



# 2019

## WESFARMERS ANNUAL REPORT



# Wesfarmers

## ABOUT WESFARMERS

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies. With headquarters in Perth, Wesfarmers' diverse businesses in this year's review cover: home improvement; apparel, general merchandise and office supplies; an Industrials division with businesses in chemicals, energy and fertilisers and industrial safety products. Prior to demerger and divestment, the Group's businesses also included supermarkets, liquor, hotels and convenience retail; and coal. Wesfarmers is one of Australia's largest private sector employers with approximately 105,000 team members and is owned by approximately 484,000 shareholders.

## ABOUT THIS REPORT

This annual report is a summary of Wesfarmers and its subsidiary companies' operations, activities and financial performance and position as at 30 June 2019. 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 2019 unless otherwise stated. All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

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

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

# CONTENTS

---

<b>OVERVIEW</b>	2019 The year in review	2
	Group structure	4
	Primary objective	5
	Performance overview	6
	Chairman's message	8
	Managing Director's report	10
	Leadership Team	12

---

<b>OPERATING AND FINANCIAL REVIEW</b>	Operating and financial review	14
	Bunnings	24
	Kmart Group	30
	– Kmart	32
	– Target	34
	Industrials	38
	– Chemicals, Energy and Fertilisers	40
	– Industrial and Safety	45
	Officeworks	50
	Other activities	56
	Group sustainability performance	57
	Climate-related financial disclosures	64
	Independent Limited Assurance Statement	73

---

<b>GOVERNANCE</b>	Board of directors	74
	Corporate governance overview	76

---

<b>DIRECTORS' REPORT</b>	Directors' report	80
	– Remuneration report	85

---

<b>FINANCIAL STATEMENTS</b>	Financial statements	111
	Notes to the financial statements	117

---

<b>SIGNED REPORTS</b>	Directors' declaration	161
	Independent auditor's report	162

---

<b>SHAREHOLDER AND ASX INFORMATION</b>	Shareholder information	168
	Investor information	169
	Five-year financial history	170
	Corporate directory	171
	Wesfarmers companies	172

# 2019

## THE YEAR IN REVIEW

### FINANCIAL PERFORMANCE

#### REVENUE

**\$27.9b**

**↑ 4.3%**

From continuing operations

#### NET PROFIT AFTER TAX

**\$1.9b**

**↑ 13.5%**

From continuing operations and  
excluding significant items

#### DIVIDENDS PER SHARE

**\$2.78**

Including \$1.00  
special dividend

### CONTRIBUTIONS

#### SALARIES AND WAGES

**\$6.5b**

Includes discontinued operations

#### GOVERNMENT TAXES AND ROYALTIES

**\$1.5b**

Includes discontinued operations

#### COMMUNITY CONTRIBUTIONS

**\$72m**

From continuing operations

**Significant portfolio repositioning**  
**Successful demerger of Coles and divestment**  
**of Kmart Tyre & Auto and interests in Bengalla**  
**and Quadrant Energy**



**Bunnings**  
Continued to grow in both consumer and commercial markets across all major trading regions and product categories

**Chemicals, Energy and Fertilisers**  
Continued earnings growth reflecting strong operational performance and customer demand



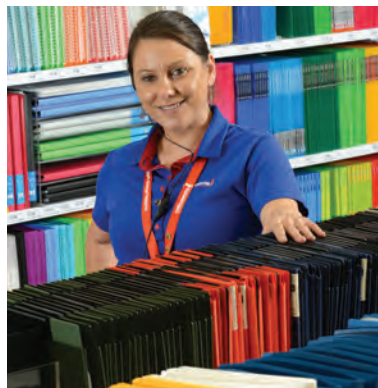
**Kmart Group**  
Reduced earnings but maintaining strong return on capital

Relentless focus on improving the customer experience both in-store and online

Investment and focus on accelerating divisional digital and data capabilities

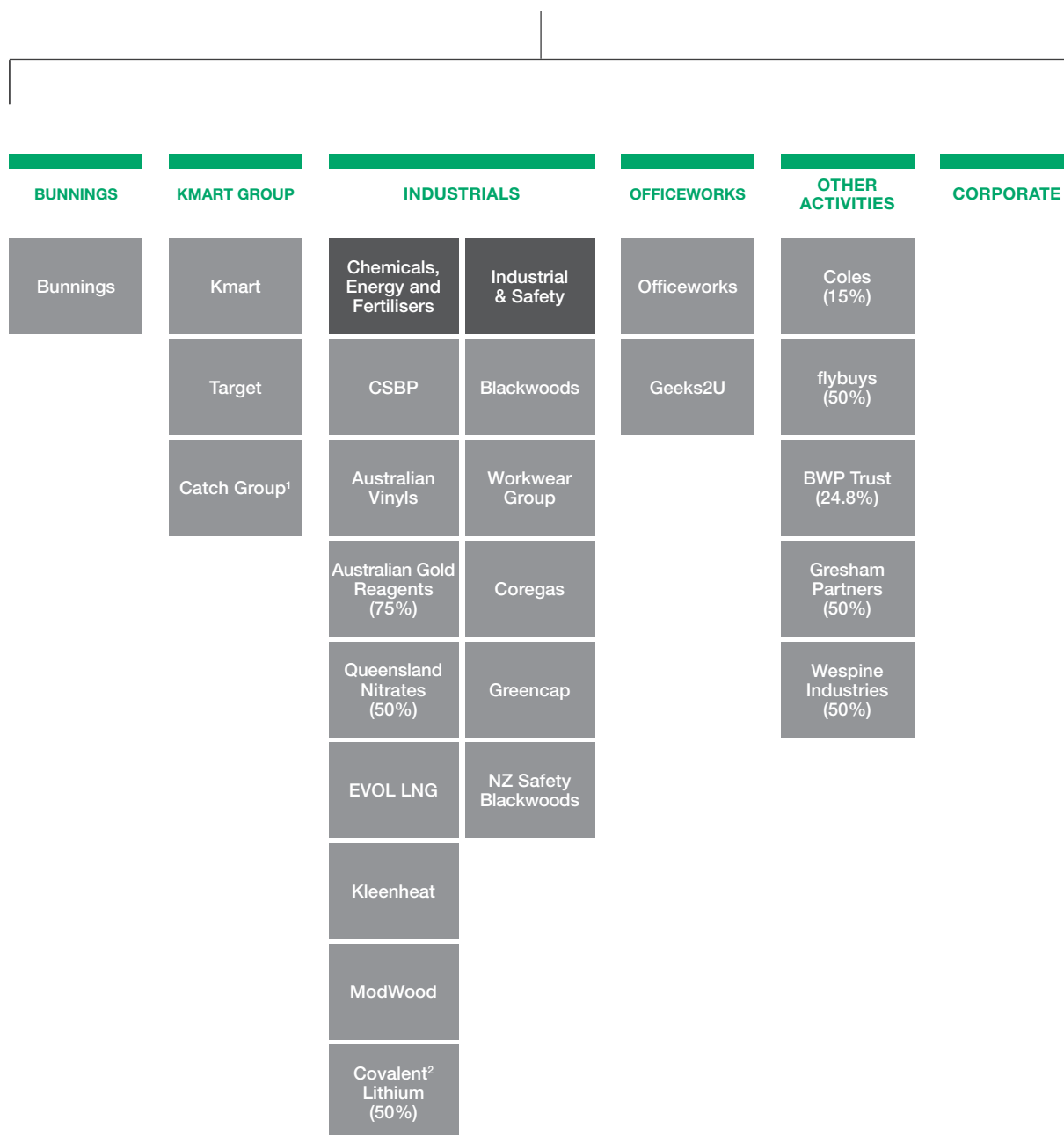
**1.5%**  
Reduction in total recordable injury frequency rate to 13.5 in continuing operations

**Ethical sourcing**  
Improved transparency in our supply chain with 3,773 factories and supplier sites in our audit program



**Officeworks**  
Continued strong sales growth in stores and online

# GROUP STRUCTURE



<sup>1</sup> In August 2019, Wesfarmers completed the acquisition of Catch Group Holdings.

<sup>2</sup> In September 2019, Wesfarmers completed the acquisition of Kidman Resources and its 50 per cent interest in the Covalent Lithium joint venture.



**Wesfarmers**

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

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



---

anticipating the needs of our customers and delivering competitive goods and services



---

looking after our team members and providing a safe, fulfilling work environment



---

engaging fairly with our suppliers, and sourcing ethically and sustainably



---

supporting the communities in which we operate



---

taking care of the environment

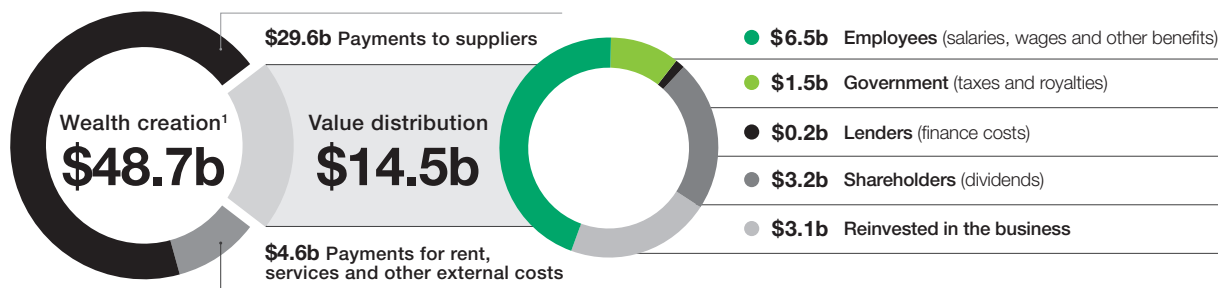


---

acting with integrity and honesty in all of our dealings

# PERFORMANCE OVERVIEW

## CREATING WEALTH AND ADDING VALUE



<sup>1</sup> Includes discontinued operations.

### Group performance

Key financial data		2019	2018
<b>Results from continuing operations<sup>1</sup></b>			
Revenue	\$m	27,920	26,763
Earnings before interest, tax, depreciation and amortisation	\$m	3,511	2,865
Earnings before interest, tax, depreciation and amortisation (excluding significant items) <sup>2</sup>	\$m	3,511	3,171
Earnings before interest and tax	\$m	2,974	2,344
Earnings before interest and tax (excluding significant items) <sup>2</sup>	\$m	2,974	2,650
Net profit after tax	\$m	1,940	1,409
Net profit after tax (excluding significant items) <sup>2</sup>	\$m	1,940	1,709
Basic earnings per share	cents	171.5	124.6
Basic earnings per share (excluding significant items) <sup>2</sup>	cents	171.5	151.1
<b>Results including discontinued operations<sup>1</sup></b>			
Earnings before interest and tax	\$m	6,818	2,796
Earnings before interest and tax (excluding significant items) <sup>3,4</sup>	\$m	3,561	4,288
Net profit after tax	\$m	5,510	1,197
Net profit after tax (excluding significant items) <sup>3,4</sup>	\$m	2,339	2,772
Basic earnings per share	cents	487.2	105.8
Basic earnings per share (excluding significant items) <sup>3,4</sup>	cents	206.8	245.1
Return on average shareholders' equity (R12) (excluding significant items) <sup>3,4</sup>	%	19.2	11.7
<b>Cash flow and dividends (including discontinued operations)</b>			
Operating cash flows	\$m	2,718	4,080
Net capital expenditure on property, plant and equipment and intangibles	\$m	827	1,209
Free cash flows	\$m	2,963	3,422
Equity dividends paid	\$m	3,628	2,528
Operating cash flow per share	cents	240.3	360.1
Free cash flow per share	cents	262.0	302.0
Dividends per share (declared)	cents	278.0	223.0
<b>Balance sheet and gearing</b>			
Total assets	\$m	18,333	36,933
Net debt	\$m	2,500	3,933
Shareholders' equity	\$m	9,971	22,754
Fixed charges cover (R12) (excluding significant items)	times	3.2	3.0
Interest cover (R12) (cash basis) (excluding significant items)	times	30.6	30.4
Gearing (net debt to equity)	%	25.1	17.3

<sup>1</sup> Discontinued operations relate to Coles, Curragh, Bengalla, KTAS, Quadrant Energy and BUKI.

<sup>2</sup> Significant items for continuing operations for 2018 relate to Target's non-cash impairment of \$306 million pre-tax (\$300 million post-tax).

<sup>3</sup> 2018 excludes the following significant items pre-tax (post-tax): \$931 million (\$1,023 million) of writedowns and store closure provisions in BUKI, a \$375 million (\$375 million) loss on disposal of BUKI, \$306 million (\$300 million) of non-cash impairments in Target and a \$120 million (\$123 million) gain on disposal of Curragh.

<sup>4</sup> 2019 excludes the following significant items pre-tax (post-tax): \$2,319 million (\$2,264 million) gain on demerger of Coles, \$679 million (\$645 million) gain on disposal of Bengalla, \$267 million (\$244 million) gain on disposal of KTAS, \$138 million (\$120 million) gain on disposal of Quadrant Energy and \$146 million (\$102 million) provision for Coles supply chain automation.



Actions taken during the year to reposition the portfolio have significantly strengthened the balance sheet and enabled the delivery of improved shareholder returns.

During this period of change, our operating divisions continued to generate solid returns, while remaining focused on long-term value creation.

## Divisional performance

<b>Bunnings Australia and New Zealand</b>		2019	2018
Revenue (\$m)	\$m	13,166	12,544
Earnings before interest and tax (\$m)	\$m	1,626	1,504
Segment assets (\$m)	\$m	5,118	5,025
Segment liabilities (\$m)	\$m	1,983	1,875
Capital employed (\$m) R12	\$m	3,220	3,045
Return on capital employed (%) R12	%	50.5	49.4
Capital expenditure (\$m)	\$m	470	497

<b>Kmart Group (including KTAS)</b>		2019	2018 <sup>1</sup>
Revenue (\$m)	\$m	8,713	8,837
Earnings before interest and tax (\$m)	\$m	550	660
Segment assets (\$m)	\$m	3,755	3,617
Segment liabilities (\$m)	\$m	1,476	1,482
Capital employed (\$m) R12	\$m	1,872	2,013
Return on capital employed (%) R12	%	29.4	32.8
Capital expenditure (\$m)	\$m	201	293

<sup>1</sup> The 2018 earnings before interest and tax for Kmart Group exclude the pre-tax non-cash impairment of \$306 million for Target.

<b>Industrials<sup>1</sup> (including Quadrant Energy)</b>		2019	2018
Revenue (\$m)	\$m	3,830	3,580
Earnings before interest and tax (\$m)	\$m	524	508
Segment assets (\$m)	\$m	3,315	3,237
Segment liabilities (\$m)	\$m	740	690
Capital employed (\$m) R12	\$m	2,833	2,816
Return on capital employed (%) R12	%	18.5	18.0
Capital expenditure (\$m)	\$m	141	110

<sup>1</sup> Industrials has been restated to exclude Resources.

<b>Officeworks</b>		2019	2018
Revenue (\$m)	\$m	2,314	2,142
Earnings before interest and tax (\$m)	\$m	167	156
Segment assets (\$m)	\$m	1,531	1,452
Segment liabilities (\$m)	\$m	559	532
Capital employed (\$m) R12	\$m	980	939
Return on capital employed (%) R12	%	17.0	16.6
Capital expenditure (\$m)	\$m	42	45

## CHAIRMAN'S MESSAGE

The 2019 financial year was one of continued strong profit contributions by Wesfarmers' activities coupled with a major change in the makeup of the company's business portfolio.

