
<td>-</td>
<td>315</td>
</tr>
<tr>
<td>Share-based payment transactions</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Issue of shares</td>
<td>12</td>
<td>93</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>93</td>
</tr>
<tr>
<td>Proceeds from exercise of in-substance options</td>
<td>12</td>
<td>-</td>
<td>3</td>
<td>(2,272)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity dividends</td>
<td>12,11</td>
<td>-</td>
<td>2</td>
<td>(2,272)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>93</td>
<td>3</td>
<td>(2,272)</td>
<td>-</td>
<td>-</td>
<td>(2,151)</td>
</tr>
<tr>
<td>Balance at 30 June 2016</td>
<td>21,007</td>
<td>(20)</td>
<td>274</td>
<td>(100)</td>
<td>271</td>
<td>22,949</td>
</tr>
</tbody>
</table>

Key judgements and estimates
In the process of applying the Group’s accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Notes to the financial statements: about this report

For the year ended 30 June 2016

About this report
Westfarmers Limited (referred to as ‘Westfarmers’) is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of Westfarmers and its subsidiaries (referred to as ‘the Group’) are described in the segment information.

The consolidated general purpose financial report of the Group for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 21 September 2016. The Directors have the power to amend and release the financial report.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for investments held by associates and certain financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are the hedged items in a fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged;
- is presented in Australian dollars with all values rounded to the nearest dollar, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/ Directors’ Reports) Instrument 2016/191; presents reclassified comparative information where required for consistency with the current year’s presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2015. Refer to note 27 for further details; and
- equity accounts for associates listed at note 18.

Key judgements and estimates
In the process of applying the Group’s accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Page
96  Note 1 Income
98  Note 3 Tax expense
100  Note 6 Inventories
101  Note 7 Property, plant and equipment
102  Note 8 Goodwill and intangible assets
103  Note 9 Provisions
116  Note 1118 Impairment of non-financial assets
120  Note 118 Associates and joint arrangements
125  Note 21 Commitments and contingencies

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) at year-end is contained in note 13. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-Group transactions have been eliminated. Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

Foreign currency
The functional currencies of overseas subsidiaries are listed in note 18. As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into Australian dollars at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the application of these procedures are taken to the income statement, with the exception of differences on foreign currency borrowings which provide a hedge against a net investment in a foreign entity which are taken directly to equity until the disposal of the net investment and are then recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Other accounting policies
Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.
The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group’s business – for example, acquisitions and impairment write-offs;
- it relates to an aspect of the Group’s operations that is important to its future performance.

The notes are organised into the following sections:

- Key numbers: provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group’s financial position and performance; and
- Other: provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements. However, these are not considered critical in understanding the financial performance or position of the Group.

Significant items in the current reporting period

Funding activities

Borrowings - Proceeds

During February 2016, Wesfarmers established three-year bank facilities totalling £650 million (A$604 million) to fund the acquisition and provide working capital to Homebase Limited. In July 2015, Euro medium term notes totalling €500 million (US$650 million) matured. These were repaid using relationship banks that matured during the financial year were renewed and extended for periods ranging from one year to three years, in line with original facility tenors.

Borrowings - Repayments

In July 2015, Euro medium term notes totalling €500 million (US$650 million) matured. These were repaid using existing facilities and cash balances.

For further details refer to note 14 for the Group’s debt profile.

Impairments

Target: impairments to the carrying value of Target of $1,266 million ($1,131 million after-tax) were recorded during FY2016. This represents the sum of a goodwill impairment charge of $850 million ($595 million after-tax) and a further impairment recorded during FY2016 of $416 million ($336 million after-tax). The decrease in Target’s recoverable amount largely reflects its current trading performance, short-term outlook and changes in its strategic plan. The impairments were recorded as write-downs of Target’s share of goodwill arising on the acquisition of the Coles Group, as well as selected individual assets based in stores.

Curragh: an impairment to the carrying value of Curragh of $850 million ($595 million after-tax) was recorded during FY2016. The decrease in the recoverable amount reflects the difficult industry environment where the global coal supply has proven to be more resilient than generally expected. This mainly reflects a slower forecast recovery in long term export coal prices and higher volatility (including in exchange rates). The impairment was recorded as a write-down of the depreciable and amortisable assets of Curragh.

For further details on impairment refer to note 17.

Acquisition

Home Improvement: on 27 February 2016, Wesfarmers’ acquisition of the Homebase business for £430 million (A$665 million) was completed. Homebase is the second largest home improvement and garden retailer in the United Kingdom (UK) and Republic of Ireland. The Homebase acquisition delivers an established and scalable platform with stores that are the right size for the UK market and a low-cost operating model. Homebase will be repositioned to build a new Bunnings-branded business over three to five years. Refer to note 30 for further details on the acquisition.

Retail

Coles

- Supermarket and liquor retailer, including a hotel portfolio;
- Retailer of fuel and operator of convenience stores;
- Financial services provider, including insurance and credit cards; and
- Coles property business operator.

Home Improvement

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

OfficeWorks

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

Department Stores

Kmart

- Retailer of apparel and general merchandise, including toys, leisure, entertainment, home and consumables; and
- Provision of automotive service, repairs and tyre service.

Target

- Retailer of apparel, homewears and general merchandise, including accessories, electricals and toys.

Industrials

Resources

- Coal mining and development; and
- Coal marketing to both domestic and export markets.

Industrial and Safety (WSI)

- Supplier and distributor of maintenance, repair and operating products;
- Manufacturer and marketing of industrial gases and equipment;
- Supplier, manufacturer and distributor of workwear clothing in Australia and internationally;
- Specialised supplier and distributor of industrial safety products and services; and
- Provider of risk management and compliance services.

Chemicals, Energy and Fertilisers (WesCEF)

- Manufacturer and marketing of chemicals for industry, mining and mineral processing;
- Manufacturer and marketing of broadacre and horticultural fertilisers;
- National marketer and distributor of LPG and LNG; and
- LPG and LNG extraction for domestic and export markets.

Other

Includes:

- Forest products: non-controlling interest in Wispine Pty Ltd;
- Property: non-controlling interest in BMP Trust;
- Investment banking: non-controlling interest in Gresham Partners Group Limited;
- Private equity investment: non-controlling interests in Gresham Private Equity Fund No. 2; and
- Corporate: includes treasury, head office, central support functions and other corporate entity expenses. Corporate is not considered an operating segment and includes activities that are not allocated to other operating segments.

Seasonality

Revenue and earnings of various businesses are affected by seasonality and cyclically as follows:

- For retail divisions, earnings are typically greater in the December half of the financial year due to the impact of the Christmas holiday shopping period;
- For Resources, the majority of the entity’s coal contracted tonnages are renewed on an annual basis from April each calendar year and are subject to price renegotiation on a quarterly basis; and
- For Chemicals, Energy and Fertilisers, earnings are typically greater in the second half of the financial year due to the impact of the Western Australian winter season break on fertiliser sales.
Segment information (continued)

<table>
<thead>
<tr>
<th>Segment</th>
<th>COLES</th>
<th>HOME IMPROVEMENT</th>
<th>KMART</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td>39,242</td>
<td>38,201</td>
<td>9,534</td>
<td>9,190</td>
</tr>
<tr>
<td>2015</td>
<td>38,201</td>
<td>39,242</td>
<td>9,190</td>
<td>9,534</td>
</tr>
<tr>
<td>Segment revenue</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>3,924</td>
<td>3,820</td>
<td>1,157</td>
<td>1,034</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>1,379</td>
<td>1,349</td>
<td>1,004</td>
<td>1,692</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>(318)</td>
<td>(315)</td>
<td>(315)</td>
<td>(312)</td>
</tr>
<tr>
<td>Segment result</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>1,060</td>
<td>1,175</td>
<td>1,214</td>
<td>1,066</td>
</tr>
<tr>
<td>Items not included in segment result</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>172</td>
<td>174</td>
<td>85</td>
</tr>
</tbody>
</table>

Further information:
- The Home Improvement result includes the UK operation acquired on 27 February 2016. Refer to note 30 business combinations for further information.
- The Target result includes $145 million of restructuring costs and provisions incurred to restructure Target during the year.
- Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and other items not included in the segment results outlined in footnote 5.
- The 2016 segment result excludes $1,266 million impairment of Target's goodwill and non-current assets, and $850 million impairment of Corelli's assets.
- Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and other items not included in the segment results outlined in footnote 5.
- Depreciation and amortisation includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
- Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
- Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
- Depreciation and amortisation includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
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- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
- Depreciation and amortisation includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
- Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.
- Depreciation and amortisation includes accruals to represent costs incurred during the year. The amount excluding movement in accruals is $1,899 million (2015: $2,239 million).
- Other net assets relate predominantly to inter-company financing arrangements and segment tax balances.

Geographical information:
- The table below provides information on the geographical location of revenue and non-current assets (other than financial instruments, deferred tax assets and pension assets). Revenue from external customers is allocated to a geography based on the location of the operation in which it was derived. Non-current assets are allocated based on the location of the operation to which they relate.

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>63,356</td>
<td>61,013</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,564</td>
<td>1,402</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,052</td>
<td>26</td>
</tr>
<tr>
<td>Other foreign countries</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

*p Other capital expenditure: $2 million
1. Income

**CONSOLIDATED**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Sale of goods</td>
<td>65,500</td>
<td>62,089</td>
</tr>
<tr>
<td>Rendering of services</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>131</td>
<td>27</td>
</tr>
<tr>
<td>Other</td>
<td>338</td>
<td>316</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>65,581</td>
<td>62,634</td>
</tr>
<tr>
<td>Gains on disposal of property, plant and equipment</td>
<td>61</td>
<td>54</td>
</tr>
<tr>
<td>Gains on disposal of controlled entities</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>174</td>
<td>289</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>236</td>
<td>339</td>
</tr>
</tbody>
</table>

**Recognition and measurement**

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised if it meets the criteria outlined below.

**Sale of goods**

The Group generates a significant proportion of its revenue from the sale of the following finished goods:

- Merchandise direct to customers through the Group’s retail operations;
- Sales to other businesses of products for which the Group has distribution rights, principally related to industrial maintenance and industrial safety;
- Fertilisers and specialty gases;
- Coal, both nationally and internationally; and
- LPG and LNG.

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and it can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer. Revenue from lay-by transactions is recognised on the date when the customer completes payment and takes possession of the merchandise.

**Rendering of services**

With respect to services rendered, revenue is recognised depending on the stage of completion of those services.

**Interest**

The Group generates a significant proportion of its interest revenue from finance advances and loans through the Group’s financial services operations. Revenue is recognised as the interest accrues on the related financial asset. Interest is determined using the effective interest rate method, which applies the interest rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument.

**Dividends**

Revenue from dividends is recognised when the Group’s right to receive the payment is established.

**Operating lease rental revenue**

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

**Key estimate: loyalty program**

The Group operates a loyalty points program, which allows customers to accumulate points when they purchase products in the Group’s retail stores. The points can then be redeemed for products, subject to a minimum number of points being obtained. Consideration received on transactions where points are issued is allocated between the products sold and the points issued. The fair value of the points issued is defined and recognised as revenue when the points are redeemed. At 30 June 2016, $2,461 million of revenue is deferred in relation to the loyalty program (2015: $2,121 million). Any reasonably possible change in the estimate is unlikely to have a material impact.

**Key estimate: gift cards**

Revenue from the sale of gift cards is recognised when the card is redeemed and the customers purchase goods by using the card, or when the customer card is no longer expected to be redeemed. At 30 June 2016, $138 million of revenue is deferred in relation to gift cards (2015: $174 million). The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers, which are reviewed annually based on historical information. Any reassessment of expected redemption rates in a particular year impacts the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing). Any reasonably possible change in the estimate is unlikely to have a material impact.