The repositioning of the Group's portfolio included the demerger of the Coles business from the Group and the sale of our interest in the Bengalla coal mine, the Kmart Tyre and Auto Service (KTAS) business and of the company's investment in Quadrant Energy.

On a statutory basis, net profit after tax rose \$4.3 billion to \$5.5 billion. Of this total, \$3.2 billion was attributable to significant items arising from the Coles demerger and the profits on sale of Bengalla, KTAS and Quadrant Energy. Net profit from continuing operations (excluding significant items in the prior year) rose 13.5 per cent from \$1.7 billion to \$1.9 billion. This increase resulted from the higher contributions from Bunnings, Officeworks and Industrials and other activities, including our 15 per cent share in Coles Group, more than offsetting a fall in the profits of the Kmart Group.

The Directors declared a fully-franked final dividend of 78 cents per share, bringing the full-year ordinary dividend to \$1.78 per share, plus a special dividend paid in April 2019 of \$1.00 per share, for total fully-franked dividends for the year of \$2.78 per share.

The portfolio changes during the year reflected Wesfarmers' focus on enhancing shareholder returns. It was considered a separately listed Coles would provide greater shareholder value going forward than the value attributed by the market to the combined Group, owing to the different growth outlooks. Wesfarmers shareholders received shares in Coles amounting to 85 per cent of the company, with Wesfarmers retaining 15 per cent. The shareholdings in KTAS, Bengalla and Quadrant Energy were sold at prices which represented a strong return for Wesfarmers.

During the year, Wesfarmers announced its intention to acquire Kidman Resources, which owns 50 per cent of a major lithium deposit and project in Western Australia, a mineral associated with the rise of electric vehicles. The acquisition was completed in September 2019, after Kidman Resources shareholders supported the proposed scheme of arrangement. Our plan is to develop a lithium hydroxide plant in Kwinana, Western Australia, near our existing chemical operations, in conjunction with our joint venture partner. In August 2019, Wesfarmers also completed the acquisition of Catch Group, an established online retailer.

The Board considers the Group to be well positioned for future growth in its existing businesses, with the balance sheet capacity to expand its operations and move into new fields where the potential returns justify investment.

During 2019, there has been continued debate and commentary in Australia and around the world about corporate governance, the role of companies, sustainability and the need for companies to innovate and invest. There does seem to be some confusion about aspects of these debates that are worth addressing here.



**Above:** Michael Chaney in the Wesfarmers corporate office with The Wesfarmers Collection of Australian Art, Perth

Firstly, various commentators have made the suggestion that the role of companies is broader than just shareholder profit maximisation. In this regard, it was interesting to read recently of a change of emphasis in the annual declaration of 'The Purpose of a Company' by the USA Business Roundtable, the American equivalent of the Business Council of Australia. The declaration, to which 181 large company CEOs had signed up at the time of writing, stated that the CEOs pledged to:

- deliver value to our customers,
- invest in our employees,
- deal fairly and ethically with our suppliers,
- support the communities in which we work, and
- generate long-term value for our shareholders.

It seems rather strange to list shareholders last in such a declaration because the reason listed companies exist is to provide returns to their shareholders; but the philosophy behind the declarations would not come as a great revelation to followers of Wesfarmers over the years. Since we listed on the stock exchange in 1984, our annual report has made very clear the necessity of considering all stakeholders. As the reader will see again on page 5 of this year's report, our aim of providing satisfactory returns to shareholders goes hand-in-hand with a focus on the interests of employees, customers, suppliers, the environment and the communities in which our diverse set of businesses operate; and on ethical and honest behaviour. If a company does not maintain that focus, customers will desert it, employees will leave and potential partners will decline to do business with it.

Over the last year, Wesfarmers has been named as one of the most generous supporters of the community. In a ranking of community investment as a proportion of profit, Wesfarmers was ranked first by a long way among ASX-listed companies. In a survey published in 2018 by the US business organisation, Fortune, called 'Doing Well by Doing Good', Wesfarmers was ranked thirteenth in the world and was the only Australian company in that list.

We do not think it is a coincidence that we have maintained a strong focus on the interests of our other stakeholders and have been one of the most successful companies on the stock exchange. The evidence for the last point is that an investment in Wesfarmers at the time of its listing in 1984 has provided shareholder returns more than 10 times greater than an investment in the ASX50.

The second issue to address is commentary that Australian companies focus too much on dividends and capital returns at the expense of investment in the businesses. This seems to us to indicate a misunderstanding of corporate finance.

The misunderstanding is that a company is limited by capital rather than by investment opportunities; and that there is a trade-off between dividends and capital investment. Neither is true.

For large companies in particular, capital is effectively unlimited, except perhaps during rare times of crisis. At almost all times, debt and equity markets are only too willing to provide capital for good investments. The challenge is to find them.

The reason Australian companies maintain higher dividend payout ratios than companies in other countries is straightforward: we have dividend imputation. When franking credits build up, the responsible company returns them to its shareholders. They are of no value to the company but of great value to shareholders. If the

resulting distribution would result in available cash being below desired levels, the company can introduce a dividend reinvestment plan which allows it to raise equity capital at an immaterial or zero discount.

The issue of making capital investments is an entirely separate one. At Wesfarmers, our investment horizon is the long term. Since capital is available as debt and equity, all investments that suit the company and that are assessed to provide an acceptable risk-adjusted return over the long term are made. As stated above, however, good investments are few and far between. The question of their attractiveness depends on potential revenues being high enough to justify capital and operating costs. All three are affected by the capability of the company – management and negotiating skills, experience, and so on – but also by issues outside management's control – the outlook for the Australian and world economies, volatile commodity prices and many other issues influenced or controlled by governments like corporate tax rates, investment allowances, the exchange rate, interest rates and workplace relations settings. The high rate of corporate tax and modest investment allowances in Australia are relevant issues here.

For the last 35 years, Wesfarmers has maintained at its corporate office an uncommonly strong group of business development professionals, currently numbering around 25, whose job is to find and evaluate new investment opportunities; and there are many more such people within our operating divisions. The fact that the occasions on which investments actually come to fruition are infrequent provides an illustration of the challenge of finding acceptable ones; but one thing is certain: it has nothing at all to do with dividend policy.

I take this opportunity, on behalf of my fellow directors, to thank our outgoing director, Tony Howarth, for his efforts on behalf of the company. Tony's wide experience and wise counsel have proved invaluable. He has chaired the Audit and Risk Committee with distinction during a period when what is normally a complex task, given Wesfarmers' conglomerate status, has been even more complex due to corporate restructurings. He retires with our sincere gratitude and best wishes. We welcome Mike Roche and Sharon Warburton to the Board and look forward to their contribution as chairs of the Remuneration, and Audit and Risk Committees respectively; and I thank the other members of our Board for their continued dedication to Wesfarmers and its objectives.

I also take this opportunity on behalf of the Board to thank Linda Kenyon, who retired as our Company Secretary at the end of the 2019 financial year. As Company Secretary from 2002, Linda provided steadfast guidance to the Board, ensuring that our governance aligned with leading market practice and the rising expectations of our many important stakeholders. We wish Linda well in her retirement after more than three decades of service to Wesfarmers.

In closing, I pay tribute to our hard-working team, led by Rob Scott. We look forward to overseeing their efforts to provide our shareholders with satisfactory returns.



**MICHAEL CHANEY AO**

— Chairman

# MANAGING DIRECTOR'S REPORT

It is my pleasure to provide the 2019 financial year update. This was a year of portfolio renewal and, pleasingly, also a year in which we recorded strong financial results and improved shareholder returns.

These outcomes were made possible by the Wesfarmers model and our commitment to our core objective to deliver satisfactory returns to shareholders. The Wesfarmers operating model enables us to evolve the portfolio, adjust our capital allocation and create the settings for our divisions to be the best they can be in their respective markets.

The successful repositioning of our portfolio has increased the Group's exposure to businesses that are both resilient and with good growth prospects over the long term, while also strengthening our balance sheet. Importantly, during this period of change, our operating divisions continued to generate solid returns, while remaining focused on long-term value creation.

The Group's continuing businesses generated NPAT growth of 13.5 per cent (excluding significant items in the prior year), to \$1.9 billion. Adjusting for the contribution from our 15 per cent stake in Coles, the increase in NPAT was 8.3 per cent. The performance of Bunnings, Wesfarmers Chemicals, Energy and Fertilisers business (WesCEF), and Officeworks was particularly pleasing.

Bunnings' solid result demonstrates the benefits of a diverse customer base and product range, a relentless focus on delivering better experiences for customers and team members and a focus on business efficiency. Throughout the year, Bunnings continued to broaden its range and offer to customers and achieved strong growth in the trade and commercial sector. I am happy to report that Bunnings also made considerable progress expanding its digital offer.

For Kmart Group, trading conditions moderated during the year, and performance was below our expectations. Nonetheless, Kmart remains one of Australia's most successful retailers and continues to invest in its market leading product design and sourcing capabilities together with compelling prices which will be important over the long term. Target's trading performance highlights the need for ongoing repositioning to further elevate quality and style, expand its digital capabilities, and differentiate the business from Kmart and other competitors.

Officeworks achieved another strong year of sales and earnings growth as its omni-channel approach continued to resonate with customers, delivering strong sales growth in stores and online. This performance was underpinned by investment in new and expanded product ranges, online enhancements and improvements to the click and collect customer experience.

Within our Industrials division, WesCEF delivered another strong result. Earnings growth was achieved through solid demand from key customers and strong operational performance as well as the disciplined capital investments made over time in these businesses to improve capacity and productivity. By contrast, the performance of the Industrial and Safety businesses was disappointing, reflecting the impact on Blackwoods' earnings from ongoing investment in customer service and implementation of a new enterprise resource planning



**Above:** Rob Scott in the Wesfarmers corporate office with The Wesfarmers Collection of Australian Art, Perth

(ERP) system. For Blackwoods, the business is focused on deepening customer engagement and aligning core processes and systems, enabled by the new ERP, to deliver satisfactory returns on capital.

As already noted, during the year, we significantly repositioned the Wesfarmers portfolio, to increase our exposure to businesses that are cash generative and have stronger growth prospects over the long term.

In November 2018, we completed the demerger of Coles, retaining a 15 per cent shareholding. This was the largest demerger in Australian corporate history. Our retained shareholding in Coles supports our 50 per cent interest, alongside Coles, in flybuys, which we expect to provide opportunities to leverage data and digital capabilities for the benefit of customers. For many years, the Coles, KTAS and Bengalla businesses delivered significant value to Wesfarmers and our shareholders. I sincerely thank the teams in each of these businesses for their many years of service and wish them all the best for the future.

Throughout the year, we completed or announced three transactions. In February 2019, Geeks2U was acquired by Officeworks, expanding the division's service offering. In August 2019, we completed the acquisition of Catch Group, bringing highly complementary skills in digital retail and fulfilment and a growing e-commerce marketplace to our Group. In September 2019, our Industrials division acquired Kidman Resources. The acquisition will allow us to leverage our chemical processing capabilities into the growing market for high quality lithium hydroxide. While relatively small in the context of the broader Group, each is a good example of our disciplined approach to capital allocation and is consistent with our objective of deploying capital where we expect to generate attractive returns to shareholders over time.

## People

Wesfarmers is one of the largest private sector employers in Australia with around 105,000 team members across our businesses. Every day I am impressed by their commitment to our primary objective, and the strong performance of the Group reflects this dedication. I am pleased that safety performance in our continuing operations has improved again, with the total recordable injury frequency rate for the Group 1.5 per cent lower than last year.

Another highlight for the year was our progress towards gender balance, which we define as a minimum of 40 per cent of either gender. In addition to improvements in senior management and general manager levels, the Wesfarmers Leadership Team is now gender balanced for the first time in Wesfarmers' history.

In January 2019, Sarah Hunter succeeded Mark Ward as Managing Director of Officeworks. Sarah joined from Coles where she served as the Demerger Program Director, overseeing the Coles' team efforts in the demerger. Before that, she played an important role in the turnaround at Coles, with a range of leadership positions spanning operations, finance and commercial.

I join our Chairman in thanking Linda Kenyon who retired as our Company Secretary at the end of the 2019 financial year. In addition to providing great guidance and support to the Board, Linda was a valued member of the Leadership Team and made a huge contribution to Wesfarmers over many years. I was delighted to appoint Aleksandra Spaseska as Executive General Manager, Company Secretariat and Group Risk in June 2019, after more than 10 years working across various roles within the Group.

## Outlook

The repositioning of our portfolio this year leaves Wesfarmers better placed to achieve long-term sustainable growth, with a stable of leading, resilient businesses and a strong balance sheet.

Across each of our divisions, our teams are relentlessly focused on customers, maintaining price leadership and improving quality, service and convenience. In the past year, we have made good progress building capabilities and investing in the platforms to support further growth. Each of our divisions has made substantial progress in the data and digital area and our investment in the Advanced Analytics Centre, together with the recent acquisition of Catch Group, allows us to accelerate our digital and e-commerce initiatives in the years ahead.

With a strong balance sheet, we are well placed to continue to invest in our existing businesses. As always, we are focused on the disciplined deployment of capital to drive continued growth and returns. We will also seek out other opportunities that benefit from our capabilities and assets or which are adjacent to our existing businesses.

Wesfarmers' objective of delivering a satisfactory return to shareholders can only be achieved over the long term if we operate in a sustainable manner and this involves creating value for all our stakeholders including team members, customers, suppliers and the communities in which we operate. Our commitment to acting with integrity and honesty drives, among other things, our Group-wide focus on the safety of our team members, our commitment to ethical sourcing, our initiatives to support increased Indigenous employment, our focus on the Group's environmental footprint and our longstanding, substantial investment in local community organisations.

In conclusion, I extend my thanks to our dedicated and hard-working team members across the Group without whom we could not have achieved what we did in the past year. Wesfarmers' future is exciting and I look forward to creating it with you.



**ROB SCOTT**

— Managing Director

# LEADERSHIP TEAM



## ROB SCOTT

MANAGING DIRECTOR  
WESFARMERS

Rob was appointed Managing Director of Wesfarmers in November 2017 following his appointment as Deputy Chief Executive Officer in February 2017. Rob joined Wesfarmers in 1993, before moving into investment banking, where he held various roles in Australia and Asia. He rejoined Wesfarmers in Business Development in 2004, was appointed Managing Director of Wesfarmers Insurance in 2007 and then Finance Director of Coles in 2013. Rob was appointed Managing Director, Financial Services in 2014 and then Managing Director of the Wesfarmers Industrials division from August 2015 until August 2017. Rob holds a Master of Applied Finance degree from Macquarie University and a Bachelor of Commerce degree from the Australian National University. He has a Graduate Diploma in Applied Finance and Investments, is a qualified Chartered Accountant and has completed the Advanced Management Program at Harvard Business School. Rob was appointed as Chairman of the flybuys joint venture with Coles Group Limited in December 2018.