2. Expenses

**CONSOLIDATED**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating expenses</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Remuneration, bonuses and on-costs</td>
<td>8,120</td>
<td>7,520</td>
</tr>
<tr>
<td>Superannuation expense</td>
<td>634</td>
<td>684</td>
</tr>
<tr>
<td>Share-based payments expense</td>
<td>103</td>
<td>94</td>
</tr>
<tr>
<td>Employee benefits expense</td>
<td>8,047</td>
<td>7,374</td>
</tr>
<tr>
<td>Minimum lease payments</td>
<td>2,330</td>
<td>2,049</td>
</tr>
<tr>
<td>Contingent rental payments</td>
<td>91</td>
<td>83</td>
</tr>
<tr>
<td>Other</td>
<td>536</td>
<td>486</td>
</tr>
<tr>
<td><strong>Occupancy-related expenses</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Occupancy-related expenses</td>
<td>2,595</td>
<td>2,267</td>
</tr>
<tr>
<td>Depreciation</td>
<td>981</td>
<td>934</td>
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<tr>
<td>Amortisation of intangibles</td>
<td>134</td>
<td>118</td>
</tr>
<tr>
<td>Amortisation other</td>
<td>187</td>
<td>187</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1,296</td>
<td>1,129</td>
</tr>
<tr>
<td>Impairment of plant, equipment and other assets</td>
<td>954</td>
<td>19</td>
</tr>
<tr>
<td>Impairment of leasehold property</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>1,208</td>
<td>-</td>
</tr>
<tr>
<td><strong>Impairment expenses</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Impairment expenses</td>
<td>2,172</td>
<td>177</td>
</tr>
<tr>
<td>Mining royalties (including Stanwell rebate)</td>
<td>143</td>
<td>167</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>403</td>
<td>379</td>
</tr>
<tr>
<td>Utilities and office expenses</td>
<td>1,044</td>
<td>1,020</td>
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<tr>
<td>Insurance expenses</td>
<td>179</td>
<td>162</td>
</tr>
<tr>
<td>Other</td>
<td>1,326</td>
<td>1,183</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Interest expense</td>
<td>261</td>
<td>296</td>
</tr>
<tr>
<td>Discount rate adjustment</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Amortisation of debt establishment costs</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Other costs related to finance</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Finance costs</td>
<td>308</td>
<td>319</td>
</tr>
</tbody>
</table>

**Recognition and measurement**

**Employee benefits expense**

The Group’s accounting policy for liabilities associated with employee benefits is set out in note 9. The policy relating to share-based payments is set out in note 28.

The majority of employees in Australia and New Zealand are party to a defined contribution scheme and receive fixed contributions from Group companies and the Group’s legal or constructive obligation is limited to these contributions. Contributions to defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available. The Group also operates a defined benefit superannuation scheme, the membership of which is now closed.

**Occupancy-related expenses**

**Operating leases**

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to the income statement on a straight-line basis over the lease term.

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

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

**Contingent rental payments**

Contingent rental payments are made as a result of either turnover based rentals or movements in relevant indices. Such payments are recognised in the income statement as they are incurred.

**Depreciation and amortisation**

Refer to notes 7 and 8 for details on depreciation and amortisation.

**Impairment**

Impairment expenses are recognised to the extent that the carrying amounts of assets exceed their recoverable amounts. Refer to note 17 for further details on impairment.

**Finance costs**

Finance costs are recognised as an expense when they are incurred, except for interest charges attributable to major projects with substantial development and construction phases.

Provisions and other payables are discounted to their present value when the effect of the time value of money is significant. The impact of the unwinding of these discounts and any changes to the discounting is shown as a discount rate adjustment in finance costs.

**Capitalisation of borrowing costs**

To determine the amount of borrowing costs to be capitalised as part of the costs of major construction projects, the Group uses the weighted average interest rate (excluding non-interest costs) applicable to its outstanding borrowings during the year. For 2016, had there been major long-term construction projects, the weighted average interest rate applicable would have been 4.15 per cent (2015: 5.00 per cent).
Refer to note 30 for tax transparency disclosures.

Key estimate: unrecognised deferred tax assets

Capital losses: The Group has unrecognised benefits relating to carried forward capital losses, which can only be offset against eligible capital gains. The Group has determined that at this stage future eligible capital gains to utilise the tax assets are not currently sufficiently probable.

Cash at bank and on deposit

Cash on hand and in transit 411 392
Cash at bank and on deposit 286 219

Deduction of net profit after tax to net cash flows from operations

Net profit 407 2,440
Non-cash items
Depreciation and amortisation 1,208 1,219
Impairment and write-downs of assets 2,172 41
Gain on disposal of assets - (7)
Net gain on disposal of non-current assets (22) (23)
Share of profits of associates and joint ventures (110) (14)
Dividends and distributions received from associates 74 42
Discount adjustment in borrowing costs 26 25
Other 43 12

Increase/(decrease) in cash from operating activities 3,365 3,701

Net capital expenditure
Capital expenditure
Payment for property 372 671
Payment for plant and equipment 1,422 1,339
Payment for intangibles 106 229

Less: Proceeds from sale of property, plant, equipment and intangibles 563 687
Net capital expenditure 1,336 1,052

Notes to the Financial Statements: Key Numbers
For the Year Ended 30 June 2016

3. Tax expense

- Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

- Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them.

- The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

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

- Deferred income tax is provided on temporary differences at balance sheet date between accounting amounts and the tax bases of assets and liabilities, other than for the following:
  - Where they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
  - Where taxable temporary differences relate to investments in subsidiaries, associates and interests in joint ventures:
    1. Deferred tax liabilities are not recognised if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
    2. Deferred tax assets are not recognised if it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will not be available to utilise the temporary differences.

- Deferred tax liabilities are also not recognised on recognition of goodwill.

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

- Offsetting deferred tax balances

- Deferred tax assets and deferred tax liabilities are offset only if it is legally permissible right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

- Key estimate: unrecognised deferred tax assets

- Capital losses: The Group has unrecognised benefits relating to carried forward capital losses, which can only be offset against eligible capital gains. The Group has determined that at this stage future eligible capital gains to utilise the tax assets are not currently sufficiently probable.

- Cash at bank and on deposit

- Cash and short-term deposits in the balance sheet comprise cash at bank and on hand, and short-term deposits with an original maturity of three months or less and are classified as financial assets held at amortised cost.

- Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates.

- Trade receivables past due but not impaired

- Trade receivables past due but not impaired

For the Year Ended 30 June 2016
5. Receivables (continued)

Recognition and measurement

Trade receivables, finance advances, loans and other debtors are all classified as financial assets held at amortised cost.

Trade receivables

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

Customers who wish to trade on credit terms are subject to extensive credit verification procedures. Receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant. With respect to trade receivables that are neither impaired nor past due, there are no indications as to the reporting date that the debtors will not meet their payment obligations.

Finance advances and loans

Finance advances and loans consist of non-derivative financial assets fixed or determinate payments that are not quoted in an active market. They are measured at amortised cost.

A risk assessment process is used for new loan and credit card applications, which range from conducting credit assessments to relying on the assessments of financial risk provided by credit agencies. An ageing analysis of advances and loans past due is reviewed on an ongoing basis to measure and manage emerging credit risks to the Group. Any balances that are neither impaired nor past due are expected to be fully recoverable. Please refer to note 15(b) for further details on credit quality, credit risk assessment and management.

Impairment of trade receivables, finance advances and loans

Collectability and impairment are assessed on an ongoing basis at a divisional level. Impairment is recognised in the income statement when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and cash or discounting payments are acknowledged as an 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.

Key estimates: supplier rebates

The recognition of supplier rebates in the income statement requires management to estimate the rebate amounts. The key estimates include the probability that the supplier rebate will be received and the timing of the future cash flow from the rebate.

The recognition of supplier rebates in the income statement requires management to estimate the rebate amounts. The key estimates include the probability that the supplier rebate will be received and the timing of the future cash flow from the rebate.

Recognition and measurement

Inventories are stated at the lower of cost and net realisable value. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell.

Key estimate: net realisable value

The key assumptions, which require the use of management judgement, are the variables affecting costs recognised in bringing the inventory to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. The total expense relating to inventory writedowns during the year was $50 million (2015: $46 million). Any reasonably possible change in the estimate is unlikely to have a material impact.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average basis.
- Manufactured finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding any borrowing costs.
- Work in progress also includes royalty payments to mining rights.
- Resources, consisting of production costs of drilling, blasting and overburden removal.
- Retail and wholesale merchandise finished goods: purchase cost on a weighted average basis, after deducting any settlement discounts.
- Supplier rebates and logistics expenses incurred in bringing the inventories to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. Any reasonably possible change in the estimate is unlikely to have a material impact.

Key estimate: supplier rebates

The recognition of supplier rebates in the income statement requires management to estimate the rebate amounts. The key estimates include the probability that the supplier rebate will be received and the timing of the future cash flow from the rebate.

Recognition and measurement

Inventories recognised as an expense for the year ended 30 June 2016 totalled $481,162 million (2015: $456,652 million).

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 any borrowing costs.
- Work in progress also includes royalty payments to mining rights.
- Resources, consisting of production costs of drilling, blasting and overburden removal.
- Retail and wholesale merchandise finished goods: purchase cost on a weighted average basis, after deducting any settlement discounts.
- Supplier rebates and logistics expenses incurred in bringing the inventories to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. Any reasonably possible change in the estimate is unlikely to have a material impact.

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Key estimate: net realisable value

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- Work in progress also includes royalty payments to mining rights.
- Resources, consisting of production costs of drilling, blasting and overburden removal.
- Retail and wholesale merchandise finished goods: purchase cost on a weighted average basis, after deducting any settlement discounts.
- Supplier rebates and logistics expenses incurred in bringing the inventories to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. Any reasonably possible change in the estimate is unlikely to have a material impact.

6. Inventories

CONSOLIDATED

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>92</td>
<td>112</td>
</tr>
<tr>
<td>Work in progress</td>
<td>15</td>
<td>36</td>
</tr>
<tr>
<td>Finished goods</td>
<td>6,150</td>
<td>5,330</td>
</tr>
<tr>
<td>5,300</td>
<td>5,497</td>
<td></td>
</tr>
</tbody>
</table>

Key estimates: supplier rebates

The recognition of supplier rebates in the income statement requires management to estimate the rebate amounts. The key estimates include the probability that the supplier rebate will be received and the timing of the future cash flow from the rebate.

7. Property, plant and equipment

The carrying value of property, plant and equipment is measured as the cost of the asset, minus depreciation and impairment. The cost of the asset also includes the cost of reconditioning the asset that is eligible for capitalisation, and the cost of major improvements.

Depreciation and amortisation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of buildings is between 20 and 40 years; plant and equipment is between 3 and 40 years. Land is not depreciated.

Expenditure on mining areas of interest in which production has not yet commenced, amortisation is not charged.

Depreciation and amortisation

Depreciation and amortisation

Depreciation and amortisation

Depreciation and amortisation

Depreciation and amortisation

Depreciation and amortisation

Impairment

Refer to note 17 for details on impairment testing.

Key estimates: property, plant and equipment

The estimates of useful lives, residual value and amortisation methods require management judgement and are reviewed annually. If they need to be modified, the change is accounted for prospectively from the date of reassessment until the end of the revised useful life (for both the current and future years). Such revisions are generally required when there are changes in economic circumstances impacting specific assets or groups of assets, such as changes in store performance or changes in the long-term coal price forecasts. These changes are limited to specific assets and as such, any reasonably possible change in the estimate is unlikely to have a material impact on the estimates of useful lives, residual value or amortisation methods.
8. Goodwill and intangible assets

**GOODWILL**

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>Net carrying amount</th>
<th>Accumulated amortisation and impairment</th>
<th>Cost</th>
<th>Other including foreign exchange movements</th>
<th>Impairment charge</th>
<th>Amortisation for the year</th>
<th>Acquisitions of controlled entities</th>
<th>Additions</th>
<th>Net carrying amount at the beginning of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>16,556</td>
<td>(2,108)</td>
<td>84</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>16,556</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,838</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,324</td>
<td>156</td>
<td>19,073</td>
</tr>
<tr>
<td></td>
<td></td>
<td>739</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>14,708</td>
<td></td>
<td>58</td>
<td>1,018</td>
<td>1,208</td>
<td>-</td>
<td></td>
<td>(2)</td>
<td>14,708</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,801</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(11)</td>
<td>156</td>
</tr>
<tr>
<td></td>
<td></td>
<td>596</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1)</td>
<td>19,309</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1)</td>
<td></td>
</tr>
</tbody>
</table>

**INTANGIBLE ASSETS**

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>Contractual and non- contractual relationships</th>
<th>Software</th>
<th>Gaming and liquor licences</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3,817</td>
<td>56</td>
<td>596</td>
<td>156</td>
</tr>
<tr>
<td></td>
<td>19,073</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>3,838</td>
<td>58</td>
<td>596</td>
<td>156</td>
</tr>
<tr>
<td></td>
<td>19,309</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Recognition and measurement**

**Goodwill**

Goodwill acquired in a business combination is initially measured at cost. Cost is measured as the cost of the business combination minus the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Refer to note 17 for further details on impairment.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at the cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that they may be impaired. The amortisation period and method is reviewed at each financial year end. Intangible assets with indefinite lives are tested for impairment in the same way as goodwill.

A summary of the useful lives of intangible assets is as follows:

<table>
<thead>
<tr>
<th>Intangible asset</th>
<th>Useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual and non-contractual relations</td>
<td>Finite (up to 10 years)</td>
</tr>
<tr>
<td>Software</td>
<td>Finite (up to seven years)</td>
</tr>
<tr>
<td>Gaming and liquor licences</td>
<td>Indefinite</td>
</tr>
</tbody>
</table>

**Key judgement: useful lives of intangible assets**

Certain trade names have been assessed as having indefinite lives on the basis of strong brand strength, ongoing expected profitability and continuing support. The brand name incorporates complementary assets such as store formats, networks and product offerings. Gaming and liquor licences have been assessed as having indefinite lives on the basis that the licences are expected to continue indefinitely.

**9. Provisions**

**Conclusion of all indefinite life intangible assets**

<table>
<thead>
<tr>
<th>Allocation of indefinite life intangible assets to groups of cash-generating units</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount of intangibles</td>
<td>179</td>
<td>173</td>
</tr>
<tr>
<td>Home Improvement</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Officeworkers</td>
<td>180</td>
<td>177</td>
</tr>
<tr>
<td>Industrial and Safety</td>
<td>799</td>
<td>799</td>
</tr>
<tr>
<td>Kmart</td>
<td>268</td>
<td>268</td>
</tr>
<tr>
<td>Total</td>
<td>3,945</td>
<td>3,952</td>
</tr>
</tbody>
</table>

**Provisions are recognised when:**

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that resources will be expended to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

**Key estimate: discounting**

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability to the extent that they are not included in the cash flows.

Provisions have been calculated using discount rates derived from the high quality corporate bond (HQCB) market in Australia provided by Milliman Australia.

**Key estimate: employee benefits**

Employee benefit provision balances are calculated using discount rates derived from the high quality corporate bond (HQCB) market in Australia provided by Milliman Australia.

Provisions are recognised when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that resources will be expended to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.
9. Provisions (continued)

Employee benefits

The provision for employee benefits supports annual leave, long service leave entitlements and incentives accrued by employees.

Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date, are recognised in provisions and other payables in respect of employees’ services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Annual leave and long service leave

The liability for annual leave and long service leave is recognised in the provision for employee benefits. It is measured as the present value of expected future payments for the services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date or HCCG with terms to maturity and currencity that match, as closely as possible, the estimated future cash outflows.

Key estimate: long service leave

Long service leave is measured using the projected unit credit method. Management judgement is required in determining the following key assumptions used in the calculation of long service leave at balance date:

– future increases in salaries and wages;
– future on-cost ratios; and
– future probability of employees departing and period of service.

The total long service leave liability is $516 million (2015: $544 million). The difference in the amount and the nature of the key assumptions, any reasonably possible change in the determination of the estimates is unlikely to have a material impact.

Lease provision

The lease provision covers stepped lease arrangements to enable the lease expenses to be recognised on a straight-line basis over the lease term. Actual lease payments may vary from the amounts provided where alternate uses are found for these premises, including attraction of new tenants.

Off-market contracts

When undertaking business acquisitions, Wesfarmers often takes responsibility for contracts that are in place within the acquired. Changes in market conditions may result in the original terms of the contract becoming unfavourable in comparison to market conditions present at the date of acquisition.

The obligation for discounted future above-market payments is provided for, calculated using the discount rate determined at acquisition date. The discounted future above-market provision is released to earnings over the duration of the contract.

Self-insured risks

The Group is self-insured for workers’ compensation and general liability claims. Provisions are recognised based on claims reported, and an estimate of claims incurred but not reported. These provisions are determined on a discounted basis, using an actuarially determined method.

Key estimate: self-insured risks

The self-insured risk liability is based on a number of management estimates including, but not limited to:

– future inflation;
– investment return;
– average claim size;
– claim development; and
– claim administration expenses.

These assumptions are reviewed periodically and any reassessment of these assumptions will affect workers’ compensation or claims expense (either increasing or decreasing the expense).

Mine and plant rehabilitation

Mining lease agreements and Group policies impose obligations to remediate areas where mining activity has taken place. Work is ongoing at various sites and in some cases will extend for more than 20 years. Provisions for remediation have been calculated assuming current technologies. As part of this valuation methodology, the risks are incorporated in the cash flows rather than the discount rates.

Restructuring and make good

These provisions relate principally to:

– the closure of retail outlets or distribution centres; 
– restructuring; and
– associated redundancies.

Provisions for restructuring are recognised where steps have been taken to implement a detailed plan, including discussions with affected personnel, with employee-related costs recognised over the period of any required further service.

The Group’s capital management objectives

The primary objective of Wesfarmers is to provide a satisfactory return to its shareholders. The Group aims to achieve this objective by:

– improving returns on invested capital relative to that cost of capital; and
– ensuring a satisfactory return is made on any new capital invested.

Capital is defined as the combination of shareholders’ equity, reserves and net debt. The Board is responsible for monitoring and approving the capital management framework within which management operates. The purpose of the framework is to safeguard the Group’s ability to continue as a going concern whilst optimising its debt and equity structure. Wesfarmers aims to maintain a capital structure that is consistent with a stable investment grade credit rating.

Wesfarmers 2016 annual report
11. Dividends and distributions

Declared and paid during the period (fully-franked at 30 per cent)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends paid</td>
<td>1,035</td>
<td>999</td>
</tr>
<tr>
<td>Special dividend paid</td>
<td>1,247</td>
<td>1,200</td>
</tr>
<tr>
<td>Total</td>
<td>2,282</td>
<td>2,199</td>
</tr>
</tbody>
</table>

12. Equity and reserves (continued)

On 16 December 2014, Wesfarmers paid a distribution of 100 cents per fully-paid ordinary share, comprising both a capital return of 75 cents ($864 million) and a fully-franked dividend component of 25 cents ($287 million). The distribution was accompanied by a proportionate share consolidation relating to the capital component at a rate of one for 0.9827.

Wesfarmers’ dividend policy considers free cash flow generation, profit generation, availability of franking credits and seeks to deliver distribution to equity holders during the period.

The Group operates a dividend investment plan which allows eligible shareholders to elect to invest dividends in ordinary shares. All holders of Wesfarmers’ ordinary shares with addresses in Australia or New Zealand are eligible to participate in the plan. The allocation price for shares is based on the average of the daily volume weighted average price of Wesfarmers ordinary shares sold on the Australian Securities Exchange, calculated with reference to a period of not less than five consecutive trading days as determined by the directors.

An issue of shares under the dividend investment plan results in an increase in issued capital unless the Group elects to purchase the shares at a price determined by the directors. The price is based on the average of the daily volume weighted average price of Wesfarmers ordinary shares sold on the Australian Securities Exchange, calculated with reference to a period of not less than five consecutive trading days as determined by the directors.

12. Equity and reserves

MOVEMENT IN SHARES ON ISSUE

<table>
<thead>
<tr>
<th></th>
<th>ORDINARY SHARES</th>
<th>RESERVED SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Thousands</td>
<td>$m</td>
</tr>
<tr>
<td>At 1 July 2014</td>
<td>1,143,275</td>
<td>22,768</td>
</tr>
<tr>
<td>Own shares acquired</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercise of in-substance options</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends applied</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital return and share consolidation</td>
<td>(10,523)</td>
<td>(963)</td>
</tr>
<tr>
<td>At 30 June 2015 and 1 July 2015</td>
<td>1,123,753</td>
<td>21,444</td>
</tr>
<tr>
<td>Exercise of in-substance options</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends applied</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Issue of ordinary shares under the Wesfarmers Employee Share Acquisition Plan</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At 30 June 2016</td>
<td>1,123,131</td>
<td>21,317</td>
</tr>
</tbody>
</table>

12. Equity and reserves

Nature of the Group’s contributed equity

Ordinary shares are fully-paid and have no par value. They carry one vote per share and the right to dividends. They bear no special terms or conditions affecting income or capital entitlements of the shareholders and are classified as equity.

Reserved shares are ordinary shares that have been repurchased by the company and are being held for future use. They include employee reserved shares, which are shares issued to employees under the share loan plan. Once the share loan has been paid in full, they are converted to ordinary shares and issued to the employee.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. There are no shares authorised for issue that have not been issued at reporting date.

CONSOLIDATED Retained earnings $m Restructure reserve $m Capital reserve $m Foreign currency translation reserve $m Cash flow hedge reserve $m Financial assets reserve $m Share-based payments reserve $m

Balance at 1 July 2014 2,267 150 24 20 - 17 5 12
Net profit 2,440 - - - - - -
Dividends (2,602) - - - - - -
Remeasurement gain on defined benefit plan 1 - - - - - -
Net gain on financial instruments recognised in equity - - - (40) - - -
Realised losses transferred to balance sheet/net profit - - - (39) - - -
Share of associates and joint venture reserve - - - (13) - - -
Tax effect of transfers and revaluations - - - 86 - - -
Currency translation differences - - - - (11) - -
Share-based payment transactions - - - - - - 11
Balance at 30 June 2015 and 1 July 2015 2,742 150 24 39 (11) 5 20
Net profit 407 - - - - - -
Dividends (2,372) - - - - - -
Remeasurement loss on defined benefit plan (5) - - - - - -
Net loss on financial instruments recognised in equity - - - (58) - - -
Realised losses transferred to balance sheet/net profit - - - (34) - - -
Share of associates and joint venture reserve - - - (115) - - -
Tax effect of transfers and revaluations - - - - - - 86
Currency translation differences - - - - - - 46
Share-based payment transactions - - - - - - 15
Balance at 30 June 2016 874 150 24 54 (105) 5 38

Nature and purpose of reserves

Restructure tax reserve

This reserve is used to record the recognition of tax losses arising from the equity restructuring of the Group under the 2001 ownership simplification plan. These tax losses were generated on adoption by the Group of the tax consolidation regime.

Capital reserve

The capital reserve was used to accumulate capital profits. The reserve can be used to pay dividends or issue bonus shares.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Cash flow hedge reserve

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship.

Financial assets reserve

The financial assets reserve records fair value changes on financial assets designated at fair value through other comprehensive income.

Share-based payments reserve

This reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 28 for further details of these plans.
13. Earnings per share

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to ordinary equity holders of the parent (S$m)</td>
<td>407</td>
<td>2,440</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares</td>
<td>1,123</td>
<td>1,129</td>
</tr>
<tr>
<td>Basic: (cents per share)</td>
<td>36.2</td>
<td>216.1</td>
</tr>
<tr>
<td>Diluted EPS (cents per share)</td>
<td>36.2</td>
<td>216.1</td>
</tr>
</tbody>
</table>

1. Weighted average number of ordinary shares.
2. The variance in the WADS is used in the calculation of the basic EPS and the diluted EPS is attributable to in-substance options.

There have been no transactions involving ordinary shares between the reporting date and the date of completion of these financial statements, apart from the normal conversion of employee-protected shares (treated as in-substance options) to unrestricted ordinary shares.

Calculation of earnings per share

Basic earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:
- costs of servicing equity (other than dividends);
- the tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that 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.