## ANTHONY GIANOTTI

CHIEF FINANCIAL OFFICER  
WESFARMERS

Anthony was appointed Chief Financial Officer of Wesfarmers in November 2017 following his appointment as Deputy Chief Financial Officer in July 2017. Anthony joined Wesfarmers in 2004 in Business Development and in 2005 became Manager, Investor Relations and Business Projects. In 2006, he was appointed Head of Business Development and Strategy of Wesfarmers Insurance, then Finance Director in 2009 and Managing Director in 2013. In August 2015, he was appointed Finance Director of the Wesfarmers Industrials division and its Deputy Managing Director in February 2017. Anthony holds a Bachelor of Commerce from Curtin University, a Graduate Diploma in Applied Finance and Investments, is a qualified Chartered Accountant and has completed the Advanced Management Program at Harvard Business School.



## MAYA VANDEN DRIESEN

GROUP GENERAL COUNSEL  
WESFARMERS

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

Maya is a Graduate of the Australian Institute of Company Directors and she sits on the Executive Committee of the GC 100, representing the General Counsel of Australia's top 100 ASX-listed companies within the Association of Corporate Counsel (Australia).

Maya is a member of the UWA Law School's Advisory Board and she has been a director for the Committee for Perth since January 2016.



## SARAH HUNTER

MANAGING DIRECTOR  
OFFICEWORKS

Sarah was appointed Managing Director, Officeworks in January 2019. Prior to this, Sarah was Demerger Program Director at Coles, overseeing the successful implementation of the demerger of the business from Wesfarmers in November 2018. Sarah joined Coles in 2010, and held various senior positions across finance, strategy, convenience, liquor and supermarket operations. Before joining Coles, Sarah worked in the United Kingdom for more than 10 years, holding a number of senior commercial positions in banking and airports.

Sarah holds a Bachelor of Commerce from Bond University, a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia and a Masters of Commerce from the University of NSW. In addition, she is a Fellow of the Association of Chartered Certified Accountants, a Fellow of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors.



## ED BOSTOCK

MANAGING DIRECTOR  
BUSINESS DEVELOPMENT  
WESFARMERS

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



## LINDA KENYON

COMPANY SECRETARY  
WESFARMERS\*

Linda was appointed Company Secretary of Wesfarmers in April 2002 and retired from this role on 30 June 2019. During her tenure, Linda was also company secretary of a number of Wesfarmers Group subsidiaries. Linda joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of the responsible entity for the listed BWP Trust (formerly Bunnings Warehouse Property Trust). She is a Fellow of the Governance Institute of Australia.

\* Linda retired from this role on 30 June 2019.



### MICHAEL SCHNEIDER

MANAGING DIRECTOR  
BUNNINGS GROUP

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



### IAN BAILEY

MANAGING DIRECTOR  
K MART GROUP

Ian was appointed Managing Director, Kmart in February 2016 and assumed the responsibility for leading the Kmart Group division (formerly the Department Stores division) from 1 November 2018. Prior to this, Ian was Kmart's Chief Operating Officer where he was instrumental in Kmart's turnaround. Ian's experience, both national and international, covers a number of industries including retail, professional services, consulting, technology and healthcare in positions that include general management, sales, business development and project management. Ian holds a Bachelor of Science degree in Civil Engineering and has completed the Advanced Management Program at Harvard Business School.



### DAVID BAXBY

MANAGING DIRECTOR  
WESFARMERS INDUSTRIALS

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



### ALEKSANDRA SPASESKA

EXECUTIVE GENERAL MANAGER  
COMPANY SECRETARIAT  
& GROUP RISK  
WESFARMERS

Aleksandra was appointed Executive General Manager, Company Secretariat & Group Risk in June 2019. In her role, Aleksandra is the Company Secretary of Wesfarmers\* and a number of subsidiary companies, and has responsibility for the coordination of risk management across the Wesfarmers Group. Prior to this, Aleksandra was General Manager, Investor Relations. Aleksandra joined Wesfarmers in April 2008 in Business Development. She moved to Target in 2013 where she held general management positions in property and operations.

Aleksandra holds a Bachelor of Commerce (Honours) and a Doctor of Philosophy from The University of Western Australia. She is a CFA Charterholder and a Fellow of the Governance Institute of Australia.

\* Aleksandra commenced in this role on 1 July 2019.



### NAOMI FLUTTER

EXECUTIVE GENERAL MANAGER  
CORPORATE AFFAIRS  
WESFARMERS

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



### JENNY BRYANT

CHIEF HUMAN RESOURCES OFFICER  
WESFARMERS

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

# OPERATING AND FINANCIAL REVIEW



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 Chief Financial Officer, and is guided by a Group-wide operating cycle and governance framework.

This operating and financial review sets out the Group's objective, values, growth enablers and strategies. It also outlines a review of operational performance for the 2019 financial year, as well as summarising its risks and prospects. The 2019 financial performance is also outlined for each division, together with its competitive environment, strategies, risks and prospects. This year, I am pleased that we have expanded our sustainability disclosures in this annual report and will shortly launch a new, dynamic sustainability portal - together replacing our annual sustainability report.

The review should be read in conjunction with the financial statements, which are presented on pages 111 to 160 of this annual report.

A handwritten signature in black ink, appearing to be 'AG', written over a white background.

**ANTHONY GIANOTTI**

— Chief Financial Officer

**Above:** Anthony Gianotti in the Wesfarmers corporate office with The Wesfarmers Collection of Australian Art, Perth

Seen here: JUDY WATSON | Stake | 2010 | pigment, acrylic, acquarelle and chinagraph pencil | 209cm x 195cm ©Judy Watson/ Copyright Agency 2018



## 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 105,000 team members and 484,000 shareholders.

Wesfarmers' diverse businesses in this year's review cover: home improvement; apparel, general merchandise and office supplies; an Industrials division with businesses in chemicals, energy and fertilisers and industrial safety products. Prior to demerger and divestment, the Group's businesses also included supermarkets, liquor, hotels and convenience retail; and coal. Wesfarmers' businesses predominantly operate in Australia and New Zealand with the portfolio including some of these countries' leading brands.

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

### OBJECTIVE

# TO DELIVER A SATISFACTORY RETURN TO SHAREHOLDERS

### CORE VALUES

**Integrity**

**Openness**

**Accountability**

**Entrepreneurial spirit**

### GROWTH ENABLERS

**Outstanding people**

**Commercial excellence**

**Empowering culture**

**Innovation**

**Social responsibility**

**Robust financial capacity**

### VALUE-CREATING STRATEGIES

**Strengthen existing businesses through operating excellence and satisfying customer needs**

**Secure growth opportunities through entrepreneurial initiatives**

**Renew the portfolio through value-adding transactions**

**Ensure sustainability through responsible long-term management**

## 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 the long term. We measure our performance by comparing Wesfarmers' TSR against that achieved by the broader Australian market.

### Performance measures

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

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

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

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

<sup>1</sup> ROC = Earnings before interest and tax / Capital employed (which is defined as working capital, fixed assets and investments less provisions and other liabilities).

## APPROACH TO DELIVERING SATISFACTORY RETURNS TO SHAREHOLDERS

The Group seeks to:

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

### CASH FLOW GENERATION

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

In generating cash flow and earnings, the Group seeks to employ excellent management teams who are empowered to drive long-term earnings growth. This is achieved through deploying best practice principles in operational execution and maintaining a long-term focus in regards to strategy and results.

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

### BALANCE SHEET STRENGTH

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

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

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

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

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

### DELIVERY OF LONG-TERM SHAREHOLDER RETURNS

Improve returns on invested capital
Efficient distribution of franking credits to shareholders
Effective capital management

With a focus on generating strong cash flows and maintaining balance sheet strength, the Group aims to deliver satisfactory returns to shareholders through improving returns on invested capital. Recognising the value of franking credits to shareholders, Wesfarmers also seeks to distribute these to shareholders. Depending upon circumstances, capital management decisions may also be taken from time to time where this activity is in shareholders' interests.

## APPROACH TO CAPITAL ALLOCATION

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

<b>EXISTING PORTFOLIO</b>	<ul style="list-style-type: none"> <li>• deploying capital in its existing portfolio to build businesses with unique capabilities and platforms in expanding markets</li> </ul>
<b>ADJACENT OPPORTUNITIES</b>	<ul style="list-style-type: none"> <li>• leveraging existing assets and capabilities to take advantage of adjacent opportunities</li> </ul>
<b>VALUE-ACCRETIVE TRANSACTIONS</b>	<ul style="list-style-type: none"> <li>• disciplined investments in opportunistic and value-accretive transactions through various ownership models (e.g. minority interest, full control, partnerships)</li> </ul>

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

## OUR VALUE-CREATING STRATEGIES

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

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

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

At a divisional level, detailed strategies are developed specific to the opportunities to improve each of our individual businesses. Divisional strategies are discussed within their respective summaries, starting on page 24.

## GROWTH ENABLERS

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

### Outstanding people

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

### Commercial excellence

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

### Empowering culture

Wesfarmers recognises that an empowering culture is critical to engendering accountability for delivering the results agreed upon

through the Group's corporate planning framework. Wesfarmers uses stretch targets in objective setting and encourages team members to be proactive in driving the creation of value in their businesses.

### Innovation

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

### Social responsibility

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

### Robust financial capacity

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

## CORE VALUES

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

## OPERATING EXCELLENCE

Our strategies	Our achievements	Our focus for the coming years
Strengthen existing businesses through operating excellence and satisfying customer needs	<ul style="list-style-type: none"> <li>Continued improvements in our customer offers, including reinvesting in value to drive business growth and improving merchandise ranges.</li> <li>Provided even greater value for customers by lowering prices following productivity gains.</li> <li>Focused on production plant efficiency and maintaining and growing customer relationships in our industrial businesses.</li> <li>Made further operational productivity improvements and reduced costs across our businesses.</li> <li>Further investment in digital offer across all divisions.</li> </ul>	<ul style="list-style-type: none"> <li><b>Bunnings</b> will maintain its focus on driving long-term value creation by delivering more customer value, creating better experiences for customers and the wider community, investing in new and existing stores, delivering greater digital reach and strengthening the core of the business. The business will also deepen its engagement with commercial customers and continue its merchandise innovation.</li> <li><b>Kmart</b> will remain focused on its strategy of creating a great place to shop that is simple to run and delivering better products at even lower prices. Maintaining price leadership in the market, continued enhancement in product range, relentless pursuit of lowest cost and the expansion of digital and data capabilities will remain key priorities for the business.</li> <li><b>Target</b> will accelerate its plans for a repositioned and more focused customer proposition, which aims to inspire customers to live better by providing great style and quality at an affordable price. Target will continue to invest in its online capabilities and in creating an easy customer shopping experience.</li> <li><b>WesCEF</b> will continue to focus on maintaining strong operational performance while delivering new and innovative products to its customers.</li> <li><b>Industrial and Safety</b> continues to work on improving business performance through improving the offer to customers and investing in its core systems.</li> <li><b>Officeworks</b> will continue to drive growth and improve productivity by executing its refreshed strategy. Key focus areas include the continued improvement of the every-channel offer and growing Geeks2U services to customers.</li> </ul>



## ENTREPRENEURIAL INITIATIVE

### Our strategies

#### Secure growth opportunities through entrepreneurial initiative

### Our achievements

- Further optimised and invested in our retail store networks.
- Continued to innovate our product ranges and categories across all businesses, providing value and quality to customers.
- Further improved and extended channel and brand reach in the retail portfolio, focusing on store format innovation and the expansion of online offers.
- Expanded customer programs, particularly the PowerPass offer at Bunnings and the flybuys loyalty program.
- Continued to better leverage data, supported by continued investment in the Advanced Analytics Centre.
- Acquisition of Geeks2U to expand services offering in Officeworks.
- Further development of Coregas' specialty gas offer to health sector.

### Our focus for the coming years

- Continue to reinforce entrepreneurial initiative as a growth enabler.
- Continue to rigorously apply financial disciplines and financial evaluation methodologies.
- Increase and encourage collaboration across divisions, where appropriate.
- Continue to invest data capabilities to embed the use of advanced analytics in everyday decision making.



## RENEWING THE PORTFOLIO

### Our strategies

#### Renew the portfolio through value-adding transactions

### Our achievements

- Successfully demerged Coles, setting the company up for growth as a standalone entity.
- Divested our interest in the Bengalla coal mine, realising a very successful investment for shareholders over the period of Wesfarmers ownership since the initial interest was acquired in 1991.
- Divested Kmart Tyre and Auto, crystallising the significant value created under the period of Wesfarmers ownership.
- Divested Quadrant Energy, which generated good returns for shareholders through a flexible ownership structure.
- Acquired Catch Group, an exciting adjacent opportunity for Wesfarmers and the Kmart Group which will support the development of Kmart and Target's omni-channel and fulfilment capabilities.
- Acquired Kidman Resources, and with it a 50 per cent interest in Mt Holland, a globally significant lithium deposit. With its joint venture partner Wesfarmers plans to construct a mine, concentrator and lithium hydroxide refinery, drawing on WesCEF's deep expertise in chemicals processing.

### Our focus for the coming years

- Maintain a strong focus and capability to evaluate growth opportunities where long-term shareholder value can be created.
- Consider innovative investment approaches to complement traditional growth models and provide future optionality.
- Ensure a patient, disciplined and broad scanning approach to investment opportunities is maintained.
- Apply rigorous due diligence and post-acquisition integration processes.
- Maintain a strong balance sheet to enable the Group to act opportunistically.
- Consider opportunities to divest assets either in full or in part, where long-term shareholder value can be created.



## OPERATING SUSTAINABLY

### Our strategies

#### Ensure sustainability through responsible long-term management

### Our achievements

- Further strengthened the Group's balance sheet.
- Continued to improve our safety performance.
- Maintained a very strong focus on the development and management of our teams.
- Continued to promote diversity in our workplaces, with over six per cent more self-identified Indigenous team members this year, in our continuing businesses.
- Advanced our executive development, retention and succession programs.
- Continued to actively contribute to the communities in which we operate. In the 2019 financial year, we made community contributions, both direct and indirect, of more than \$72 million.
- Maintained strong focus on ethical sourcing program to increase supply chain transparency and identify, report, address and ultimately eliminate the exploitation of vulnerable people in our supply chain.

### Our focus for the coming years

- Continue to foster a more inclusive work environment, with particular focus on diversity (gender, age and ethnicity).
- Increase the number of women in leadership positions across the Group.
- Continue to look after the health, safety and development of our people.
- Minimise our environmental footprint.
- Contribute positively to the communities in which we operate.
- Provide appropriate governance structures to safeguard future value creation.
- Continue to source products in a responsible manner while working with suppliers to improve their social and environmental practices.
- Continue to refine our climate change strategy.

## YEAR IN REVIEW

### Overview

The Group reported a net profit after tax (NPAT) of \$5,510 million for the full-year ended 30 June 2019. The reported profit includes post-tax significant items of \$3,171 million relating to discontinued operations including gains on the demerger of Coles and disposals of Bengalla, KTAS and Quadrant Energy, which were completed during the first half of the financial year. NPAT from continuing operations increased 13.5 per cent, excluding significant items in the prior year.

It was pleasing to have recorded strong results and improved shareholder returns during a year of portfolio renewal.

The successful repositioning of the portfolio for sustainable growth has strengthened the balance sheet while also distributing a special dividend to shareholders. Importantly, during this period of change, Wesfarmers' operating divisions have also continued to generate solid returns while remaining focused on long-term value creation.