Outstanding loans and borrowings

<table>
<thead>
<tr>
<th>Addon</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$2,398 million</td>
<td>$2,338 million</td>
<td>$2,517 million</td>
<td>$1,129 million</td>
<td>$60 million</td>
<td>$60 million</td>
<td>$60 million</td>
</tr>
<tr>
<td>Non-current</td>
<td>$60 million</td>
<td>$60 million</td>
<td>$60 million</td>
<td>$60 million</td>
<td>$60 million</td>
<td>$60 million</td>
<td>$60 million</td>
</tr>
</tbody>
</table>

14. Interest-bearing loans and borrowings

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Unsecured</td>
<td>$1,125 million</td>
<td>$1,133 million</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$500 million</td>
<td>$1,584 million</td>
</tr>
<tr>
<td>Other bank loans</td>
<td>$1,122 million</td>
<td>$329 million</td>
</tr>
<tr>
<td>$1,629 million</td>
<td>$2,197 million</td>
<td></td>
</tr>
<tr>
<td>Non-current Unsecured</td>
<td>$4,201 million</td>
<td>$4,615 million</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$1,460 million</td>
<td>-</td>
</tr>
<tr>
<td>Other bank loans</td>
<td>$5,671 million</td>
<td>$6,019 million</td>
</tr>
<tr>
<td>$7,302 million</td>
<td>$6,038 million</td>
<td></td>
</tr>
</tbody>
</table>

Recognition and measurement

All loans and borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged.

Fundings activities

The current year funding activities have been outlined on page 52 in the Significant items in the current reporting period. The illustration below provides details, including the principal repayment obligations, of all loans and borrowings on issue as at 30 June 2016:

15. Financial risk management

The Group holds financial instruments for the following purposes:
- Financing: to raise finance for the Group’s operations or, in the case of short-term debt, to invest surplus funds. The principal types of instruments used include syndicated and other bank loans, bank accepted bills, commercial paper, corporate bonds and cash and short-term deposits.
- Operational: the Group’s activities generate financial instruments, including cash, trade receivables, trade payables and finance advances.
- Risk management: to reduce risks arising from the financial instruments described above, including forward exchange contracts and interest rate swaps.

The Board reviews and agrees the Group’s policies for managing each of these risks, which are summarised below:
- Interest rate risk (note 15(b));
- market risk, including foreign currency, interest rate and commodity price risk (note 15(c)); and
- credit risk (note 15(d)).

These risks affect the fair value measurements applied by the Group. This is discussed further within note 15(e).

15(a) Offsetting financial instruments

The Group presents its derivative assets and liabilities on a gross basis. Derivative financial instruments entered into by the Group are subject to enforceable master netting agreements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The amounts set out in note 16 represent the derivative financial assets and liabilities of the Group, that are subject to the above arrangements and are presented on a gross basis.

15(b) Liquidity risk

Nature of the risk

Westfarmers is exposed to liquidity risk primarily due to its capital management policies, which view debt as a key element of the Group’s capital structure (see note 10). In addition, Westfarmers maintains a flexible financial structure to enable it to take advantage of new investment opportunities that may arise. To facilitate the effective use of debt as part of the capital structure, the Group continues to maintain investment grade credit ratings from Standard & Poor’s and Moody’s.

These policies expose the Group to risk including the sufficiency of available unencumbered facilities and the maturity profile of existing financial instruments.

Liquidity risk management

Liquidity risk is managed centrally by Group Treasury, by considering over a period of time the operating cash flow forecasts of the underlying businesses and the degree of access to debt and equity capital markets.
15(b) Liquidity risk (continued)

15(c) Market risk

Nature of foreign currency risk

The Group's primary currency exposure is to US dollars and arises from sales or purchases by a division in currencies other than the division's functional currency. The Group is also exposed to the US dollar and Euro through its borrowing facilities.

As a result of operations in New Zealand and the United Kingdom, the Group’s balance sheet can also be affected by movements in the AUD/NZD and AUD/GBP exchange rates. The Group mitigates this via its structural currency exposure by borrowing in NZ dollars in New Zealand and in GBP in the United Kingdom.

Exposure

The Group’s exposure to the US dollar and Euro (prior to hedging contracts) at the reporting date were as follows:

<table>
<thead>
<tr>
<th>Type of Exposure</th>
<th>US dollars</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sales</td>
<td>24,987</td>
<td>3,647</td>
</tr>
<tr>
<td>Trade purchases</td>
<td>2,110</td>
<td>270</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>5,900</td>
<td>3,320</td>
</tr>
</tbody>
</table>

Hedging

The hedging function of the Group to address foreign currency risk is managed centrally. The Group requires at 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. Divisional directions 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 fluctuation. Hedging is implemented for the following reasons:

- protection of competitive position;
- greater certainty of earnings due to protection from sudden currency movements.

The Group aims to hedge approximately 70 to 100 per cent of its non-capital expenditure-related foreign currency purchases for which firm commitments or highly probable forecast transactions exist, up to 24 months forward. The Group currently hedges 100 per cent of capital expenditure-related foreign currency purchases to match expenditure and the hedges extend beyond 12 months. The current hedge contracts extend out to June 2016. The Group has also hedged 100 per cent of its US dollar and Euro borrowing facilities.

The Westermans Audit and Risk Committee can approve temporary amendments to this policy, such as the hedging time horizon and hedge levels, with such amendments reviewed on a regular basis.

The Group’s sensitivity to foreign exchange movements

The sensitivity analysis below shows the impact that a reasonably possible change in foreign exchange rates over a financial year would have on profit after tax and equity, based solely on the Group’s foreign exchange risk exposures existing at the balance sheet date. The Group has used the observed range of actual historical rates for the previous five-year period, with a lighter weighting placed on recently observed market data, in determining reasonably possible exchange movements to be used for the current year’s sensitivity analysis. Past movements are not necessarily indicative of future movements.

The following exchange rates have been used in performing the sensitivity analysis:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Exchange Rate 2015</th>
<th>Exchange Rate 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>0.85</td>
<td>0.76</td>
</tr>
<tr>
<td>EUR</td>
<td>0.75</td>
<td>0.68</td>
</tr>
</tbody>
</table>

The impact on profit and equity is estimated by relating the hypothetical changes in the USD and EUR exchange rates to the balance of financial instruments at the reporting date. Foreign currency risks, as defined by AASB 7 ‘Financial Instruments: Disclosures’, arise on account of financial instruments being denominated in a currency that is not the functional currency in which the financial instrument is measured.

Differences from the translation of financial statements into the Group’s presentation currency are not taken into consideration in the sensitivity analysis and as such the NZ dollar and GBP have no material impact. The results of the foreign exchange rate sensitivity analysis are driven by three main factors, as outlined below:

- the impact of applying the above foreign exchange movements to financial instruments that are not in hedge relationships will be recognised directly in profit;
- to the extent that the foreign currency denominated derivatives on balance sheet form part of an effective fair value hedge relationship, any fair value movements caused by applying the above sensitivity movements will be deferred in equity and will not affect profit; and
- movements in financial instruments forming part of an effective fair value hedge relationship will be recognised in profit. However, as a corresponding entry will be recognised for the hedged item, there will be no net effect on profit.

At 30 June 2016, there was no impact on profit and equity from foreign exchange exposures.
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Nature of interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations that have floating interest rates.

Interest rate risk management
The policy of the Group is to limit the Group's exposure to adverse fluctuations in interest rates, which could erode the Group's profitability and adversely affect shareholder value. The policy requires that an interest rate risk management (IRM) plan be developed based on cash flow forecasts. A committee comprising senior management meets periodically to review the IRM 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 Westfarmers Board and senior executives.

To manage the interest rate exposure, the Group generally enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge interest costs associated with underlying debt obligations. At 30 June 2016, after taking into account the effect of interest rate swaps, economic hedging relationships and early repayment of a portion of core debt facilities, approximately 54 per cent of the Group's core borrowings are exposed to movements in variable rate liabilities (2015: approximately 50 per cent).

From a Group perspective, any internal contracts are eliminated as part of the consolidation process, leaving only the external contracts in the name of Westfarmers Limited.

Although Westfarmers has issued US and Euro bonds, cross-currency swaps are in place that remove any exposure to US and Euro interest rates. These cross-currency swaps ensure that the effective interest rate to Westfarmers is referenced to Australian interest rates.

Exposure
As at the reporting date, the Group had the following financial assets and liabilities with exposure to interest rate risk. Interest on financial instruments, classified as floating rate, is disclosed at intervals of less than one year. Interest on financial instruments, classified as fixed rate, is disclosed until maturity of the instrument. The classification between fixed and floating interest takes into account applicable hedge instruments. Other financial instruments of the Group that are not included in the following table are non-interest-bearing and are therefore not subject to interest rate risk.

The Group's sensitivity to interest rate movements
The following sensitivity analysis shows the impact that a reasonably possible change in interest rates would have on Group profit after tax and equity. The impact is determined by assessing the effect that such a reasonably possible change in interest rates would have on the income statement (expenses) and the impact on financial instrument fair values. This sensitivity is based on reasonably possible changes over a financial year, determined using observed historical interest rate movements for the preceding five-year period, with a heavier weighting given to more recent market data.

The results of the sensitivity analysis are driven by three main factors, as outlined below:
- for unhedged floating rate financial instruments, any increase or decrease in interest rates will impact profit;
- to the extent that derivatives form part of an effective cash flow hedge relationship, there will be no impact on profit and any increase/ (decrease) in the fair value of the underlying derivatives 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 real impact on profit.

The following sensitivity analysis is based on the Australian variable interest rate risk exposures in existence at balance sheet date.

If interest rates had moved by +/–100bps (basis point(s)) and with all other variables held constant, profit after tax and equity would be affected as follows:

<table>
<thead>
<tr>
<th>Interest Rate Movement</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian variable interest rate +100bps</td>
<td>158</td>
<td>180</td>
</tr>
<tr>
<td>Australian variable interest rate -100bps</td>
<td>2,492</td>
<td>2,502</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1,519</td>
<td>3,202</td>
</tr>
<tr>
<td>Hedged foreign exchange rate risk</td>
<td>285</td>
<td>285</td>
</tr>
<tr>
<td>Weighted average impact on floating rate liabilities</td>
<td>2.05</td>
<td>2.10</td>
</tr>
</tbody>
</table>

The Group's exposure to commodity price risk
The Group's exposure to commodity price risk is purely operational and arises largely from coal price fluctuations, which impact on its coal mining operations, or in relation to the purchase of inventory with commodity price as a significant input, such as natural gas. The Group does not enter into any financial instruments that vary with movements in commodity prices. Excluding the foreign exchange risk component, which is managed as part of the Group's overall foreign exchange risk management policies and procedures referred to previously, these exposures are not hedged.

No commodity price sensitivity analysis is provided as the Group's coal and gas "own use contracts" are outside the scope of AASB 139 Financial Instruments: Recognition and Measurement. Such contracts are to be sold or 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.
15(d) Credit risk

Nature of the risk
Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument or customer contract that will result in a financial loss to the Group. The Group is exposed to credit risk from its operating activities (primarily from customer receivables) and from its financing activities, including deposits with financial institutions, foreign exchange transactions and other financial instruments.

Credit risk management: receivables
Customer credit risk is managed by each division subject to established policies, procedures and controls relating to customer credit risk management. The Group trades with recognised, creditworthy third parties. Depending on the division, credit terms are generally up to 30 days from date of invoice. The Group's exposure to bad debts is not significant and default rates have historically been very low.

Customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

An ageing of trade receivables past due is included in note 5. The credit quality of trade receivables neither past due nor impaired has been assessed as high on the basis of credit ratings (where available) or historical information about counterparty default. The carrying amounts of the Group’s trade and other receivables are denominated in Australian dollars, US dollars, NZ dollars and GBP. Since the Group trades only with recognised third parties, no requests or requirement for collateral covering trade and other receivables balances have been made.

Credit risk management: finance advances and loans
Credit risk from balances with finance advances and loans is managed by Coles Financial Services credit team subject to established policies, procedures and controls relating to credit risk management. A risk assessment process is used for new loans and credit applications, which ranges from conducting credit assessments to relying on the assessment of financial risk provided by credit insurers. In addition, the credit quality of the outstanding finance advances and loans balances is monitored on an ongoing basis to minimise the Group’s exposure to bad debts.