After adjusting for the \$128 million contribution from the Group's 15 per cent investment in Coles, earnings before interest and tax from the Group's continuing

operations increased 7.4 per cent during the year, benefiting from continued growth in Bunnings Australia and New Zealand, Officeworks and WesCEF.

Divisional financial performances are outlined in pages 24 to 56.

### Operating cash flow

Operating cash flows of \$2,718 million were 33.4 per cent below the prior year, primarily due to the demerger of Coles and disposals of Bengalla, KTAS and Quadrant Energy. Divisional cash generation<sup>1</sup> from continuing operations remained strong at 97 per cent, in line with the previous year.

The Group's cash realisation<sup>2</sup> ratio declined to 86 per cent, driven by the timing of the Coles demerger, increased non-cash earnings from the Group's investments in associates, the one-off non-cash gain on the Group's investment in Barmenco and the gain on property disposals in Bunnings. In particular, the Group's 15 per cent share of Coles' NPAT of \$128 million impacted the Group's cash realisation ratio as Coles did not pay a dividend during the period.

### Capital expenditure

Strict capital disciplines were maintained while investment in organic growth opportunities continued.

Gross capital expenditure of \$1,356 million was \$459 million lower than the prior year, primarily due to lower capital expenditure following the demerger and disposal of discontinued operations.

Proceeds from property disposals of \$529 million were \$77 million below the prior year, with the increase in property disposals at Bunnings offset by lower property disposals following the demerger of Coles. The resulting net capital expenditure of \$827 million was \$382 million or 31.6 per cent below the prior year.

### Free cash flow

Free cash flows of \$2,963 million were 13.4 per cent below the prior year, primarily reflecting the reduction in operating cash flows following the portfolio activity completed during the year.

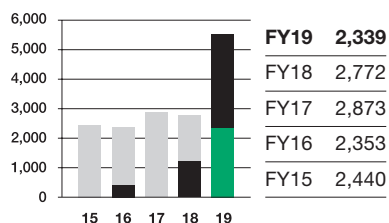
<sup>1</sup> Divisional operating cash flows before tax and after net capital expenditure divided by divisional earnings. Includes KTAS and Quadrant Energy.

<sup>2</sup> Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant items.

### Net profit after tax

(excluding significant items)

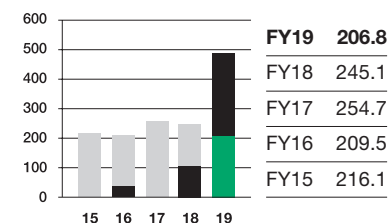
# \$2,339m



### Earnings per share

(excluding significant items)

# 206.8 cents



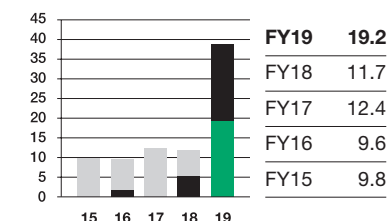
● FY19 EXCLUDING SIGNIFICANT ITEMS  
 ● EXCLUDING SIGNIFICANT ITEMS  
 ● REPORTED

- Includes operational results of discontinued operations.
- 2019 excludes post-tax items comprising \$2,264 million gain on demerger of Coles, \$645 million gain on sale of Bengalla, \$244 million gain on sale of KTAS, \$120 million gain on sale of Quadrant Energy, partially offset by a \$102 million provision for Coles supply chain automation.
- 2018 excludes the following post-tax impairments: \$1,323 million relating to BUKI and Target, as well as the \$375 million loss on sale of BUKI and \$123 million gain on sale of Curragh.
- 2016 excludes the following post-tax significant items: \$1,249 million non-cash impairment of Target; \$595 million non-cash impairment of Curragh; and \$102 million of restructuring costs and provisions to reset Target.

### Return on equity

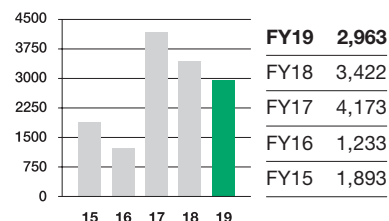
(excluding significant items)

# 19.2%



### Free cash flow

# \$2,963m



## Balance sheet

Net financial debt at the end of the period, comprising interest-bearing liabilities net of cross-currency interest rate swaps and cash at bank and on deposit, was \$2,116 million, a reduction of \$1,464 million on the net financial debt position at 30 June 2018 as a result of portfolio management activity and strong cash generation in the Group's operating businesses.

Operating lease commitments also reduced by \$9.7 billion to \$8.5 billion at 30 June 2019, primarily due to the demerger of Coles.

Capital employed at year-end was \$12,114 million. This was \$13,827 million lower than last year mainly due to the demerger of Coles and divestments of KTAS, Bengalla and Quadrant Energy.

## Debt management and financing

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

In March 2019, a \$500 million domestic bond matured and was repaid using existing cash balances.

Finance costs decreased by \$46 million to \$175 million as a result of a lower average net debt balance. The Group's 'all-in' effective borrowing cost increased 0.8 percentage points to 5.10 per cent due to repayment of lower cost bank debt. Wesfarmers' liquidity metrics continued to improve, with cash interest cover increasing to 30.6 times and fixed charges cover increasing to 3.2 times.

Following major portfolio activity including the demerger of Coles, the Group's strong credit ratings remained unchanged with a rating from Moody's Investors Services of A3 (stable outlook) and rating of A- (stable outlook) from Standard & Poor's.

## Group capital employed

Year ended 30 June <sup>1</sup>	2019 \$m	2018 \$m
Inventory	4,246	6,011
Receivables and prepayment	1,203	1,939
Payables	(3,620)	(6,552)
Other	266	492
<b>Net working capital</b>	<b>2,095</b>	<b>1,890</b>
Property, plant and equipment	3,877	8,408
Goodwill and intangibles	4,076	17,860
Other assets	3,550	970
Provisions and other liabilities	(1,484)	(3,187)
<b>Total capital employed</b>	<b>12,114</b>	<b>25,941</b>
Net financial debt excluding financial services debt <sup>2</sup>	(2,116)	(3,580)
Net tax balances	(27)	393
<b>Total net assets</b>	<b>9,971</b>	<b>22,754</b>

<sup>1</sup> Balances reflect the management balance sheet, which is based on different classification and groupings than the balance sheet in the financial statements.

<sup>2</sup> Net financial debt is net of cross-currency interest rate swaps and interest rate swap contracts.

## Cash capital expenditure

(From continuing operations)

Year ended 30 June	2019 \$m	2018 \$m
Bunnings Australia & NZ	470	497
Kmart Group	205	286
Officeworks	42	45
WesCEF	58	60
Industrial and Safety	83	50
Other	2	2
<b>Gross capital expenditure</b>	<b>860</b>	<b>940</b>
Sale of property, plant and equipment	(497)	(364)
<b>Net cash capital expenditure</b>	<b>363</b>	<b>576</b>
<b>Net capital expenditure in discontinued operations</b>	<b>464</b>	<b>633</b>

## YEAR IN REVIEW

### Dividends

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

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

The Board declared a fully-franked final ordinary dividend of 78 cents per share, reflecting Wesfarmers' earnings from continuing operations and its 15 per cent interest in Coles. This takes the full-year ordinary dividend to 178 cents per share, plus a special dividend of 100 cents per share, which was paid in April 2019.

The final dividend will be paid on 9 October 2019 to shareholders on the company's register on 2 September 2019, the record date for the final dividend. Due to the accumulation of New Zealand franking credits, the final dividend will also carry a New Zealand franking credit, in addition to the Australian franking credit, of 10 cents per share.

Given the preference of many shareholders to receive dividends in the form of equity, the directors have decided to continue the operation of the Dividend Investment Plan (the 'Plan'). The allocation price for shares issued under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the

15 consecutive trading days from and including the third trading day after the record date, being 5 September 2019 to 25 September 2019.

The last date for receipt of applications to participate in, or to cease or vary participation in the Plan, was 3 September 2019. No discount will apply to the allocation price and the Plan will not be underwritten. Shares to be allocated under the Plan will be transferred to participants on 9 October 2019. Given the Group's strong credit metrics, any shares to be issued under the Plan will be acquired on-market and transferred to participants.

### Net financial debt reduced by \$1,464 million to \$2,116 million

### Fixed financial obligations



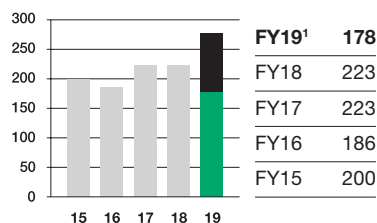
Operating leases <sup>1</sup>	\$8.5b
Bank facilities & bonds <sup>2</sup>	\$2.6b

- <sup>1</sup> Represents future undiscounted minimum rentals payable under non-cancellable operating leases.
- <sup>2</sup> Cash repayable.

### Dividends per share

(includes special dividend)

## 278 cents

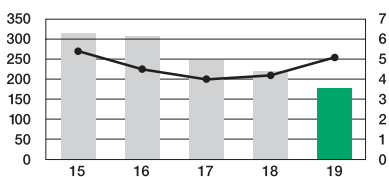


● ORDINARY DIVIDENDS ● SPECIAL DIVIDENDS

- <sup>1</sup> Excluding a fully-franked special dividend of 100 cents per share, paid on 10 April 2019.

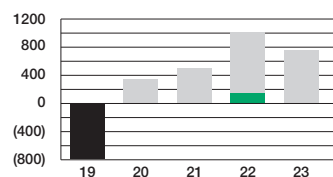
### Finance costs (\$m) and weighted average cost of debt (%)

● FINANCE COSTS (LHS) FY19  
 ● FINANCE COSTS (LHS)  
 ● WEIGHTED AVERAGE COST OF DEBT (RHS)



### Debt maturity profile (\$m)

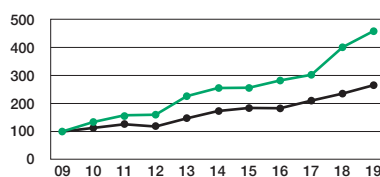
● BANK FACILITIES  
 ● CAPITAL MARKETS  
 ● CASH AT BANK AND ON DEPOSIT



### TSR: Wesfarmers and ASX100

(last 10 years)

● WESFARMERS LIMITED TSR INDEX<sup>1</sup>  
 ● ASX100 ACCUMULATION INDEX



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



## RISKS

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

The following information sets out the major Group-wide risks. These are not in any particular order and do not include generic risks such as changes to macro-economic conditions affecting business and households in Australia, which would affect all companies with a large domestic presence and which could have a material effect on the future performance of the Group. This year, Wesfarmers has provided increased information on climate-related risks, which can be found on pages 66 to 68 of this annual report.

Further information on risk management, including policies, responsibility and certification, can be

found on page 79 of this annual report and in the corporate governance section of the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)

### Strategic

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

### Operational

- Loss of critical supply inputs or infrastructure, including IT systems
- Loss of privacy or data breaches
- Business interruption arising from industrial disputes, work stoppages and accidents

- Risks inherent in distribution and sale of products
- Breaches of the Group's Code of Conduct
- Failure to source goods or services in an ethical and responsible manner

### Regulatory

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

### Financial

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

## PROSPECTS

Actions taken during the year to reposition the portfolio have significantly strengthened the balance sheet and enabled the delivery of improved shareholder returns. Given the diversity and resilience of the Group's portfolio, it remains well placed for a range of economic conditions.

The Group's retail divisions are well positioned within their respective markets and will continue to invest in their offer to customers to deliver even greater value, quality and convenience. This includes further developing the digital offer to meet the changing needs of customers and to create a platform for expanding addressable markets, while improving operating efficiencies. Bunnings, Kmart Group and Officeworks will remain steadfast in their focus on customers and on managing the businesses for long-term success and value creation.

The performance of the Group's industrial businesses will continue to be subject to international commodity prices, exchange rates, competitive factors and seasonal outcomes. The short-term outlook for the WesCEF business is generally positive, but earnings beyond this are expected to be adversely affected by an oversupply of explosive grade ammonium nitrate (EGAN) in the Western Australian market.

Wesfarmers will continue to build on its unique capabilities and platforms to take advantage of growth opportunities within its existing businesses, recently acquired investments and other value-accretive transactions.

The Group will maintain its disciplined approach to capital allocation and will only pursue growth opportunities that deliver value to shareholders over the long term.

# BUNNINGS



## YEAR IN REVIEW

### Revenue

**\$13,166<sub>m</sub>**

Year	Revenue (\$m)
2019	13,166
2018	12,544
2017	11,514
2016	10,575
2015	9,534

### EBIT

**\$1,626<sub>m</sub>**

Year	EBIT (\$m)
2019	1,626
2018	1,504
2017	1,334
2016	1,212
2015	1,088

### Key financial indicators

For the year ended 30 June	2015	2016	2017	2018	2019
Revenue (\$m)	9,534	10,575	11,514	12,544	<b>13,166</b>
Earnings before interest and tax (\$m)	1,088	1,212	1,334	1,504	<b>1,626</b>
Capital employed (R12) (\$m)	3,244	3,312	3,192	3,045	<b>3,220</b>
Return on capital employed (%)	33.5	36.6	41.8	49.4	<b>50.5</b>
Capital expenditure (\$m)	711	533	367	497	<b>470</b>

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

## PROSPECTS

In Australia and New Zealand, Bunnings remains focused on driving growth through our strategic pillars of price, range and service. Creating better experiences for our customers and the wider community remains at the heart of who we are and what we do as we continue to offer a wide range of products and services to meet their needs.

Ongoing development of Bunnings' digital capability will remain a focus, building towards a full online transactional offer for Australia and New Zealand in the 2020 financial year. A broader addressable market offers many opportunities for further growth in consumer and commercial markets, opening up new category opportunities and enabling further improvements in existing categories. In addition, tailoring

product ranges to suit different regions makes us even more relevant to our customers in the markets where they live and run their businesses.

We continue to accelerate and evolve our digital and analytical capabilities to ensure that the experiences our customers and local communities know us for are even stronger and more convenient than before. Leveraging our physical network, embracing technology, and a strong commitment to making our business simpler to run are focus areas that strengthen our core and allow us to continue to invest in service, value and growth initiatives.

Bunnings is well placed for future growth.

### — MICHAEL SCHNEIDER

Managing Director, Bunnings Group



## PERFORMANCE DRIVERS

Operating revenue from Bunnings Australia and New Zealand increased 5.0 per cent to \$13,166 million. Total store sales growth of 5.2 per cent was achieved during the year, underpinned by an increase of 3.9 per cent in store-on-store sales. Bunnings Australia and New Zealand recorded earnings of \$1,626 million, an increase of 8.1 per cent on last year.

Sales growth was achieved in both consumer and commercial markets, across all major trading regions and product categories. Sustained business momentum reflected a continued focus on delivering a strategic agenda aimed at creating long-term customer value. Ongoing merchandise innovation, the introduction of a click and collect service and broader engagement across commercial construction and maintenance markets were highlights.

Despite mixed trading conditions throughout the year from adverse weather and softening conditions in the residential housing market, underlying business momentum continued to support growth.

Good execution of Bunnings' strategic agenda including driving growth, creating better experiences for customers and the wider community and delivering long-term customer value, was reflected in a solid trading performance during the year. Bunnings' broader digital aspirations continue to evolve with pleasing progress in developing digital and data analytics capabilities not only in omni-channel retailing, but also in business process improvements, data insights and supplier relationships.

Continued favourable commercial property market conditions resulted in higher than usual property divestment contributions in the 2019 financial year.

Investment in new stores and store refurbishments continued to be offset by funds released from the property recycling program. The combination of solid earnings growth and disciplined capital management delivered an increase in return on capital to 50.5 per cent.

During the period Bunnings opened 17 new trading locations, including 10 replacement stores. At the end of the year, there were 267 warehouses, 75 smaller format stores and 32 trade centres in the Bunnings network.

## BUNNINGS



Revenue exceeded

**\$13.1b**

Earnings grew to

**\$1,626m**

Return on capital  
employed of

**50.5%**

Click and collect rollout  
in Tasmania.

### OUR BUSINESS

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

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

Bunnings employs more than 44,000 team members across Australia and New Zealand. Bunnings stores stock more than 45,000 products and an expanded range of over 30,000 products is available through a special order service both online and in-store.

### OUR MARKET

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

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

## STRATEGY

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

Growth strategies	Achievements	Focus for the coming years
<b>More customer value</b>	<ul style="list-style-type: none"> <li>Continued investment in lowest prices</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing focus on delivering even more value for customers</li> </ul>
<b>Better customer experiences</b>	<ul style="list-style-type: none"> <li>Consistency in service basics lifted</li> <li>Improved stock availability</li> <li>Greater product and project knowledge</li> <li>Further enhancements to PowerPass trade accounts</li> </ul>	<ul style="list-style-type: none"> <li>Better customer experiences and deeper engagement: in-store, online and in-home</li> </ul>
<b>Greater brand reach</b>	<ul style="list-style-type: none"> <li>Opened 17 new trading locations, including 10 replacement stores</li> <li>Significantly expanded digital ecosystem</li> <li>Existing store reinvestment</li> </ul>	<ul style="list-style-type: none"> <li>More stores, with increased format innovation</li> <li>Further expansion of online transactional capabilities</li> <li>Targeted store reinvestment</li> </ul>
<b>Deeper commercial engagement</b>	<ul style="list-style-type: none"> <li>Created more value and deeper relationships</li> <li>Leveraged the network for customer convenience – stores and trade centres</li> <li>Improved service with more localised engagement, easier to deal with</li> <li>Over 500 dedicated trade-focused team members</li> </ul>	<ul style="list-style-type: none"> <li>Continue to leverage core strengths of a total market capability: stores, trade centres, in-field and digital</li> <li>Wider market focus to expand selling opportunities</li> </ul>
<b>More merchandise innovation</b>	<ul style="list-style-type: none"> <li>Expanded ranges and products and easier and innovative DIY</li> <li>Further product and project innovation with wider ranges and new products</li> </ul>	<ul style="list-style-type: none"> <li>Creating, leveraging and responding to lifestyle trends, technology trends and environmental and economic changes</li> <li>Development and implementation of services that complement the core DIY offer</li> </ul>

## RISK

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

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

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

Risk	Mitigation
<b>Safety</b>	<ul style="list-style-type: none"> <li>Continued focus and targeted in-store awareness campaigns</li> </ul>
<b>Talent recruitment and retention</b>	<ul style="list-style-type: none"> <li>Strategies directed at creating and maintaining status as employer of choice</li> <li>Succession planning, retention and development plans</li> </ul>
<b>New and existing competitors</b>	<ul style="list-style-type: none"> <li>Relentless focus on strategic pillars of 'lowest price, widest range and best service'</li> <li>Ongoing strategies to increase customer centricity and deepen customer engagement</li> </ul>
<b>Reputation</b>	<ul style="list-style-type: none"> <li>Strong culture of 'doing the right thing'</li> <li>Focus on ethical sourcing and product standards</li> <li>Ongoing regulatory compliance training</li> </ul>

## BUNNINGS SUSTAINABILITY PERFORMANCE

Bunnings defines sustainability within its operations as actions that are socially responsible, environmentally aware and economically viable. During the year, Bunnings managed the following material sustainability issues.

### PEOPLE

Bunnings team members are the most important part of its business and their safety and wellness remained the primary focus this year. There was a 2.3 per cent reduction in the number of injuries recorded and a 3.4 per cent reduction in the TRIFR. Key safety initiatives included a new online ForkSafe Performance Tracker which manages forklift operator licence and training requirements and tracks safety performance via observation entries. The Tracker, along with a continued focus on delivering site forklift forums, contributed to a 35 per cent improvement in the forklift incident frequency rate.

### PRODUCTS

Bunnings continued to proactively engage with suppliers to strongly encourage adherence to product safety standards. As part of its engagement, Bunnings conducts regular product audits to monitor conformance with mandatory standards and undertakes independent safety tests on selected products to confirm compliance to safety standards and customer expectations.

Bunnings is committed to working collaboratively with suppliers to introduce new and innovative products that meet the changing expectations of customers. These include pursuing a long-term goal to increase the range of low and non-toxic alternative products, supported by global research to identify new and safer active ingredients to be included in products. Further work is planned to identify chemicals of concern and develop a customer education program.

### RESPONSIBLE SOURCING

Bunnings has a robust ethical sourcing and modern slavery framework which is underpinned by trading terms, sourcing policies, supplier codes of conduct, training and education. Addressing modern slavery is a key focus, with the introduction during the year of the Malaysian Worker Voice Program to focus on responsible recruitment and educate factory workers on their rights.

Bunnings is confident that more than 99 per cent of its timber products are confirmed as originating from low-risk sources including plantation or verified legal or independently certified responsibly sourced forests. Within that, more than 81 per cent of all timber products are sourced from independently certified forests or from forests with demonstrated progress towards achieving independent certification, such as that provided by the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). In August 2018, Bunnings revised its timber policy to require all native forest timber products to be independently certified to FSC or other equivalent standard by the end of 2020.

For the 2020 financial year, Bunnings has identified responsible recruitment, animal welfare, responsible raw materials and emerging countries as key focus areas.

### COMMUNITY

During the year, Bunnings stores helped raise and contribute almost \$50 million through over 90,000 community activities. Support for local community groups included provision of fundraising sausage sizzle facilities, team member involvement in community projects, product contributions and other local fundraising initiatives.

### ENERGY EFFICIENCY

Bunnings continued to work on reducing its reliance on grid-sourced energy as part of a longer-term goal of reducing its overall carbon footprint. As at June 2019, there were 31 sites with solar PV with a further 40 scheduled for completion in the next financial year. There are 91 stores with LED lighting and a further 31 expected to follow in the 2020 financial year. Preparatory work on electric vehicle charging stations is underway with trials at three Australian sites and three New Zealand sites expected to commence in the next financial year.

### WASTE AND PACKAGING

Managing waste is a significant issue and reducing operational and packaging waste will be a significant focus for the business in the next financial year.

As the industry continued to be impacted by the effects of the China National Sword Policy which aims to improve the quality of recyclable material entering China, Bunnings focused more on reducing the contamination rates in recycling streams. For Bunnings, this meant that only soft, clear plastic could be accepted for recycling at a store level and that black plastic, coloured plastic and plastic containing labels and/or tape could not be accepted.

Bunnings is a signatory to the Australian Packaging Covenant Organisation (APCO) and has developed an action plan for the next 12 months in line with the APCO targets. Assisting customers with product recycling and take-back options is also a priority.

During the year, Bunnings worked with stakeholders to provide recycling programs for products including batteries, paint, small electrical items and power tools. Collectively, these initiatives resulted in customers bringing back 5,800 kilograms of batteries for recycling through 13 metropolitan Melbourne stores, and customers dropping off 200,000 kilograms of waste paint through 27 Paintback events held at Bunnings stores during the year.

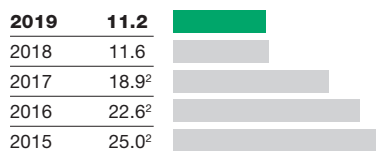
For more information about Bunnings' sustainability program, please visit [sustainability.wesfarmers.com.au](https://sustainability.wesfarmers.com.au)

### Safety performance

(from continuing operations)

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)<sup>1</sup>

# 11.2



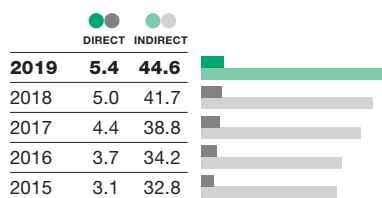
<sup>1</sup> TRIFR is the number of lost time and medical treatment injuries per million hours worked.

<sup>2</sup> Prior to 2018, Bunnings reported an all injury frequency rate (AIFR) which is the number of 'all' injuries per million hours worked.

### Community contributions

(from continuing operations)

# \$50.0m

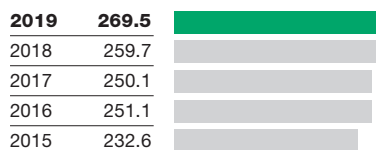


### Greenhouse gas emissions

(from continuing operations)

SCOPE 1 & 2<sup>1</sup>

# 269.5 ktCO<sub>2</sub>e

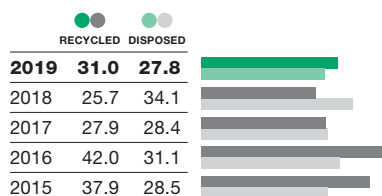


<sup>1</sup> Scope 1 and 2 data includes emissions for businesses where we have operational control under the NGER Act, and our emissions in New Zealand.

### Waste

(from continuing operations)

# 58.8 kt



### Disaster support for impacted communities

Extreme weather events continued to impact communities throughout the year, with bushfires, floods and severe drought conditions affecting many parts of Australia.

In August 2018, Bunnings team members hosted a national sausage sizzle to raise funds for rural farmers, families and communities impacted by drought. More than \$1.25 million was raised and contributed, with thousands of people heading to their local Bunnings to 'buy a snag' to support the cause. All funds raised were donated to Rural Aid's Buy a Bale Campaign which delivers hay and other essential items to farmers.

Bunnings team members also hosted a national sausage sizzle in February 2019 to raise funds for those impacted by the Townsville floods and Tasmanian bushfires. More than \$310,000 was raised and contributed, and donated to not-for-profit organisation GIVIT, an online giving platform. All of those funds went towards essential items such as washing machines, fridges and beds.

In Townsville, local Bunnings teams also assisted at evacuation centres by donating products, cooking a daily sausage sizzle and providing hands-on support during the recovery effort.

### Bunnings builds citizen science capability with Frog ID



Throughout the year Bunnings supported the Australian Museum's Frog ID initiative as part of its decade-long Schools Sustainability Program, helping to build 140 frog ponds with students.

The initiative seeks to raise awareness about the decline in frog species and to track changes in frog populations using the Frog ID app. Bunnings' involvement took the citizen science project to a new level with team members helping to construct 'frog friendly' environments with local schools, allowing students to monitor the pond and attract and identify frogs.

In the first year of support, the initiative helped to identify 66,000 frog calls and detected 28 globally-threatened species. Several Bunnings stores also hosted Frog ID Scientist Workshops which saw experts from the Australian Museum provide information on frog biodiversity.

# KMART GROUP



## YEAR IN REVIEW

### Revenue

**\$8,713<sub>m</sub>**

2019	8,713	<div style="width: 100%; height: 10px; background-color: green;"></div>
2018	8,837	<div style="width: 99%; height: 10px; background-color: gray;"></div>
2017	8,528	<div style="width: 97%; height: 10px; background-color: gray;"></div>
2016	8,646	<div style="width: 98%; height: 10px; background-color: gray;"></div>
2015	7,991	<div style="width: 92%; height: 10px; background-color: gray;"></div>

### EBIT

**\$550<sub>m</sub>**

2019	550	<div style="width: 100%; height: 10px; background-color: green;"></div>
2018 <sup>1</sup>	660	<div style="width: 120%; height: 10px; background-color: gray;"></div>
2017	543	<div style="width: 99%; height: 10px; background-color: gray;"></div>
2016 <sup>2</sup>	275	<div style="width: 50%; height: 10px; background-color: gray;"></div>
2015	522	<div style="width: 95%; height: 10px; background-color: gray;"></div>

### Key financial indicators

For the year ended 30 June	2015	2016 <sup>2</sup>	2017	2018 <sup>1</sup>	2019
Revenue (\$m)	7,991	8,646	8,528	8,837	<b>8,713</b>
Earnings before interest and tax (\$m)	522	275	543	660	<b>550</b>
Capital employed (R12) (\$m)	3,778	3,629	2,253	2,013	<b>1,872</b>
Return on capital employed (%)	13.8	7.6	24.1	32.8	<b>29.4</b>
Capital expenditure (\$m)	295	293	222	293	<b>201</b>

Note: Includes Kmart Tyre & Auto until divestment in November 2018.

<sup>1</sup> The 2018 earnings before interest and tax for Kmart Group excludes the pre-tax non-cash impairment of \$306 million for Target.

<sup>2</sup> The 2016 earnings before interest and tax for Kmart Group includes \$145 million of cash restructuring and provision costs to reset the Target business, but excludes the non-cash Target impairment of \$1,266 million.



The Kmart Group, comprising Kmart and Target, was formed as the Department Stores division in February 2016 and rebranded to the Kmart Group in November 2018. The division operates 520 stores across Australia and New Zealand and employs more than 46,000 team members.

## PROSPECTS

The Kmart Group is well positioned for the future. The focus will remain on delivering strong returns over the long term and leveraging the group structure to improve operational performance and reduce operating costs.

Kmart will continue to deliver sustainable growth through a focus on creating a great place to shop that is simple to run and delivering better products at lower prices. Maintaining price leadership in the market, continued enhancement in product range, relentless pursuit of lowest cost and the expansion of digital and data capabilities will remain key priorities for the business. This coming year will see continued growth in online, further focus on category growth opportunities and ongoing refinement of operating efficiencies, as well as continued investment in the store network.

Target will accelerate its plans for a repositioned and more focused customer

proposition, which aims to inspire customers to live better by providing great style and quality at an affordable price. The expansion of online offering continues to be a priority for Target, with emphasis on improving click and collect, website content and personalisation to create a better customer experience. Rationalisation of the store network will continue in the 2020 financial year.

The previously announced acquisition of Australian retailer Catch Group for \$230 million was successfully completed on 12 August 2019. Catch Group is an exciting development for Wesfarmers and the Kmart Group and provides a platform to meet evolving customer needs and enhance future growth.

— IAN BAILEY

Managing Director, Kmart Group



## PERFORMANCE DRIVERS

Revenue for the Kmart Group continuing operations was \$8,598 million for the year. This was an increase of 1.1 per cent reflecting the moderation in sales growth compared to the prior corresponding period. Earnings decreased 13.7 per cent to \$540 million which reflected the challenging trading conditions.

Kmart's total sales increased 1.5 per cent, with flat comparable sales growth.

Comparable sales growth for the year was affected by lower growth in apparel, and non-seasonal products and the planned exit from the DVD category that previously accounted for approximately one per cent of sales, offset by modest growth in home and kids general merchandise.

During the financial year, a number of initiatives were implemented to optimise product flow and store processes to support growth. Some of these changes resulted in a temporary reduction in availability which impacted sales growth. This was largely resolved by the end of the financial year.