An ageing of advances and loans past due is provided in note 5. Based on the credit history, any balances that are neither impaired nor past due are expected to be fully recoverable. The maximum exposure to credit risk is equal to the carrying amount of finance advances and loans. There are no significant concentrations of credit risk within the Group.

Exposure
The Group’s maximum credit exposure to current receivables, finance advances and loans is shown below:

<table>
<thead>
<tr>
<th>Division/Segment</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Coles</td>
<td>54.4</td>
<td>51.7</td>
</tr>
<tr>
<td>Home Improvement</td>
<td>15.3</td>
<td>12.5</td>
</tr>
<tr>
<td>Offshore</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Kmart</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Target</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Resources</td>
<td>4.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Industrial and Safety</td>
<td>13.0</td>
<td>12.6</td>
</tr>
<tr>
<td>Chemicals, Energy and Fertilisers</td>
<td>8.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Corporate</td>
<td>0.7</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Credit risk management: financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with Board approved policy. Investments of surplus funds are made only with approved counterparties or counterparties rated AA or higher by Standard & Poor’s. Surplus funds are invested within credit limits assigned to each counterparty, unless appropriate approval is provided.

The carrying amount of financial assets represents the maximum credit exposure. There is also exposure to credit risk when the Group provides a guarantee to another party. Details of contingent liabilities are disclosed in note 21. There are no significant concentrations of credit risk within the Group.

15(e) Fair values

The carrying amounts and estimated fair values of all the Group’s financial instruments recognised in the financial statements are materially the same, with the exception of the following:

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Carrying Amount</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>$4,721 m</td>
<td>$4,567 m</td>
</tr>
</tbody>
</table>

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

- **Cash**
The carrying amount is fair value due to the asset’s liquid nature.

- **Receivables/payables**
Due to the short-term nature of these financial rights and obligations, carrying amounts are estimated to represent fair values.

Other financial assets/liabilities
The fair values of corporate bonds and term deposits held at fair value have been calculated by discounting the expected future cash flows at prevailing interest rates using market observable inputs. The fair values of loan notes and other financial assets have been calculated using market interest rates.

**Derivatives**
The fair values are calculated as the present value of estimated future cash flows using a market-based yield curve sourced from available market data for all major currencies. Accordingly, these financial instruments are classified as Level 2.

**Interest-bearing loans and borrowings**
Quoted market prices or dealer quotes for similar instruments are used to value long-term debt instruments except corporate bonds based on discounting expected future cash flows at market rates.

**Valuation of financial instruments**

For all fair value measurements and disclosures, the Group uses the following to categorise the method used:

- Level 1: this fair value is calculated using quoted prices in active markets.
- Level 2: 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: fair value is estimated using inputs for the asset or liability that are not based on observable market data.

All of the Group’s financial instruments were valued using market observable inputs (Level 2) with the exception of shares in unlisted companies at fair value (Level 3) that were valued at $1 million (2015: $1 million).

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1 and Level 2 during the year. There were no material Level 3 fair value movements during the year.
16. Hedging

Types of hedging instruments

The Group is exposed to risk from movements in foreign exchange and interest rates. As part of the risk management strategy set out in note 15, the Group holds the following types of derivative instruments:

- Forward exchange contracts: contracts denominated in US dollar and Euro to hedge highly probable sale and purchase transactions (cash flow hedges).
- Interest rate swap contracts: to either reduce the Group’s exposure to exchange rate variability in its interest repayments on foreign currency denominated debt (cash flow hedges) or to hedge against movements in the fair value of those liabilities due to exchange and interest rate movements (fair value hedges).

Fair value hedges

The Group uses fair value hedges to mitigate the risk of changes in the fair value of foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period. Where these fair value hedges qualify for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains or losses in relation to the hedged item where those gains of losses relate to the risk intended to be hedged. For fair value hedges, the carrying value of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is also remeasured to fair value, and gains and losses from both are taken to profit or loss. The net amount recognised in the income statement in this financial year was less than $1 million.

The maturity profile of the fair value hedges is shown in note 15(b).

The accumulated amount of fair value adjustment which is included in the carrying amount of borrowings in the balance sheet is as follows:

<table>
<thead>
<tr>
<th>Foreign bonds</th>
<th>Domestic bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>Face value at inception</td>
<td>2,350</td>
</tr>
<tr>
<td>Change arising from revaluation to spot rates at 30 June</td>
<td>-126</td>
</tr>
<tr>
<td>Balance of unamortised discount/premium</td>
<td>2,224</td>
</tr>
<tr>
<td>Amortised cost</td>
<td>2,364</td>
</tr>
<tr>
<td>Accumulated amount of fair value hedge adjustment attributable to hedge risk</td>
<td>13</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>2,264</td>
</tr>
</tbody>
</table>

There was no material ineffectiveness relating to financial instruments in designated fair value hedge relationships during the year (2015: nil).

Cash flow hedges

The Group uses cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period associated with our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies. The Group also uses cash flow hedges to hedge variability in cash flows due to interest rate movements associated with some of our domestic borrowings.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity, while the ineffective portion is recognised in profit or loss. The maturity profile of these hedges is shown in note 15(b), the recognition of the gain or loss is expected to be consistent with this.

16. Hedging (continued)

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

Fair value hedges

- The Group uses fair value hedges to mitigate the risk of changes in the fair value of foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period. Where these fair value hedges qualify for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains or losses in relation to the hedged item where those gains of losses relate to the risk intended to be hedged.
- For fair value hedges, the carrying value of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is also remeasured to fair value, and gains and losses from both are taken to profit or loss. The net amount recognised in the income statement in this financial year was less than $1 million.
- The maturity profile of the fair value hedges is shown in note 15(b).
- The accumulated amount of fair value adjustment which is included in the carrying amount of borrowings in the balance sheet is as follows:

Cash flow hedges

- The Group uses cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period associated with our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies. The Group also uses cash flow hedges to hedge variability in cash flows due to interest rate movements associated with some of our domestic borrowings.
- For cash flow hedges, the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity, while the ineffective portion is recognised in profit or loss. The maturity profile of these hedges is shown in note 15(b), the recognition of the gain or loss is expected to be consistent with this.
17. Impairment of non-financial assets (continued)

Key assumptions: fair value less costs of disposal calculations

Coles and Target CGUs

The key assumptions used for assessing the recoverable amounts of the Coles CGU (which accounts for over 72 per cent of the Group’s goodwill and intangible assets with indefinite useful lives at 30 June 2016) and Target CGU, are set out below. Both CGUs adopt the FVLCOD valuation methodology to determine the recoverable amount. EBIT growth over the forecast period is based on past experience, expectations of general market conditions and, in the case of Target, a program of business improvement strategies. The post-tax discount rates incorporate a risk-adjustment relative to the risks associated with the net post-tax cash flows being achieved, whilst the growth rates beyond the corporate plan are based on market estimates of the long-term average industry growth rate.

Carragh CGU

The recoverable value of Carragh was determined using the LOM FVLCOD valuation methodology and considers both JORC reserves and JORC resources. The key assumptions used for assessing the recoverable amount of the Carragh CGU are set out below:

- mining life of approximately 20 years;
- long-term export coal price estimates sourced from Wood Mackenzie, a global provider of market intelligence to the energy, metals and mining industries;
- AUD/USD exchange rates based on the June 2016 forward curve off the spot rate of 0.72;
- mine cash cost escalations of approximately 2.2 per cent per annum; and
- post-tax discount rate of 10 per cent (2015: 11 per cent).

The recoverable value of Carragh is sensitive to changes in its discount rate and its forecast long-term EBIT that drives terminal value. A one per cent change in discount rate or a 13 per cent change in its forecast long-term EBIT approximates a $150 million change in recoverable value.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (post-tax)</td>
<td>11%</td>
<td>12.4%</td>
<td>11%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Growth rate beyond corporate plan</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Headroom as a percentage of the CGU’s net carrying value</td>
<td>75.6%</td>
<td>75.6%</td>
<td>75.6%</td>
<td>75.6%</td>
</tr>
<tr>
<td>Terminal value as a percentage of the CGU’s recoverable value</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Coles</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>11%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Growth rate</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Headroom</td>
<td>75.6%</td>
<td>75.6%</td>
</tr>
<tr>
<td>Terminal value</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

As Target’s recoverable amount approximates its carrying value, any adverse movements in key assumptions may lead to a further impairment. Consistent with 30 June 2015, the recoverable amount of Target has been based on assumed improvements in its operating and financial performance, notwithstanding that the timing of cash flows arising from these improvements will be influenced by general market conditions. The recoverable value of Target is sensitive to changes in its discount rate and its forecast long-term EBIT that drives terminal value. A one per cent change in discount rate or a 13 per cent change in its forecast long-term EBIT approximates a $150 million change in recoverable value.
Investments in associates

Recognition and measurement

The Group’s management accounts of the associate for the period to the Group’s income.
Where there has been a change recognised directly in the associates’ net assets. Goodwill relating
in the Group’s share of the associates’ net assets. Goodwill relating

Key judgement: control and significant influence

The Group has a number of management agreements with associates and joint ventures it considers when determining whether it has control, joint control or significant influence.
The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds to appoint or remove key management and the decision-making rights and scope of powers specified in the contract.
The Group has the unilateral power to direct the relevant activities of an investee, the Group then assesses whether the power it holds is for its own benefit (acting as principal) or for the benefit of others (acting as agent). This determination is based on a number of factors including an assessment of the magnitude and variability of the Group’s exposure to variable returns associated with its involvement with the investee. In an agency capacity, the Group is considered to be acting on behalf of other parties and therefore does not control the investee when it exercises its decision-making powers.

Investment properties owned by associates are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss of the associate, in the year in which they arise. This is consistent with the Group’s policy.

Key interests in joint arrangements

Recognition and measurement

Profit/(loss) from operations of joint venture

 recognised directly in the

The Group’s income statement reflects the Group’s share of the associates’ net assets. Goodwill relating

Interests in joint arrangements

The Group’s management accounts of the associate for the period to the Group’s income.
Where there has been a change recognised directly in the associates’ net assets. Goodwill relating
in the Group’s share of the associates’ net assets. Goodwill relating

Key judgement: control and significant influence

The Group has a number of management agreements with associates and joint ventures it considers when determining whether it has control, joint control or significant influence.
The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds to appoint or remove key management and the decision-making rights and scope of powers specified in the contract.
The Group has the unilateral power to direct the relevant activities of an investee, the Group then assesses whether the power it holds is for its own benefit (acting as principal) or for the benefit of others (acting as agent). This determination is based on a number of factors including an assessment of the magnitude and variability of the Group’s exposure to variable returns associated with its involvement with the investee. In an agency capacity, the Group is considered to be acting on behalf of other parties and therefore does not control the investee when it exercises its decision-making powers.

Investment properties owned by associates are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss of the associate, in the year in which they arise. This is consistent with the Group’s policy.
NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE
FOR THE YEAR ENDED 30 JUNE 2016

19. Subsidiaries (continued)

<table>
<thead>
<tr>
<th>ENTITY</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental and Licensing Professionals Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Eureka Operations Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>FBP Asset Fund Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>FIP Investments Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Filthgang Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Financial Network Card Services Pty Ltd -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regibbons Hotel Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Fibro Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Fpeco Lighting Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Foxeye (Australia) Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Fullum Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>G J Coles &amp; Co Pty Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>GEP Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>General Merchandise &amp; Apparel Group Pty Ltd -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GetStock Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Greencap - NAA Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Greencap Holdings Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Greencap Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Grocery Holdings Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Guidt Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hampden Group Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hedz No 2 Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hedz No 3 Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hedz No 4 Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hedz No 6 Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hpm Direct Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase (NL) Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Card Handling Services Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Direct Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Group (2000) Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Group Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Holdings Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase House and Garden Centre Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Homebase Spend &amp; Save Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Home Chem Group Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Home Chem Group Trustee Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Hotel Woolmark Investments Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>HouseWoks Co Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Howard Smith Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Howard Smith Northernmost Pty Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>HT (Toekoop) Group Pty Ltd -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hunter Property Investments Pty Ltd @ 7%</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Ikontrol Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Incorporisweaver Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Index Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Integrated Safety Technology Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>J Blackwood &amp; Son Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kas Direct Sourcing Private Limited (formerly Coles Direct Sourcing Private Limited)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kas Global Trading Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kas International Trading (Shanghai) Company Limited</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
19. Subsidiaries (continued)

Entity acquired/incorporated during the year:

More than five years

Entity dissolved/deregistered during the year:

20. Business combinations

On 27 February 2016, Wesfarmers Limited acquired 100 per cent of Home Retail Group plc’s holding in Homebase for £340 million ($A661 million). Homebase is based in the United Kingdom and operates a home improvement and garden retail business in the UK and Republic of Ireland. The acquisition of Homebase delivers an established and scalable platform with stores that are the right size for the UK market and supports warehouse merchandising and a low-cost operating model, providing an opportunity for Wesfarmers to expand its Bunnings business into the UK market.