Kmart's earnings for the year were impacted by the moderation in sales growth. Despite a strong focus on cost control, higher operational costs were incurred from the implementation of a number of supply chain efficiency initiatives and an increase in stock loss.

Kmart continued to invest in its store network, opening four new stores, and completing 23 store refurbishments during the year.

Target's total sales decreased 1.5 per cent, following ongoing rationalisation of the store network. While sales in Target's 'Best' ranges have continued to grow, particularly in the womenswear, menswear and homewares categories, this growth was more than offset by lower sales in the lifestyle, entertainment and beauty categories.

Target's earnings for the year remained positive but decreased as a result of the decline in sales. Costs remained well controlled and inventory health continued to be tightly managed.

Target continued to invest in its online offering, driving increased website visitation and customer conversion, which resulted in strong growth in online sales.



## 50 years

In April 2019, Kmart celebrated its 50th anniversary.

## 231 stores

Kmart operates 231 stores throughout Australia and New Zealand.

## KMART

### OUR BUSINESS

Kmart was established in 1969, with the opening of its first store in Burwood, Victoria. In April 2019, Kmart celebrated its 50th anniversary. Kmart operates 231 stores throughout Australia and New Zealand, offering customers a wide range of apparel and general merchandise products at low prices, every day.

Kmart employs more than 33,000 team members, who are focused on the Kmart vision of delivering the lowest prices on everyday items for Australian and New Zealand families. During the 2019 financial year, Wesfarmers completed the sale of Kmart Tyre and Auto Service to Continental A.G.

### OUR MARKET

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

## STRATEGY

Kmart's vision is to provide families with everyday products at the lowest prices. Kmart will continue to drive sustainable growth through a focus on making Kmart a great place to shop that is simple to run and delivering better products at lower prices. The business is focused on leveraging the store network and evolving digital capability to ensure Kmart provides customers with a shopping experience that is seamless between channels. The business is focused on improving availability of its products while reducing inventory and is committed to maintaining its price leadership position in the market. Kmart will also continue to identify opportunities for productivity improvements in its end-to-end product development-to-shelf operating model. Kmart's high calibre team and strong culture support the success of the business.

Growth strategies	Achievements	Focus for the coming years
<b>A great place to shop that is simple to run</b>	<ul style="list-style-type: none"> <li>Continued strong growth of the online channel through the expansion of the click and collect service</li> <li>Opened four new stores and completed 23 store refurbishments during the year</li> <li>Implementation of productivity and cost reduction initiatives</li> </ul>	<ul style="list-style-type: none"> <li>A customer focus on a rewarding shopping experience through all channels</li> <li>Continued development of the online offer while leveraging store network infrastructure</li> <li>Simplifying ways of working in stores and supply chain</li> <li>Ongoing investment in the store network through new store openings and refurbishment</li> </ul>
<b>Better products at even lower prices</b>	<ul style="list-style-type: none"> <li>Continued market leadership in perception of lowest price</li> <li>Increased proportion of products sourced through strategic relationships with the right factories</li> </ul>	<ul style="list-style-type: none"> <li>Leading the lowest price in a highly competitive market</li> <li>Elevating product desirability in the apparel category</li> <li>Profitable growth through increased volumes and improved product offering</li> <li>Maintaining strong brand perception for on-trend everyday items</li> <li>Leveraging data insights to drive better decisions</li> </ul>

## RISK

Kmart's risks include foreign exchange rate fluctuations, new market entrants and the expansion of existing competitors, and ensuring that its products are ethically sourced. Price is a key differentiator between Kmart and its competitors, given high levels of product substitution exist within the market.

Risk	Mitigation
<b>Competitor activity</b>	<ul style="list-style-type: none"> <li>Monitoring of competitor activity and consumer trends</li> <li>Maintaining price leadership position in the market by making use of extensive overseas sourced ranges, in-house design capabilities and volume-driven efficiencies</li> <li>Continuing to innovate the store format to improve the customer experience, through new layouts and leveraging technology</li> <li>Continuing to improve consistency of product quality</li> </ul>
<b>Exchange rate volatility</b>	<ul style="list-style-type: none"> <li>Hedging, and product and pricing frameworks will be used to effectively manage foreign exchange movements</li> </ul>
<b>Sustainability and ethical sourcing</b>	<ul style="list-style-type: none"> <li>Ongoing improvements to Kmart's environmental compliance across all factories</li> <li>Updates to Ethical Sourcing Code including integration of strategies to prevent instances of modern slavery</li> <li>Further expansion of 'Better Together' program focused on making a positive difference to our people and our planet</li> <li>Conducted product lifecycle assessment for all merchandise as part of development of circular economy strategy</li> </ul>



## 13,000 team members

Target employs more than 13,000 team members across its stores, support offices and direct sourcing operations.

---

## 289 stores

Target operates a national network of 289 stores.

---

## TARGET

### OUR BUSINESS

Target began as a drapery store in 1926 in Geelong, Victoria, and has since grown to become a national apparel and general merchandise retailer with 289 stores across Australia. Its objective is to provide quality and style at affordable prices.

Target employs more than 13,000 team members across its stores, support offices and direct sourcing operations – all focused on delivering high quality products with contemporary style.

### OUR MARKET

Like Kmart, Target participates in the Australian clothing, homewares and general merchandise retail sector. Target's strategy is focused around delivering elevated style and quality through an optimised store network and engaging online proposition. This is supported by a strong brand heritage.

## STRATEGY

Target is focused on its ongoing repositioning and improvement through delivering elevated style and quality at affordable prices. Target's strategy will deliver a more focused product offering, make the end-to-end customer journey easy and personalised, irrespective of channel, and ensure the customer experience leverages Target and the Kmart Group's assets to lift digital engagement.

The implementation of the store network plan will continue work done in the 2019 financial year. This will include the continuation of the plan to optimise the store network, which in 2019 included the closure of 15 stores and the continued focus on reducing lease tenure and overall lease commitments reflecting the desire for flexibility and optionality.

Growth strategies	Achievements	Focus for the coming years
<b>Elevate quality and style</b>	<ul style="list-style-type: none"> <li>Continued improvement of processes and disciplines across merchandise and sourcing functions</li> <li>Stock levels and inventory health well managed</li> <li>Stock keeping unit (SKU) rationalisation continued</li> <li>Quality and style standards reset</li> <li>Increased focus on fabric mix and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>More focused offer progressively re-weighted towards apparel, soft home and toys</li> <li>Stronger elevation of quality and style to provide a clearly differentiated offer</li> <li>End-to-end operating model alignment and simplification</li> <li>Increased focus on design capabilities and digital customer channels</li> </ul>
<b>Optimise and leverage store network</b>	<ul style="list-style-type: none"> <li>Optimise the store network (15 store closures)</li> <li>Reduced average lease tenure and overall lease commitments, improving capital structure and flexibility of store portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of store network plan, focused on creating value for Kmart Group</li> <li>Focus on leveraging network to support increased customer convenience across all channels (e.g. click and collect enhancement)</li> </ul>
<b>Expand and enable online</b>	<ul style="list-style-type: none"> <li>Availability improvement in store ranges and expansion of exclusive ranges</li> <li>Increased store fulfilment</li> <li>Foundational app improvements</li> <li>Order management system commissioning</li> </ul>	<ul style="list-style-type: none"> <li>Online fulfilment and leverage DC capacity, including automation</li> <li>Enhanced user digital and in-store experience</li> <li>Improved website including content and site personalisation</li> <li>Improved in-store collection experience to drive store traffic</li> <li>Continued app advancement</li> </ul>

## RISK

Target's strategy to reset the business continues to progress with the business focused on making further changes to the operating model and delivering a clear and differentiated customer proposition to ensure sustainable growth and earnings improvement into the future. This journey is being undertaken in an increasingly competitive apparel and general merchandise market.

Risk	Mitigation
<b>Competitor activity</b>	<ul style="list-style-type: none"> <li>Monitoring of competitor activity and consumer trends</li> <li>Analysis of business performance to identify future opportunity and clarify our business proposition and purpose</li> <li>Online proposition advancement to enhance customer experience, support in-store traffic and leverage store network</li> </ul>
<b>Sustainability and ethical sourcing</b>	<ul style="list-style-type: none"> <li>Ongoing improvements to Target's environmental compliance across all factories</li> <li>Updates to Ethical Sourcing Code including integration of strategies to prevent instances of modern slavery</li> <li>Further expansion of 'Better Together' program focused on making a positive difference to our people and our planet</li> <li>Conducted product lifecycle assessment for all merchandise as part of developing a circular economy strategy</li> </ul>
<b>Business transformation</b>	<ul style="list-style-type: none"> <li>Clarity of strategy with operational plans and governance related to key strategic initiatives</li> <li>Effective communication (internal and external) of strategic reset and related action plans</li> <li>Clear accountabilities, objectives and performance indicators</li> <li>Business simplification</li> </ul>
<b>Team member attraction and retention</b>	<ul style="list-style-type: none"> <li>Improved culture, ways of working and values embedded across the business</li> <li>Implementation of learning and development strategies, and talent and succession cycle</li> <li>Relocation of Target Store Support Office during the financial year</li> </ul>
<b>Exchange rate volatility</b>	<ul style="list-style-type: none"> <li>Hedging, and product and pricing frameworks will be used to effectively manage foreign exchange movements</li> </ul>

## KMART GROUP SUSTAINABILITY PERFORMANCE

Kmart Group has continued to strengthen its 'Better Together' sustainable development program, which guides its broader sustainability initiatives. During the year, Kmart Group managed the following material sustainability issues.

### HUMAN RIGHTS AND ETHICAL SOURCING

Kmart Group acknowledges its responsibility to respect human rights and promote environmental sustainability within its supply chains. During the year, Target and Kmart continued their efforts to strengthen the Kmart Group Ethical Sourcing Program.

Achievements this year included a comprehensive modern slavery risk review across the Kmart Group's supply chains and operations. This review sets out a one-year road map to address gaps identified in the current risk management approach.

The complexity and depth of the Kmart and Target supply chains remains a key challenge for Kmart Group's Ethical Sourcing Program and wider sustainability efforts. This will be addressed with a new focus on improving traceability of tier two and tier three factories (particularly for clothing, bedding and towel ranges) in the next three years.

### SAFE AND INCLUSIVE CULTURE

Kmart Group recognises that fostering a safe and inclusive culture for its team members is critical to its long-term success.

#### Safety

Kmart finished the year with a 8.3 per cent increase in its TRIFR of 20.8 from continuing operations. Target achieved a sixth year of improved safety performance with a 11.2 per cent TRIFR reduction to 16.7.

Kmart and Target's focus for the coming year will be delivery of the Driving Peak Performance Plan to further improve the safety, wellbeing and engagement of our people, community and business partners.

#### Diversity and inclusion

At Kmart in the 2019 financial year, women in leadership roles reduced slightly from 43.1 per cent to 42.6 per cent. Kmart team members with Indigenous backgrounds

increased from 1.7 per cent to 1.9 per cent. There were 150 people with disabilities employed in Australia during the financial year.

At Target, women in leadership roles increased from 44.8 per cent to 48 per cent. Target team members with Indigenous backgrounds now represent 1.4 per cent of the total Australian headcount, increasing from 1.3 per cent at the same time last year.

### COMMUNITY

Throughout the year, the Kmart Group continued to work with the local communities in which it operates and on whose support it depends upon. In total, Kmart directly and indirectly contributed more than \$6 million and Target contributed \$1.4 million to charities and community groups.

### NATURAL RESOURCES

The sustainable use of natural resources continues to be a key focus of Kmart Group's sustainability commitments.

#### Energy

Following five years of investment in energy data analytics and technology upgrades, Target Australia was awarded 'Australia's Leading Energy User' in the Energy Efficiency Council's 2018 National Energy Efficiency Awards. Energy efficiency across Kmart Group's store network improved by two per cent during a period which was challenged by record hot weather.

#### Sustainable materials

Kmart and Target continued the implementation of their sustainable cotton commitments. In March 2019, Kmart launched a Better Cotton Initiative (BCI) marketing campaign across Australia. The campaign included over 800 products in-store and online and the world's first BCI television commercial, helping to significantly boost public awareness of the BCI program in Australia.

### WASTE

Minimising waste remains a significant challenge for businesses in the Australian retail sector and Kmart Group is committed to playing its part through its ongoing efforts to reduce, reuse and recycle its store and distribution centre waste and consumer packaging.

Waste diversion from stores and distribution centres across Kmart Group improved from 75 per cent last year to 79 per cent in the 2019 financial year, a period challenged by volatile markets for recycled materials.

In response to our need to improve waste diversion and manage recycling and waste system volatility following the collapse of Asian markets for Australian and New Zealand waste, Kmart Group has commenced implementation of the Better Together Waste Diversion Program.

### PRODUCT QUALITY AND SAFETY

The Kmart Group is committed to developing high quality, safe and compliant products that enhance customer experiences and deliver commercial growth.

The safety of customers when using Kmart and Target products is paramount. Product safety recalls are enacted when necessary or as a precautionary measure to eliminate customer exposure to potentially unsafe products. Kmart conducted four recalls and Target 17 recalls during the 2019 financial year.

For more information about Kmart Group's sustainability program, please visit [sustainability.wesfarmers.com.au](https://sustainability.wesfarmers.com.au)

## KMART GROUP

### Safety performance

(from continuing operations)

TOTAL RECORDABLE INJURY  
FREQUENCY RATE<sup>1</sup>

# 19.4

Year	2019	2018
2019	19.4	19.1
2018	19.1	

<sup>1</sup> TRIFR is the number of lost time and medical treatment injuries per million hours worked.

### Community contributions

# \$7.4m

	DIRECT	INDIRECT
2019	1.4	6.0
2018 <sup>1</sup>	1.5	8.4
2017 <sup>1</sup>	2.2	10.5
2016 <sup>1</sup>	2.2	9.9
2015 <sup>1</sup>	2.6	11.2

<sup>1</sup> Includes discontinued operations.

### Greenhouse gas emissions

(from continuing operations)

SCOPE 1 & 2<sup>1</sup>

# 318.6 ktCO<sub>2</sub>e

Year	2019	2018	2017	2016	2015
2019	318.6	330.8	360.2	414.2	414.7
2018	330.8				
2017	360.2				
2016	414.2				
2015	414.7				

<sup>1</sup> Scope 1 and 2 data includes emissions for businesses where we have operational control under the NGER Act, other known non-reportable Australian-based emissions over which we have control, and our emissions in New Zealand and Asia.

### Waste

# 74.6 kt

	RECYCLED	DISPOSED
2019	58.6	16.0
2018 <sup>1</sup>	70.9	24.0
2017 <sup>1</sup>	63.6	25.3
2016 <sup>1</sup>	68.6	21.6
2015 <sup>1</sup>	65.6	17.3

<sup>1</sup> Includes discontinued operations.



### Kmart Group Waste Diversion Program

Kmart Group's Better Together Waste Diversion Program is informed by the findings of 50 waste audits across Target and Kmart stores and distribution centres in Australia and New Zealand and a review of waste practices in our two store support offices. Implementation of the new program commenced across both businesses in June 2019. This included hiring a dedicated waste program manager, establishing a central waste and recycling monitoring and data analytics centre, team member training and induction programs and improved back-of-house waste separation systems and signage.