At 30 June 2016, the acquisition accounting balances recognised are provisional due to ongoing work finalising valuations and tax related matters which may impact acquisition accounting entries. The provisional fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition are:

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>25</td>
<td>48</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>52</td>
<td>102</td>
</tr>
<tr>
<td>Inventories</td>
<td>171</td>
<td>332</td>
</tr>
<tr>
<td>Prepayments</td>
<td>25</td>
<td>49</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>124</td>
<td>241</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>26</td>
<td>54</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>47</td>
<td>82</td>
</tr>
<tr>
<td>Total assets</td>
<td>472</td>
<td>918</td>
</tr>
</tbody>
</table>

Liabilities

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>322</td>
<td>625</td>
</tr>
<tr>
<td>Provisions</td>
<td>236</td>
<td>459</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>30</td>
<td>68</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>595</td>
<td>1,170</td>
</tr>
</tbody>
</table>

The Group revalued the fair value of identifiable net liabilities at £110 million ($222 million) on acquisition.

Purchase consideration paid | £m | $m |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill arising on acquisition</td>
<td>485</td>
<td>935</td>
</tr>
<tr>
<td>Total purchase consideration paid</td>
<td>940</td>
<td>1,870</td>
</tr>
</tbody>
</table>

Cash flow on acquisition

Purchase consideration paid | £m | $m |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash outflow from acquisition</td>
<td>365</td>
<td>713</td>
</tr>
<tr>
<td>Less: net cash acquired</td>
<td>25</td>
<td>49</td>
</tr>
<tr>
<td>Net cash outflow</td>
<td>340</td>
<td>664</td>
</tr>
</tbody>
</table>

From the date of acquisition, the contribution from Homebase to the net profit after-tax of the Group was insignificant.

If the combination had taken place at the beginning of the year, the revenue from continuing operations for the Group would have been approximately $1,865 million higher. It is not practicable to determine the profit of the Group had the combination taken place at 1 July 2015, as the fair value of the identifiable assets and liabilities is not known at that date. Assuming that the same fair values detailed above applied at 1 July 2015, the profit for the Group would not have been materially different from that reported. Direct costs relating to the acquisition totalling $19 million have been recognised in other expenses in the income statement for the year ended 30 June 2016. The provisional goodwill of $935 million is attributable to various factors including value of growth and synergy opportunities, store network and inaccessible intangible assets.

21. Commitments and contingencies

At 30 June 2016, the Group did not have any commitments relating to its joint ventures.

i. The Group has entered into commercial leases on its retail and distribution properties, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the leases of buildings, the lease terms range from one year to 25 years and have various renewal or purchase options. Other lease agreements give the lessee the option to extend the term of the lease. Operating lease commitments refer to future undiscounted minimum rental payments under non-cancelable operating leases not included within the financial report. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to earnings on a straight-line basis over the lease term. Fixed rate increases to lease payments, excluding contingent or index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised in profit or loss for the period in which they occur.

ii. The Group guarantees to third parties, under a Coal Supply Agreement in determining the price rebate payable on export coal produced and sold. The claim relates to the interpretation of the reference coal price index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised in profit or loss for the period in which they occur.

iii. The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset’s life, the present value of future lease payments in relation to the asset’s fair value and the nature of the asset.

The Group operates a home improvement and garden retail business in the UK

22. Events after the reporting period

Dividends

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

Key judgement: leases

The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset’s life, the present value of future lease payments in relation to the asset’s fair value and the nature of the asset.

Guarantees

The Group has issued a number of bank guarantees to third parties for various operational and legal purposes. It is not expected that these guarantees will be called on.

On acquisition of the Coles group, Wesfarmers assumed responsibility for the guarantees entered into by the Coles group relating to the sale of its Myer Business in June 2006, under which Coles group had guaranteed the performance of certain lease agreements held by Myer Ltd. The guarantees amount to $4 million (2015: $6 million). The fair value of these guarantees is not considered to be material and has not been recognised in this financial report.

Other

Certain companies within the Group are party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal action would not have a material effect on the Group’s financial performance.

A claim has been lodged with the Supreme Court of Queensland by Stanwell Corporation Limited (Stanwell) for substantial sums in respect of the price rebates payable by Wesfarmers Curragh Pty Ltd (Curragh) to Stanwell, a subsidiary of the Queensland Government. The claim relates to the interpretation of the reference coal price index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised in profit or loss for the period in which they occur.

The claim relates to the interpretation of the reference coal price index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised in profit or loss for the period in which they occur.

The claim relates to the interpretation of the reference coal price index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised in profit or loss for the period in which they occur.

From the date of acquisition, the contribution from Homebase to the net profit after-tax of the Group was insignificant.

If the combination had taken place at the beginning of the year, the revenue from continuing operations for the Group would have been approximately $1,865 million higher. It is not practicable to determine the profit of the Group had the combination taken place at 1 July 2015, as the fair value of the identifiable assets and liabilities is not known at that date. Assuming that the same fair values detailed above applied at 1 July 2015, the profit for the Group would not have been materially different from that reported. Direct costs relating to the acquisition totalling $19 million have been recognised in other expenses in the income statement for the year ended 30 June 2016. The provisional goodwill of $935 million is attributable to various factors including value of growth and synergy opportunities, store network and inaccessible intangible assets.

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At 30 June 2016, the Group did not have any commitments relating to its joint ventures.

i. The Group has entered into commercial leases on its retail and distribution properties, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the leases of buildings, the lease terms range from one year to 25 years and have various renewal or purchase options, excluding contingent or index-based rental increases. Operating lease commitments refer to future undiscounted minimum rental payments under non-cancelable operating leases not included within the financial report. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to earnings on a straight-line basis over the lease term. Fixed rate increases to lease payments, excluding contingent or index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised 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 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 as a liability when received and released to earnings on a straight-line basis over the lease term.

ii. The Group guarantees to third parties under a Coal Supply Agreement in determining the price rebate payable on export coal produced and sold. The claim relates to the interpretation of the reference coal price index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised as a liability when received and released to earnings on a straight-line basis over the lease term.

iii. The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset’s life, the present value of future lease payments in relation to the asset’s fair value and the nature of the asset.

The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset’s life, the present value of future lease payments in relation to the asset’s fair value and the nature of the asset.

The Group operates a home improvement and garden retail business in the UK

22. Events after the reporting period

Dividends

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Key judgement: leases

The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset’s life, the present value of future lease payments in relation to the asset’s fair value and the nature of the asset.
23. Parent disclosures

The subsidiaries identified with a * in note 19 are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the Deed, the wholly owned entities have been relieved from the requirement to prepare a separate financial report and directors’ report under Class Order 98/14/15 (as amended) issued by the Australian Securities and Investments Commission.

These subsidiaries and Wesfarmers Limited together referred to as the “Closed Group”, either originally entered into the Deed on 27 June 2008 or have subsequently joined the Deed by way of an Assumption Deed. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group. The entities joining the Closed Group by way of an Assumption Deed dated 28 June 2016 are:

- AVC Trading Pty Ltd
- BJKY (Australia) Pty Ltd
- Chi Nam Australia Souring Pty Ltd
- Kmart Ready Operations Australia Pty Ltd
- WPF, Funding Co Pty Ltd
- A.C.N. 607 970 484 Pty Ltd
- A.coergus Pty Ltd
- Officeworks Businessdirect Pty Ltd
- Premier Power Sales Pty Ltd

No entities left the Closed Group by way of a dissolution throughout the period.

The consolidated income statement and retained earnings of the entities that are members of the Closed Group is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to members of the parent</td>
<td>2,330</td>
<td>2,191</td>
</tr>
<tr>
<td>Total comprehensive income for the year, net of tax, attributable to members of the parent</td>
<td>2,328</td>
<td>2,074</td>
</tr>
</tbody>
</table>

Contingencies

Contingent liabilities at balance date, not included in this financial report, were as follows:

- Trading guarantee
  - Wesfarmers Limited
  - Non-Ernst & young audit firms

Wesfarmers is party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal action would not have a material adverse effect on the Group’s financial report.

Dividends reserve

The dividends reserve has been created in the current year by the parent entity for the purposes of segregating profits from which dividends to shareholders can be paid.

Guarantees

Wesfarmers Limited and certain Australian controlled entities are party to a Deed of Cross Guarantee (the Deed) as disclosed in note 24.

Parent entity financial information

The financial information for the parent entity has been prepared on an equal basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent. Dividends received from associates are recognized in the parent entity profit or loss when its right to receive the dividend is established.

24. Deed of Cross Guarantee

24. Deed of Cross Guarantee (continued)

The consolidated balance sheet of the entities that are members of the Closed Group is as follows:

CONSOLIDATED

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from discontinued operations before income tax</td>
<td>2,328</td>
<td>2,074</td>
</tr>
<tr>
<td>Retained earnings - Finance advances and loans</td>
<td>386</td>
<td>334</td>
</tr>
<tr>
<td>Other</td>
<td>284</td>
<td>235</td>
</tr>
<tr>
<td>Total current assets</td>
<td>8,311</td>
<td>9,690</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>3,684</td>
<td>3,166</td>
</tr>
<tr>
<td>Total assets</td>
<td>12,149</td>
<td>12,965</td>
</tr>
<tr>
<td>Liabilities</td>
<td>7,890</td>
<td>8,791</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>12,149</td>
<td>12,965</td>
</tr>
<tr>
<td>Net assets</td>
<td>2,328</td>
<td>2,074</td>
</tr>
</tbody>
</table>

25. Auditors’ remuneration

The total non-audit services fees of $4,193 thousand represents 35.7 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2016. During the year, Ernst & Young were engaged to provide forensic accounting services at Target and due diligence and tax services in relation to the Home Bargains acquisition. Excluding these engagements, the non-audit fees services represented 31.1 per cent of the total fees paid or payable to Ernst & Young and related practices.

26. Related party transactions

Partly owned subsidiaries of Gresham Partners Group Limited have guaranteed to pay any deficiency in the event of the winding up of the Closed Group. The entities joining the Closed Group by way of an Assumption Deed dated 28 June 2016 are:

- J P Graham, a director of Wesfarmers, has a majority shareholding in a company which jointly owns Gresham Partners Group Limited and development of rental properties. Gains and losses were made on this activity of $9,200 thousand (2015: $137,200 thousand) for the acquisition of rental properties. During the year, BWP Trust paid the Group fees of $298 thousand (2015: $298 thousand) for the provision of target and due diligence and tax services in relation to the Home Bargains acquisition. The Group paid the ISPT and BPI No. 1 Pty Ltd joint arrangements. During the year, BWP Trust paid the Group $9,200 thousand (2015: $5,367 thousand) for the acquisition and development of rental properties. Gains and losses were made on disposal, a portion of which was eliminated in the consolidated accounts under equity accounting.

J P Graham, a director of Wesfarmers, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers. Partly owned subsidiaries of Gresham Partners Group Limited have provided office accommodation and financial advisory services to Wesfarmers and were paid fees of $1,698,838 in 2016 (2015: $2,574,746).
27. Other accounting policies

(a) New and amended accounting standards and interpretations adopted from 1 July 2015

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2015 to the Group have been adopted, including:

<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
<th>Application of Standard</th>
<th>Application by Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</td>
<td>The amendments make amendments to AASB 10 Consolidated Financial Statements. AASB 12 Disclosure of Interests in Other Entities and AASB 126 Investments in Associates and Joint Ventures using the IASB’s narrow scope amendments associated with Investment Entities.</td>
<td>1 January 2016</td>
<td>1 July 2016</td>
</tr>
</tbody>
</table>

(b) New and amended standards and interpretations issued but not yet effective

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this financial report.