These activities aim to lift Kmart Group's waste diversion rate from 75 per cent in the 2018 financial year to 82 per cent by 2022 and 85 per cent by 2025. Additionally, the Better Together Waste Diversion Program allows Kmart and Target to better manage the financial impacts arising from the issues in Australia and New Zealand's waste and recycling industries, while improving management of waste supplier services and contracts.

### Kmart South Hedland recognised for Indigenous recruitment



The Kmart team at South Hedland in Western Australia has been working with local organisations to forge stronger connections with their community. Through Ashburton, a local Aboriginal employment agency, the store management team were able to attract a strong group of young talent to work at the store. The team's efforts did not go unnoticed and were recognised by local MP, the Honourable Peter Tinley AM MLA (Minister for Youth), for being the leading retail store in Australia for Aboriginal and Torres Strait Islander recruitment.

Both the store management team and the new young team members, many of whom were taking on their first job, built a great support system to fill shifts and build confidence for various in-store roles. One team member, Ashonique Coffin, remarked she felt "very proud" of the moment when during one shift three Aboriginal team members were controlling the front end of the store.

The South Hedland store recognised Aboriginal and Torres Strait Islander culture during NAIDOC week with a range of festive activities, including crafts for children, morning tea and cultural performances.

# INDUSTRIALS



## YEAR IN REVIEW

### Revenue

**\$3,830<sub>m</sub>**

Year	Revenue (\$m)
2019	3,830
2018	3,580
2017	3,415
2016	3,664
2015	3,611

### EBIT

**\$524<sub>m</sub>**

Year	EBIT (\$m)
2019	524
2018	508
2017	510
2016	357
2015	303

### Key financial indicators

For the year ended 30 June <sup>1</sup>	2015	2016	2017 <sup>1</sup>	2018	2019
Revenue (\$m)	3,611	3,664	3,415	3,580	<b>3,830</b>
Earnings before interest and tax (\$m)	303	357	510	508	<b>524</b>
Capital employed (R12) (\$m)	2,792	2,893	2,806	2,816	<b>2,833</b>
Return on capital employed (%)	11	12	18	18	<b>18</b>
Capital expenditure (\$m)	121	104	78	110	<b>141</b>

Note: Includes Quadrant Energy until divestment in November 2018.

<sup>1</sup> Refer to individual businesses' key financial indicators for footnotes.



The Industrials division includes Wesfarmers' two industrial businesses: Chemicals, Energy and Fertilisers, and Industrial and Safety. The businesses, under focused leadership, continue to invest in digital systems, supply chain improvements and adjacent market opportunities to position each business for future growth.

## PROSPECTS

Production and demand for chemical products from WesCEF is expected to remain robust. The Chemicals business will continue to benefit from the ongoing disruption at the competing Burrup plant but beyond this, earnings are expected to be affected by an oversupply of explosive grade ammonium nitrate in Western Australia. Ammonium nitrate (AN) margins will be further impacted in the 2020 financial year as some customers roll onto new pricing under long-term contracts. WesCEF's overall earnings will continue to be impacted by international commodity prices in particular ammonia and Saudi CP, exchange rates, competitive factors and seasonal outcomes.

Performance improvement activities continue across the Industrial and Safety portfolio. These turnaround initiatives in Blackwoods, Workwear Group and Greencap include investment in customer service, the ERP system, supply chain automation and improving the digital offer. These activities are expected to continue for at least 18 months. The Coregas business is focused on growth opportunities in healthcare and other specialist gas market adjacencies to help offset some of the margin challenges due to rising input costs and competition.

### — DAVID BAXBY

Managing Director, Industrials



## PERFORMANCE DRIVERS

Reported earnings from continuing operations in the Industrials businesses increased by 4.4 per cent to \$519 million compared to \$497 million in the prior year.

WesCEF generated earnings of \$433 million, 14.2 per cent above the prior year. Excluding insurance proceeds of \$30 million and a one-off provision of \$19 million for removal of redundant equipment in the current year, earnings increased 11.3 per cent to \$422 million. The improved performance was driven by higher earnings in the Energy and Fertilisers businesses. Earnings from the Chemicals business were comparable to the prior year with a decline in AN earnings offset by growth in the other Chemicals businesses.

The Industrial and Safety business generated earnings of \$86 million, 27.1 per cent below the prior year. Decreased earnings in Blackwoods as a result of lower gross margins and the impact of ongoing investment in digitisation and automation activities which was partially offset by increased earnings from the Workwear Group and Coregas.

## CHEMICALS, ENERGY AND FERTILISERS



**1,300**  
team members

WesCEF employs approximately 1,300 team members across its eight businesses.

**14.2%**

Increase in annual revenue growth.

### YEAR IN REVIEW

#### Revenue

**\$2,078<sub>m</sub>**

2019	2,078	<div style="width: 100%; height: 10px; background-color: green;"></div>
2018	1,830	<div style="width: 85%; height: 10px; background-color: grey;"></div>
2017	1,639	<div style="width: 75%; height: 10px; background-color: grey;"></div>
2016	1,820	<div style="width: 85%; height: 10px; background-color: grey;"></div>
2015	1,839	<div style="width: 85%; height: 10px; background-color: grey;"></div>

#### EBIT

**\$438<sub>m</sub>**

2019	438	<div style="width: 100%; height: 10px; background-color: green;"></div>
2018	390	<div style="width: 85%; height: 10px; background-color: grey;"></div>
2017	395	<div style="width: 85%; height: 10px; background-color: grey;"></div>
2016	294	<div style="width: 65%; height: 10px; background-color: grey;"></div>
2015	233	<div style="width: 50%; height: 10px; background-color: grey;"></div>

### Key financial indicators

For the year ended 30 June	2015 <sup>3</sup>	2016 <sup>2</sup>	2017 <sup>1</sup>	2018	2019
Revenue (\$m)	1,839	1,820	1,639	1,830	<b>2,078</b>
Earnings before interest and tax (\$m)	233	294	395	390	<b>438</b>
Capital employed (R12) (\$m)	1,535	1,554	1,443	1,407	<b>1,358</b>
Return on capital employed (%)	15.2	18.9	27.4	27.7	<b>32.6</b>
Capital expenditure (\$m)	56	60	44	60	<b>58</b>

Note: Includes Quadrant Energy until divestment in November 2018.

<sup>1</sup> 2017 includes \$33 million relating to WesCEF's share of revaluation gains in Quadrant Energy and profit on sale of land of \$22 million.

<sup>2</sup> 2016 includes \$32 million of one-off restructuring costs associated with the decision to cease PVC manufacturing.

<sup>3</sup> 2015 includes a net \$10 million gain comprising insurance proceeds and the gain on sale of Kleenheat's east coast LPG operations, partially offset by asset writedowns.



## OUR BUSINESS

WesCEF operates eight businesses in Australia and employs approximately 1,300 team members. WesCEF's business units are Chemicals, Energy (Kleenheat), and Fertilisers.

## OUR MARKET

Chemicals includes:

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

- 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.

Fertilisers manufactures, imports and distributes phosphate, nitrogen and potassium-based fertilisers for the Western Australian agricultural sector through CSBP. CSBP also provides technical support services for growers through a network of employees and accredited partners in regional Western Australia. The Fertilisers business also includes Decipher, an agricultural technology business, which allows growers and their advisers to visualise farm data and make more informed nutritional decisions.

## PERFORMANCE DRIVERS

Revenue of \$2,078 million was 13.6 per cent above last year, with Chemicals, Energy and Fertilisers all contributing to revenue growth. The Fertilisers business contributed strongly to the growth in revenue driven by growth in sales volumes, following a strong 2018 harvest for Western Australian growers and despite a late 2019 seasonal break.

WesCEF generated earnings of \$433 million, 14.2 per cent above the prior year. Excluding insurance proceeds of \$30 million and a one-off provision of \$19 million for the removal of redundant equipment in the current year, earnings increased 11.3 per cent to \$422 million. The improved performance was driven by higher ammonia production following an unplanned shutdown in the prior year, record sodium cyanide production, higher Saudi Contract Price (the international benchmark indicator for LPG price), higher natural gas retail sales volumes, strong growth in fertilisers sales volumes and lower input natural gas unit costs. These factors were partially offset by decreased earnings from the ammonium nitrate business due to lower margins and higher operational costs.

## STRATEGY

WesCEF's vision is to grow a portfolio of leading, sustainable businesses. WesCEF has a high quality portfolio of assets and seeks to leverage these assets and grow through investment and innovation to meet the needs of its customers. WesCEF also focuses on investment in adjacent opportunities where it can add value through its strengths and competitive advantages.

Growth strategies	Achievements	Focus for the coming years
<b>Safe person, safe process, safe place</b>	<ul style="list-style-type: none"> <li>Business-wide safety intervention to empower employees to identify hazards and develop action plans to mitigate risks</li> <li>Launched a safety initiative to have employees from different parts of the business observe safety practices</li> <li>Reduction in recordable injuries compared to the prior year</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing commitment to improve safety performance and employee safety capability</li> <li>Continue to track and close out actions from the safety intervention</li> <li>Launch a program to support physical fitness for work</li> <li>Develop and trial program on critical risk controls to support risk reduction</li> </ul>
<b>Foster a culture that recognises our diverse people and their focus on customers as central to our success</b>	<ul style="list-style-type: none"> <li>Significant investment in the Aboriginal Engagement and Employment Plan with an emphasis on job creation, skill building, creating an inclusive culture and supplier engagement</li> <li>Delivery of structured programs for employees across leadership, innovation, management essentials, wellness and inclusivity</li> <li>Programs for vacation students, cadets and graduates across disciplines but with a focus on engineering, data science and commercial</li> <li>Trialling and implementing new ways to attract and retain female employees, especially in leadership and non-traditional roles</li> <li>Good progress in development of data analytics capability</li> </ul>	<ul style="list-style-type: none"> <li>Implement and measure success of further targeted programs to attract, develop and retain an engaged, diverse workforce</li> <li>Continue a strong focus on leadership development, innovation and a more inclusive culture</li> <li>Ongoing development of technical competence through training and skills enhancement across our complex and diverse operations</li> <li>Launch a full-access online learning library</li> </ul>
<b>Evolve through innovation and investment</b>	<ul style="list-style-type: none"> <li>Achieved record sodium cyanide production realising the benefit from investment in debottlenecking and expansion projects</li> <li>Secured long-term commitments from key AN customers</li> <li>Delivered further discounts to natural gas retailing customers</li> <li>Investment in technology and digital including development of the Decipher platform</li> </ul>	<ul style="list-style-type: none"> <li>Pursue expansion of LNG capacity and assess other opportunities to leverage existing infrastructure to expand capacity</li> <li>Invest in fertilisers infrastructure and new products and services to meet the needs of WA growers</li> <li>Consider further opportunities for operational efficiency and automation</li> <li>Continued investment in technology</li> <li>Integration of Kidman and support of the Mt Holland lithium joint venture project</li> </ul>
<b>Enhance our reputation</b>	<ul style="list-style-type: none"> <li>Direct community contributions of \$403,619 supporting the Clontarf Gilmore College, Moorditj Koort and Lifeline, STEM-based initiatives in Kwinana and Rockingham and grass-roots community grants that directly benefit members of the communities in which we operate</li> <li>Delivery of the Teacher Accelerator Program in partnership with Scitech</li> <li>STEM education program, Bright Sparx Club, incorporated into the Kwinana Industries Council's suite of education programs</li> <li>Developed and commenced implementation of a modern slavery and ethical sourcing policy</li> <li>Invested in our cyber security posture in line with our plan</li> </ul>	<ul style="list-style-type: none"> <li>Continue to deliver on local community investment strategies with a focus on teacher capability in STEM education and environmental responsibility</li> <li>Continued focus on regulatory compliance</li> <li>Ongoing implementation of the modern slavery and ethical sourcing policy</li> <li>Continued investment in cyber security</li> </ul>

## RISK

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

Risk	Mitigation
<b>Serious injury, safety or environmental incident</b>	<ul style="list-style-type: none"> <li>Continue to invest in improving safety culture and performance for the safe operation of facilities and distributing products in a way that minimises any adverse effect on employees, contractors, local communities or the environment</li> <li>Maintain a strong focus on operating facilities and distribution systems in a manner which minimises the effect on the environment</li> </ul>
<b>Sustained intense competition</b>	<ul style="list-style-type: none"> <li>Maintain and build brand awareness</li> <li>Focus on consistently satisfying the needs of customers and continued investment in initiatives that further improve the customer experience</li> <li>Continue to review and expand product and service offering</li> <li>Positive contributions to the communities in which we operate</li> <li>Establishing a balance of short- and long-term contracts and spot arrangements, including leveraging export markets as appropriate</li> </ul>
<b>Meeting community expectations</b>	<ul style="list-style-type: none"> <li>Minimise the risk of modern slavery occurring in our businesses or supply chains</li> <li>Maintain strong governance and compliance in an evolving legal and community landscape</li> <li>Continue to invest in systems and processes to ensure responsible use of data and security of information</li> </ul>

## WESCEF SUSTAINABILITY PERFORMANCE

Sustainability is key to WesCEF's vision to grow a portfolio of leading, sustainable businesses. WesCEF continues its strong focus on operating responsibly and ethically, maintaining its commitment to safety and environmental stewardship, developing leadership capability and an inclusive culture contributing positively to the communities in which it operates. This underpins WesCEF's ongoing efforts to add value for its customers. During the year, WesCEF managed the following material sustainability issues.

### SAFETY AND WELLBEING

During the year, WesCEF initiated a safety program to further empower teams to identify workplace hazards and suggest actions to mitigate risk. Of the 441 actions raised, 68 per cent were completed with the remainder being regularly tracked.

WesCEF's total number of recordable injuries for the 2019 financial year was 13 compared to 16 in the prior period (a nearly 20 per cent reduction). The TRIFR was 4.2 compared to 5.4 at the same time last year.

### SUPPORTING COMMUNITIES

WesCEF and its businesses continue to invest in 'grassroot grants' that directly benefit members of the communities in which it operates.

For example, WesCEF's Teacher Accelerator Program was delivered during the year in partnership with Scitech. The program involved working with the Leda Primary School in Kwinana, Western Australia to help its teachers better understand new design and technology aspects of the curriculum. All teachers involved in the program reported a significant increase in their confidence and capability, increased student engagement and a decrease in discipline problems. WesCEF has engaged Scitech to run a similar program next year.

After three years, WesCEF's successful science, technology, engineering and mathematics (STEM) education program, the Bright Sparx Club, has been incorporated into the Kwinana Industries Council's award-winning suite of education programs and will continue to run twice a year. WesCEF has stepped away as the major sponsor to focus on developing new partnership opportunities.

### OPERATING EFFICIENTLY, RESPONSIBLY AND SAFELY

WesCEF aspires to operate in a responsible manner that meets stakeholder expectations.

During the year, WesCEF developed and started implementing its modern slavery and ethical sourcing policy. The policy seeks to minimise the risk of modern slavery occurring in its businesses and supply chains.

WesCEF's total number of identified regulatory non-conformances remains on a downward trend, improving from five non-conformances in the 2018 financial year to one in the 2019 financial year.