<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
<th>Application of Standard</th>
<th>Application by Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>The effects of the following Standards are not expected to be material:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</td>
<td>The amendment makes amendments to a number of Australian Accounting Standards as a result of AASB 9 Financial Instruments (December 2014). The amendment also clarified that revenue is generally presumed to be an appropriate basis for measuring the consumption of an intangible asset.</td>
<td>1 January 2016</td>
<td>1 July 2016</td>
</tr>
<tr>
<td>AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation</td>
<td>The amendment makes amendments to a number of accounting policies including the methods of disposed in AASB 5 Non-current Assets Held for Sale and Discontinued Operations; disclosure requirements in AASB 7 Financial Instruments: Disclosures and AASB 134 Interim Financial Reporting and clarification of discount rate utilised in AASB 110 Employee Benefits.</td>
<td>1 January 2016</td>
<td>1 July 2016</td>
</tr>
</tbody>
</table>

(c) Tax consolidation

Westfarmers and its 100 per cent owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2003. Westfarmers is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expenses to the wholly owned subsidiaries on a stand-alone basis. The tax sharing arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The possibility of such a default is considered remote at the date of this report.

Members of the tax consolidated group have entered into a tax funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The tax funding agreement provides for each member of the tax consolidated group to pay a tax equivalent amount to or from the parent in accordance with their respective 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.
28. Share-based payments

The Group provides benefits to employees (including executive directors) of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance in part through shares or rights over shares. The expense arising from those operations is recognised in the income statement. The total number of ordinary Wesfarmers shares acquired on market during the financial year to satisfy employee incentive schemes was 602,433 (2015: 2,003,008) at an average price of $40.04 (2015: $42.27) per share.

Recognition and measurement

Share-based payments can either be equity-settled or cash-settled. If the employer is provided a choice of settlement options then the scheme is considered to be cash-settled.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured using their fair value at the date at which they are granted in determining the tax value, no account is taken of any performance conditions other than those linked to the price of the shares of Wesfarmers Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance conditions (excluding market conditions) are met, ending on the date on which the employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the proportion of the awards that are expected to ultimately vest. No expense is recognised for awards that do not ultimately vest due to a performance condition not being met. The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Where the terms of an equity-settled award are modified, as a replacement award on the date that it is granted, the cancelled award, as described above.

Cash-settled transactions

The ultimate expense recognised in relation to cash-settled transactions will be equal to the actual cash paid to the employees, which will be the fair value at settlement date. The expected cash payment is estimated at each reporting date and a liability recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above.

29. Director and executive disclosures

Compensation of key management personnel

The remuneration disclosures are provided in sections one to six of the remuneration report on pages 71 to 84 of this annual report designated as audited and forming part of the directors’ report.

28. Share-based payments (continued)

Additional information on award schemes

Wesfarmers Employee Share Plan (WESP)

The last issue under the WESP was made in December 2004. Under the plan, employees were invited to apply for ordinary shares in the company, funded by an interest-free loan from the Group. The employee’s obligation to repay the loan is limited to the dividends declared and capital returns by the company and, in the event the employee ceases employment, the market price achieved on the sale of the shares.

The plan is accounted for as an in-substance equity-settled award, with the contractual life of each option equivalent to the estimated loan life and no maximum term.

Wesfarmers Long-Term Incentive Plan (WLTIP)

Long-Term Incentive

Under the WLTIP in 2016, eligible executives were invited to receive performance rights in the company. There are two performance hurdles, Wesfarmers’ CAIR in ROE (with a 50 per cent weighting) and Wesfarmers’ TSR (with a 50 per cent weighting), relative to the CAIR in ROE and TSR of the ASX 50 Index. Further details of the WLTIP and the terms of the grants during the year are in the remuneration report. The fair value of the performance rights are determined using an option pricing model with the following inputs:

- Grant date 12 Nov 2015 11 Sep 2015
- Grant date share price ($) 38.70 39.19
- Volatility (per cent) 16.34 15.93
- Dividend yield (per cent) 4.74 4.74
- Risk-free rate (per cent) 2.25 2.00
- Fair value ($) 26.65 27.27

Annual Incentive

Eligible executives also received a restricted (mandatorily deferred) share award under the WLTIP. However, if an executive resigns or is terminated for cause within one year of the share allocation, the Board may decide to cancel the share award. The fair value of the share at grant date is expensed over the one-year forfeiture period.

Other transactions and balances with key management personnel

Refer to note 26 in relation to transactions with Grahams Partners Group Limited, of which J P Graham is a director.

From time to time, directors of Wesfarmers or its controlled entities, or their director-related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other consolidated entities, employees or customers and are trivial or domestic in nature.

30. Tax transparency disclosures

In February 2016, the Board of Taxation provided its final report to the Australian Government on a voluntary tax transparency code (FTC). The report contained recommendations for additional disclosure of tax information by companies split between Part A and Part B disclosures. The Part B disclosures are publishable in a separate Taxes Paid report. The Part A disclosures are:

- a reconciliation of accounting profit to tax expense and to income tax paid or income tax payable;
- the identification of material temporary and non-temporary differences; and
- the effective company tax rates for Australian and global operations.

A reconciliation of Wesfarmers’ accounting profit to its tax expense and material temporary and non-temporary differences are disclosed in note 3. A reconciliation of accounting profit to income tax paid or payable and the effective company tax rates for the Group’s Australian and global operations are tabulated below.
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 consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors’ declaration of the consolidated entity comprising the company and the entities it controlled at the year’s end or from time to time during the financial year.

Directors’ responsibility for the financial report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Notes to the financial statements, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor’s responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity’s preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor’s Independence Declaration, a copy of which is included in the directors’ report.

Opinion
In our opinion:

a. the financial report of Wesfarmers Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity’s financial position as at 30 June 2016 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
b. the financial report also complies with International Financial Reporting Standards as disclosed in the Notes to the financial statements.

Report on the remuneration report
We have audited the remuneration report included in the directors’ report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion
In our opinion, the remuneration report of Wesfarmers Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

Ernst & Young
D S Lewsen
Partner
Perth
21 September 2016

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

M A Chaney AO
Chairman
Sydney
21 September 2016

R J B Goyder AO
Managing Director
Perth

SIGNED REPORTS

DIRECTORS’ DECLARATION
WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

In accordance with a resolution of the directors of Wesfarmers Limited, we state that:

1. In the opinion of the directors:

   1.1 the financial statements, notes and the additional disclosures included in the directors’ report designated as audited, of the consolidated entity for the full-year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity’s financial position as at 30 June 2016 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   1.2 the financial statements and notes comply with International Financial Reporting Standards as disclosed in the notes to the financial statements on page 91 of the 2016 Annual Report; and

   1.3 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group comprising the company and the controlled entities marked * as identified in note 19 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee referred to in note 24.

On behalf of the Board:

M A Chaney AO
Chairman
Sydney
21 September 2016

R J B Goyder AO
Managing Director
Perth
Coal resources

The table below details the coal resources for Wesfarmers, as at 30 June 2016:

### 2016 COAL RESOURCES (TONNES (MILLIONS))

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ownership</th>
<th>Beneficial interest</th>
<th>Location of tenancies</th>
<th>Likely mining method</th>
<th>Coal type</th>
<th>Measured</th>
<th>Indicated</th>
<th>Inferred</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curragh</td>
<td>Wesfarmers</td>
<td>100% equity</td>
<td>Bowen Basin, Queensland</td>
<td>Open cut</td>
<td>Metallurgical and steaming</td>
<td>323</td>
<td>243</td>
<td>145</td>
<td>711</td>
</tr>
<tr>
<td>Bengalla</td>
<td>Wesfarmers</td>
<td>40% equity</td>
<td>Hunter Valley, New South Wales</td>
<td>Open cut and underground</td>
<td>Metallurgical and steaming</td>
<td>57</td>
<td>49</td>
<td>61</td>
<td>189</td>
</tr>
</tbody>
</table>

### RESOURCES QUALITY (IN SITU)

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ownership</th>
<th>Beneficial interest</th>
<th>Location of tenancies</th>
<th>Likely mining method</th>
<th>Coal type</th>
<th>Ash (%)</th>
<th>CV (MJ/kg)</th>
<th>Sulphur (%)</th>
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<td>19</td>
<td>28</td>
<td>0.6</td>
<td>19</td>
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<td>Bengalla</td>
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<td>Hunter Valley, New South Wales</td>
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<td>Metallurgical and steaming</td>
<td>20</td>
<td>26</td>
<td>0.6</td>
<td>-</td>
</tr>
</tbody>
</table>

### Comparative resources as at 30 June 2015:

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ownership</th>
<th>Beneficial interest</th>
<th>Location of tenancies</th>
<th>Likely mining method</th>
<th>Coal type</th>
<th>Measured</th>
<th>Indicated</th>
<th>Inferred</th>
<th>Total</th>
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<td>57</td>
<td>49</td>
<td>61</td>
<td>189</td>
</tr>
</tbody>
</table>

### RESOURCES QUALITY (IN SITU)

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ownership</th>
<th>Beneficial interest</th>
<th>Location of tenancies</th>
<th>Likely mining method</th>
<th>Coal type</th>
<th>Ash (%)</th>
<th>CV (MJ/kg)</th>
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<td>28</td>
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<td>19</td>
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<td>40% equity</td>
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<td>Open cut and underground</td>
<td>Metallurgical and steaming</td>
<td>20</td>
<td>26</td>
<td>0.6</td>
<td>-</td>
</tr>
</tbody>
</table>

Resources notes:

1. Inclusion/exclusion of reserves
   - a. Curragh’s coal resources are reported as being in addition to coal reserves.
   - b. Bengalla’s coal resources are reported as being in addition to coal reserves.

2. Quality
   - a. Curragh’s in situ resources quality parameters are quoted on an air-dried basis.
   - b. Bengalla’s in situ resources quality parameters are quoted on an air-dried basis.
   - c. All tonnes and grade information have been rounded and therefore small differences may be present in the totals.

5. Resources reported on a 100 per cent project basis
   - a. Curragh’s resources, as stated, are 100 per cent of the site resources, including all resources in the Curragh Project mining leases.
   - b. Bengalla’s resources, as stated, are 100 per cent of the site resources, including all resources in the Bengalla mining leases.

Coal reserves

The table below details the coal reserves for Wesfarmers, as at 30 June 2016:

### 2016 COAL RESERVES (TONNES (MILLIONS))

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ownership</th>
<th>Beneficial interest</th>
<th>Location of tenancies</th>
<th>Likely mining method</th>
<th>Coal type</th>
<th>Proved</th>
<th>Probable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curragh</td>
<td>Wesfarmers</td>
<td>100% equity</td>
<td>Bowen Basin, Queensland</td>
<td>Open cut</td>
<td>Metallurgical and steaming</td>
<td>244</td>
<td>24</td>
<td>268</td>
</tr>
<tr>
<td>Bengalla</td>
<td>Wesfarmers</td>
<td>40% equity</td>
<td>Hunter Valley, New South Wales</td>
<td>Open cut</td>
<td>Metallurgical and steaming</td>
<td>147</td>
<td>108</td>
<td>255</td>
</tr>
</tbody>
</table>

### RESERVES QUALITY (INCLUSIVE OF LOSS AND DILUTION)

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ownership</th>
<th>Beneficial interest</th>
<th>Location of tenancies</th>
<th>Likely mining method</th>
<th>Coal type</th>
<th>Ash (%)</th>
<th>CV (MJ/kg)</th>
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<th>VM (%)</th>
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</thead>
<tbody>
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<td>100% equity</td>
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<td>Open cut</td>
<td>Metallurgical and steaming</td>
<td>24</td>
<td>28</td>
<td>0.6</td>
<td>19</td>
</tr>
<tr>
<td>Bengalla</td>
<td>Wesfarmers</td>
<td>40% equity</td>
<td>Hunter Valley, New South Wales</td>
<td>Open cut</td>
<td>Metallurgical and steaming</td>
<td>20</td>
<td>22</td>
<td>0.6</td>
<td>-</td>
</tr>
</tbody>
</table>

Reserves notes:

1. Quality and quantity
   - a. Curragh’s reserves quality parameters are quoted on an air-dried basis.
   - b. Bengalla’s reserves quality parameters are quoted on an air-dried basis.
   - c. Reserve qualities and quantities are inclusive of mining loss and out-of-seam dilution.
   - d. All tonnes and grade information have been rounded and therefore small differences may be present in the totals.

2. Reserves reported on a 100 per cent project basis
   - a. Curragh’s reserves, as stated, are 100 per cent of the site reserves, including all reserves in the Curragh Project.
   - b. Bengalla’s reserves, as stated, are 100 per cent of the site reserves, including all reserves in the Bengalla mining leases.

WESFARMERS 2016 ANNUAL REPORT
Characteristics of coal reserves and resources

Curragh

The coal is bituminous and is used for power generation (principally domestic) and metallurgical processes (primarily steel production overseas). The resource is contained in five seams of varying thickness and quality characteristics. Coal is produced from all of these seams. Coal is extracted by open cut methods and processed through a wash plant using dense medium cyclones and froth flotation.

Bengalla

The coal is bituminous and used in export markets for power generation. Coal is extracted from eight seams of varying thickness and quality characteristics. The seams occur at relatively shallow depths and dip gently to the west. Coal is extracted by open cut methods.

JORC Code compliance

The statement of coal resources and coal reserves presented in this report has been produced in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Additional information in relation to the estimates of Reserves and Resources for the Curragh project (including Table 1 of the JORC Code) were released to ASX on 20 August 2015 and are available at www.wesfarmers.com.au

Governance arrangements and internal controls

Wesfarmers has put in place governance arrangements and internal controls with respect to its estimates of reserves and resources and the estimation process, including:

– Oversight and approval of each annual statement by responsible senior officers;
– Establishment of internal procedures and controls to meet JORC Code compliance in all external reporting;
– Independent external reviews of new and materially changed estimates;
– Annual reconciliation with internal planning to validate reserves estimates for operating mines;
– Internal technical audits of resources and reserves estimates for each asset conducted every two years.

For Bengalla, where the Wesfarmers Group is not the managing controls with respect to its estimates of reserves and resources and for the avoidance of doubt, neither the Competent Persons nor the Wesfarmers Limited Group makes any undertaking to subsequently update any forward-looking statements in this release to reflect events after the date of this release.

The information in this report relating to coal resources and reserves is based on, and fairly represents, information compiled by Competent Persons (as defined in the JORC Code, and listed below). All Competent Persons have at the time of reporting, sufficient experience relevant to the type of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

Competent Persons

Curragh

Mr Barry Saunders, Director of QGESS Pty Ltd Member AusIMM (CP), Member AIS
Mr Johan Balth, a full-time employee of Wesfarmers Resources Limited, a wholly owned subsidiary of Wesfarmers Limited Member AusIMM

Bengalla

Mr Patrick Tyrrell, a full-time employee of New Hope Corporation Limited Member AusIMM (CP), Member AIG
Mr Johan Ballot, a full-time employee of Wesfarmers Resources Limited, a wholly owned subsidiary of Wesfarmers Limited Member AusIMM
Mr Tony O’Connell, a Director of Optimal Mining Solutions Pty Limited Member AusIMM

The information in this report relating to coal resources and reserves is based on, and fairly represents, information compiled by Competent Persons (as defined in the JORC Code, and listed below). All Competent Persons have at the time of reporting, sufficient experience relevant to the type 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.

The 20 largest shareholders of ordinary shares on the company’s register as at 21 September 2016 were:

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares</th>
<th>% of issued capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Custody Nominees (Australia) Limited</td>
<td>191,511,707</td>
<td>17.01</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>145,171,671</td>
<td>12.89</td>
</tr>
<tr>
<td>National Nominees Limited</td>
<td>71,466,729</td>
<td>6.34</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited</td>
<td>56,729,321</td>
<td>5.04</td>
</tr>
<tr>
<td>BNP Paribas Noms Pty Ltd (DRP)</td>
<td>21,647,926</td>
<td>1.92</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited (Colonial First State Inv A/C)</td>
<td>13,725,651</td>
<td>1.22</td>
</tr>
<tr>
<td>BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)</td>
<td>13,180,944</td>
<td>1.17</td>
</tr>
<tr>
<td>HSBC Custody Nominees (Australia) Limited (bt-Commwealth Super Corp A/C)</td>
<td>7,481,118</td>
<td>0.66</td>
</tr>
<tr>
<td>Australian Foundation Investment Company Limited</td>
<td>6,722,500</td>
<td>0.60</td>
</tr>
<tr>
<td>CPU Share Plans Pty Limited (WESAP DFE Control A/C)</td>
<td>5,647,657</td>
<td>0.49</td>
</tr>
<tr>
<td>Argo Investments Limited</td>
<td>5,440,027</td>
<td>0.48</td>
</tr>
<tr>
<td>AMP Life Limited</td>
<td>5,244,874</td>
<td>0.47</td>
</tr>
<tr>
<td>Milton Corporation Limited</td>
<td>2,835,533</td>
<td>0.25</td>
</tr>
<tr>
<td>CPU Share Plans Pty Limited (WES WLTP Control A/C)</td>
<td>2,803,273</td>
<td>0.23</td>
</tr>
<tr>
<td>IOOF Investment Management Limited (IPS Super A/C)</td>
<td>2,605,133</td>
<td>0.23</td>
</tr>
<tr>
<td>CPU Share Plans Pty Limited (WES Exu Control A/C)</td>
<td>2,581,060</td>
<td>0.23</td>
</tr>
<tr>
<td>RBC Investor Services Australia Nominees Pty Limited (BKJOUST A/C)</td>
<td>2,517,817</td>
<td>0.22</td>
</tr>
<tr>
<td>Navigator Australia Ltd (MLC Investment Sett A/C)</td>
<td>2,249,860</td>
<td>0.20</td>
</tr>
<tr>
<td>Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett A/C)</td>
<td>1,864,833</td>
<td>0.17</td>
</tr>
<tr>
<td>Mr Peter Alexander Brown</td>
<td>1,552,825</td>
<td>0.14</td>
</tr>
</tbody>
</table>

The percentage holding of the 20 largest shareholders of Wesfarmers ordinary shares was 49.98.

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Substantial shareholders

As at the date of this report there were no persons with a substantial shareholding in the company for the purposes of Part 6C.1 of the Corporations Act 2001.

Voting rights

Wesfarmers fully-paid ordinary shares carry voting rights of one vote per share.

Distribution of members and their holdings

Size of holdings Number of shareholdings
1 – 3,000 414,731
3,001 – 8,000 96,530
8,001 – 16,000 10,576
16,001 – 100,000 5,294
100,001 and over 170

There were 12,204 shareholders that held less than a marketable parcel of Wesfarmers ordinary shares.

There were 1,25 per cent of shareholders with registered addresses outside Australia.

Twenty largest shareholders

The 20 largest shareholders of ordinary shares on the company’s register as at 21 September 2016 were:

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares</th>
<th>% of issued capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Custody Nominees (Australia) Limited</td>
<td>191,511,707</td>
<td>17.01</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>145,171,671</td>
<td>12.89</td>
</tr>
<tr>
<td>National Nominees Limited</td>
<td>71,466,729</td>
<td>6.34</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited</td>
<td>56,729,321</td>
<td>5.04</td>
</tr>
<tr>
<td>BNP Paribas Noms Pty Ltd (DRP)</td>
<td>21,647,926</td>
<td>1.92</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited (Colonial First State Inv A/C)</td>
<td>13,725,651</td>
<td>1.22</td>
</tr>
<tr>
<td>BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)</td>
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<td>1,552,825</td>
<td>0.14</td>
</tr>
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</table>
FIVE-YEAR FINANCIAL HISTORY

The summarised income statement for 2016 includes significant items relating to the following pre-tax (post-tax) items: $1,266 million ($1,249 million) non-cash.

2 The 2013 numbers have been restated to reflect the classification of the Insurance division as a discontinued operation.

1 The 2014 numbers have been restated to reflect the disposal of WesCEF’s interest in Air Liquide WA Pty Ltd as a discontinued operation.

3 2014 Restated 2015 Restated 2016
SUMMARISED INCOME STATEMENT Sales revenue 65,443 63,129 59,023 57,466 57,685 Other operating revenue 338 318 278 283 395 Operating revenue 65,881 62,447 60,181 57,749 58,080 Operating profit before depreciation and amortisation, finance costs and income tax 2,642 4,278 3,877 4,486 4,544 Depreciation and amortisation (1,206) (1,219) (1,082) (1,033) (995) EBIT 1,436 3,059 2,795 3,453 3,549 Finance costs (236) (212) (246) (411) (507) Income tax expense (831) (1,014) (938) (906) (918) Profit after tax from discontinued operations - - - - 11,179 Profit attributable to members of Wesfarmers Limited 407 2,442 2,689 2,261 2,129 CAPITAL AND DIVIDENDS Ordinary shares on issue (number) 000’s as at 30 June 1,126,131 1,123,753 1,143,275 1,157,194 1,157,072 Paid up ordinary capital as at 30 June 21,937 21,844 22,708 23,290 23,286 Full-handed dividend per ordinary share declared (cents) 186 200 200 180 165 Capital management: capital return and fully-handed dividend components - - - - - FINANCIAL PERFORMANCE Earnings per share (weighted average) (cents) 36.2 216.1 234.6 195.9 184.2 Earnings per share growth (83.2%) (7.9%) 18.8% 6.4% 10.5% Return on average ordinary shareholders’ equity (R12) (excluding significant items)4 9.6% 9.9% 10.5% 9.8% 8.4% Fixed charges cover (R12, times) (excluding significant items)4 2.7 3.0 3.2 3.0 2.9 Interest cover (cash basis) (R12, times) (excluding significant items)4 16.8 20.5 15.9 12.2 10.8 FINANCIAL POSITION AS AT 30 JUNE Total assets 40,783 40,402 36,727 43,155 42,312 Total liabilities 17,834 15,621 13,742 17,133 16,685 Net assets 22,949 24,781 22,985 26,022 25,627 Net tangible asset backing per ordinary share $4.45 $8.69 $14.16 $14.69 $14.45 Net debt to equity 31.0% 25.1% 13.1% 20.2% 18.1% Total liabilities/total assets 65.643 62,129 59,023 57,466 57,685 354 286 283 283 395 60,181 57,749 58,080 2,642 4,278 3,877 4,486 4,544 2,642 4,278 3,877 4,486 4,544 1,436 3,059 2,795 3,453 3,549 1,436 3,059 2,795 3,453 3,549 - - - - 11,179 407 2,442 2,689 2,261 2,129 1,126,131 1,123,753 1,143,275 1,157,194 1,157,072 21,937 21,844 22,708 23,290 23,286 186 200 200 180 165 - - - - - 36.2 216.1 234.6 195.9 184.2 - - - - - 9.6% 9.9% 10.5% 9.8% 8.4% 2.7 3.0 3.2 3.0 2.9 16.8 20.5 15.9 12.2 10.8 40,783 40,402 36,727 43,155 42,312 17,834 15,621 13,742 17,133 16,685 22,949 24,781 22,985 26,022 25,627 $4.45 $8.69 $14.16 $14.69 $14.45 31.0% 25.1% 13.1% 20.2% 18.1% 65.643 62,129 59,023 57,466 57,685
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Designated by Clarity Communications.

**Financial calendar**

- **Record date for final dividend**: 30 August 2016
- **Final dividend paid**: 5 October 2016
- **Annual general meeting**: 10 November 2016
- **Half-year end**: 31 December 2016
- **Half-year profit announcement**: February 2017
- **Record date for interim dividend**: February 2017
- **Interim dividend payable**: March 2017
- **Year end**: 30 June 2017

*Timing of events is subject to change.*

**Annual general meeting**

The 35th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia on Thursday, 10 November 2016 at 1:00pm (Perth time).

**Website**

To view the 2016 annual report, shareholder and company information, news announcements, background information on Wesfarmers’ businesses and historical information, visit the Wesfarmers website at www.wesfarmers.com.au