### ENVIRONMENTAL STEWARDSHIP

Water security is a business-critical risk at CSBP's Kwinana site with current and future threats to availability, reliability and cost of traditional water supply options. Failure to mitigate these risks could lead to an increase in cost and regulatory risk, and negatively impact plant reliability. During the year, WesCEF commenced developing a long-term water strategy to ensure water sustainability at its CSBP Kwinana site. The strategy examines options to manage water volume to meet current and future needs and the management of wastewater including reuse and recycling.

Focus areas for 2020 financial year include:

- identifying a new climate independent water supply option;
- optimising existing water treatment; and
- reducing water intensity.

Scope 1 and 2 greenhouse gas emissions increased by 17 per cent compared to last year. Increased production across some of our operations and a reduction in the abatement efficiency of the catalyst in the nitric acid plants contributed to this increase.

### CAPABILITY, DIVERSITY AND CULTURE

Over the year, WesCEF continued to focus on building a diverse and inclusive culture through improving gender balance and Indigenous employment:

- Overall female representation increased from 33.1 to 35.1 per cent and from 24.8 to 28.9 per cent in leadership roles; and
- 13 Indigenous employment opportunities were created although overall representation reduced marginally from 2.2 per cent to 2.1 per cent.

WesCEF considers a diverse and inclusive workplace to be a key contributor to achieving our objective of growing a portfolio of leading, sustainable businesses. WesCEF has a strong focus on attracting diverse talent through various strategies including LinkedIn searches, piloting of job videos, use of gender-balanced shortlisting and promotion of flexibility. These strategies seek to increase the number of female applicants which have traditionally been lower in chemical production, engineering, sales and information technology roles.

During the 2020 financial year, WesCEF will remain focused on building a diverse workforce and inclusive culture while implementing a communications and engagement roadmap which is focused on celebrating various diversity events across the division. Additional initiatives include a review of the parental leave policy, the Inclusive Workplace Behaviour program for leaders and an analysis of the results of the engagement survey.

Indigenous employment will receive additional focus in the 2020 financial year with the establishment of a senior leader led Indigenous Working Group to identify further opportunities for progress.

For more information about WesCEF's sustainability program, please visit [sustainability.wesfarmers.com.au](https://sustainability.wesfarmers.com.au)

### Safety performance

TOTAL RECORDABLE INJURY FREQUENCY RATE<sup>1</sup>

# 4.2

Year	TRIFIR
2019	4.2
2018	5.4
2017	2.2
2016	7.8
2015	5.3

<sup>1</sup> TRIFIR is the number of lost time and medical treatment injuries per million hours worked.

### Community contributions

# \$0.4m

Year	Direct	Indirect
2019	0.4	0.0
2018	0.4	0.0
2017	0.4 <sup>1</sup>	0.0
2016	0.3	0.0
2015	0.4	0.0

<sup>1</sup> This number has been restated due to a review conducted in 2018.

### Greenhouse gas emissions

SCOPE 1 & 2<sup>1</sup>

# 897.3 ktCO<sub>2</sub>e

Year	ktCO <sub>2</sub> e
2019	897.3
2018	769.8
2017	798.2
2016	808.8
2015	760.7

<sup>1</sup> Scope 1 and 2 data includes emissions from continuing operations for businesses where we have operational control under the NGER Act and other non-reportable Australian-based emissions over which we have control.

### Waste

# 11.0 kt

Year	Recycled	Disposed
2019	8.2	2.8
2018	8.0	4.4
2017	4.6	2.0
2016	3.3	3.2
2015	2.1	4.7



### Algae to treat wastewater – CSBP

CSBP is investigating whether algae can be used to treat nutrient-rich wastewater. Wastewater at CSBP Kwinana’s operations in Western Australia is currently treated via a nutrient-stripping wetland. As facilities at the Kwinana site expand, CSBP will explore other technologies to support the wetlands, including algal ponds.

Algae cleans the water by using the nutrients to grow, reducing contaminants in the water. Other advantages of using algae are that while it grows it removes carbon dioxide and the resulting algal biomass can be used in other products such as liquid fertiliser.

Traditionally, algal ponds are used to treat wastewater from aquaculture farms, but CSBP is working with James Cook University in Queensland to test if they can be used in an industrial setting.

Laboratory trials have shown that marine algae were able to grow in CSBP Kwinana’s wastewater. Further work will be conducted to determine whether the algae can grow in wastewater from the Country Works Fertiliser depots.

### LNG as an alternative to diesel – EVOL LNG

Increasingly, the community expects businesses to operate in a sustainable way and to reduce their environmental footprint.

With this trend, more companies are turning to EVOL LNG to provide them with a cleaner energy source. LNG has better emissions performance than conventional fuels and energy solutions and is used as an alternative to diesel.

EVOL LNG has been working with the mining industry to provide a cost-efficient and cleaner way to fuel their site power stations. LNG-fuelled power stations produce 25 per cent less CO<sub>2</sub> emissions than diesel-fuelled power stations. A recent EVOL LNG customer estimates that their greenhouse emissions will be reduced by 50,000 tonnes over the next six years which is the equivalent of keeping around 3,000 cars off the road.

In addition to lowering carbon emissions, utilising LNG reduces customers’ dependence on imported diesel, significantly reducing their energy costs.

# INDUSTRIAL AND SAFETY



Revenue increase  
**\$1,752m**

Earnings  
**\$86m**

## YEAR IN REVIEW

### Revenue

**\$1,752m**

Year	Revenue (\$m)
2019	1,752
2018	1,750
2017	1,776
2016	1,844
2015	1,772

### EBIT

**\$86m**

Year	EBIT (\$m)
2019	86
2018	118
2017	115
2016	63
2015	70

### Key financial indicators

For the year ended 30 June	2015 <sup>2</sup>	2016 <sup>1</sup>	2017	2018	2019
Revenue (\$m)	1,772	1,844	1,776	1,750	<b>1,752</b>
Earnings before interest and tax (\$m)	70	63	115	118	<b>86</b>
Capital employed (R12) (\$m)	1,257	1,339	1,363	1,409	<b>1,475</b>
Return on capital employed (%)	5.5	4.7	8.4	8.4	<b>5.8</b>
Capital expenditure (\$m)	65	44	34	50	<b>83</b>

<sup>1</sup> 2016 includes \$35 million of restructuring costs associated with the 'Fit for Growth' transformation.

<sup>2</sup> 2015 includes restructuring costs of \$20 million related to branch closures, business consolidation and organisational redesign.



## OUR BUSINESS

Industrial and Safety operates four main businesses: Blackwoods, Workwear Group, Coregas and Greencap. Blackwoods is the largest business in terms of revenue and is a distributor of tools, safety gear, workwear and industrial supplies. It services a wide variety of customers of different sizes across Australia and New Zealand with a broad stock keeping unit count of around 200,000.

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

Coregas is a supplier of industrial, specialty and medical gases in Australia and New Zealand, serving customers of all sizes through multiple sales channels and distribution networks. Coregas successfully launched into healthcare in December 2018.

Greencap is a management consulting business which has a market leading contractor induction digital platform.

## OUR MARKET

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

## PERFORMANCE DRIVERS

Revenue of \$1,752 million was broadly in line with the prior year. Blackwoods' revenue declined, with increased demand in mining offset by lower sales in construction and the small and medium enterprise market. Workwear Group revenue was broadly in line with the prior year, with higher uniform sales offset by impacts from the retail store divestment program. Coregas' revenue increased due to demand in the bulk sales channels and the successful launch of its new healthcare offering in December 2018.

Reported earnings of \$86 million was 27.1 per cent below the prior year. Blackwoods' earnings decreased due to a lower gross margin and the impact of ongoing investment in customer service, the ERP system, supply chain automation and improving the digital offer. Workwear Group earnings improved, while Coregas' earnings were marginally higher due to higher sales offset by margin pressure from higher input costs.



## STRATEGY

Industrial and Safety continues to focus on performance improvement activities and investment in digital capability. Across Blackwoods, Workwear Group and Greencap this includes focussing on data, ERP and supply change activities aimed at creating a seamless customer service experience while optimising supply chain processes. Other strategic priorities include investing in product customisation and building specialty gas capabilities for Coregas.

Growth strategies	Achievements	Focus for the coming years
<b>Implementation of a world-class business-to-business wholesale distribution platform for Blackwoods</b>	<ul style="list-style-type: none"> <li>Customer service improvements achieved – delivery in full on time (DIFOT) above 95 per cent for large customers</li> <li>New web platform (<b>blackwoods.com.au</b>) launched in May 2019</li> <li>Own brand refresh complete</li> <li>Distribution centre automation being implemented at Scoresby and Greystanes</li> </ul>	<ul style="list-style-type: none"> <li>Implementing a new ERP system</li> <li>Investment in data and digital systems</li> <li>Investigating further automation opportunities</li> <li>Building sales force effectiveness</li> </ul>
<b>Digital transformation and supply chain optimisation of Workwear Group</b>	<ul style="list-style-type: none"> <li>Supply chain optimisation progressed</li> <li>Sourcing rationalisation progressed</li> <li>Customised apparel offer introduced</li> </ul>	<ul style="list-style-type: none"> <li>Investment in digital transformation</li> <li>Further refinement of the operating model to improve efficiencies</li> <li>Investment in product customisation and brand</li> </ul>
<b>Grow Coregas through new distribution channels</b>	<ul style="list-style-type: none"> <li>Continued to leverage Blackwoods and Bunnings distribution channels in Australia and New Zealand</li> <li>Growth in medical gases offer and customers, including successful Healthcare launch in December 2018</li> </ul>	<ul style="list-style-type: none"> <li>Further expanding product offers such as healthcare and other specialty gases</li> <li>Geographic expansion</li> </ul>
<b>Leverage online capability of Greencap</b>	<ul style="list-style-type: none"> <li>Acquired 100 per cent ownership of leading contractor induction digital platform CM3</li> </ul>	<ul style="list-style-type: none"> <li>Grow digital services</li> </ul>

## RISK

As a supplier of industrial, safety and work wear products, the business is exposed to the performance of customers' industry sectors, new and existing competitor activity and trends as well as macro-economic factors such as capital investment, employment, exchange rates and interest rates.

Risk	Mitigation
<b>Growth of new and existing competitors, including digital market entrants</b>	<ul style="list-style-type: none"> <li>Develop new and improve existing systems and processes</li> <li>Build data and digital capabilities</li> <li>Develop a more customer-centric and relevant platform</li> <li>Continue to optimise range, price and supply chains</li> </ul>
<b>Subdued growth and margin pressure in traditional customer segments</b>	<ul style="list-style-type: none"> <li>Continue development of customer-centric platforms, for example, development of a business-to-business marketplace platform for Blackwoods</li> <li>Continue to develop Workwear Group's product customisation and brand offering</li> <li>Further develop new distribution channels for Coregas and expand specialty gas capabilities</li> </ul>
<b>Safety or environmental incident</b>	<ul style="list-style-type: none"> <li>Continue to focus on quality systems and ensuring compliance with standards</li> <li>Fully operational safety program including regular monitoring and the continuation of the safety culture</li> <li>Active safety engagement by senior management</li> </ul>

## INDUSTRIAL AND SAFETY SUSTAINABILITY PERFORMANCE

The Industrial and Safety portfolio of businesses has progressed its target-based sustainability plan during the year, with team member safety and wellbeing a top priority. People development, balance and inclusion and community contributions were also key development areas, reaffirming the businesses' commitments to their people and the communities they serve. For the 2019 financial year, a more comprehensive and consultative approach was adopted with internal and external stakeholders. During the year, Industrial and Safety managed the following material sustainability issues.

### SAFETY AND WELLBEING

The Industrial and Safety businesses have maintained a relentless focus on driving initiatives to mitigate fatal risk, prevent injuries, support operational excellence in design and ensure team members' physical and psychological wellbeing. While TRIFR increased from 6.6 to 6.9 in the 2019 financial year, all lead indicators were above target.

Health and wellbeing initiatives included team members flu vaccinations, a 10,000 steps challenge and the first in a series of mental health first aid training for leaders and team members, including a course which aimed to provide support for Indigenous team members. Blackwoods also undertook load restraint training for over 1,000 team members, while Workwear Group implemented improvements in its warehouse layout to reduce interactions between pedestrians and material handling equipment.

### PEOPLE DEVELOPMENT

The Industrial and Safety businesses delivered targeted leadership and sales capability development programs to improve workforce performance and bench strength. We are proud to develop and promote talent by delivering tailored programs and other opportunities to develop team members and better equip the businesses for future growth.

### BALANCE AND INCLUSION

The Industrial and Safety businesses audited their recruitment practices and reviewed relevant policies to align with gender balance and inclusion objectives. At this time 30.6 per cent of leadership roles are held by women. Flexibility for working parents was a focus, with a review and update of parental leave policies undertaken. Industrial and Safety also placed greater emphasis on supporting

Indigenous students and enhancing the quality of Indigenous team members' experience. Blackwoods' Indigenous employment increased to 3.4 per cent, with the business completing a review of career advancement, training and qualifications and gender balance among its Indigenous team members.

### ETHICAL SOURCING

Leveraging strong supplier relationships, the Industrial and Safety businesses work with supply partners to continuously improve ethical business practices and deliver sustainable solutions. The businesses have detailed risk assessment processes that profile suppliers based on a number of inherent risks including country, product type and manufacturing process. Aligning to the Supplier Ethical Data Exchange (Sedex) and the Sedex Members Ethical Trade Audit (SMETA) frameworks, the businesses continue to audit high-risk suppliers to global best practice with the aim of ensuring compliance across social and environmental standards.

### COMMUNITY CONTRIBUTION

The Industrial and Safety businesses are proud of the partnerships they have with local organisations, making positive contributions across a spectrum of causes aligned with their values and local community needs. During the year, approximately \$1.2 million was contributed via donated stock, financial contributions and corporate sponsorships. The direct contributions included over \$620,000 to The Fred Hollows Indigenous Australia program from Blackwoods, \$200,000 worth of uniforms from Workwear Group for the 2018 Invictus Games volunteers and support staff and \$92,000 from NZ Safety Blackwoods to KidsCan. Additional indirect contributions such as team member donations, mentoring and volunteer hours were also made.

### PRODUCT SAFETY

To ensure the Industrial and Safety businesses provide customers with safe products, each consumer product business constantly looks to improve standards, controls and processes; particularly in high-risk product safety areas and own-brand products. In the 2019 financial year, Blackwoods, NZ Safety Blackwoods, Coregas and Workwear Group reported zero product recalls for all own-brand products. As a technical services business, Greencap focuses on service quality rather than product safety. During the year, Greencap received ISO14001 Environmental Management System Accreditation certification and continued to maintain its ISO 9001 Quality Management System independent accreditation.

### WASTE AND PACKAGING

Each Industrial and Safety business strives to reduce waste-to-landfill and water use and to improve energy efficiencies where possible. As members of APCO each business is committed to reviewing its packaging strategy including considering recycling and the grade of cardboard used in cartons. In the 2019 financial year, Workwear Group continued to explore potential solutions for redirection from landfill to reduce environmental impact. Blackwoods is in the process of conducting a review of waste providers and services.

For more information about Industrial and Safety's sustainability program, please visit [sustainability.wesfarmers.com.au](https://sustainability.wesfarmers.com.au)

### Safety performance

TOTAL RECORDABLE INJURY FREQUENCY RATE<sup>1</sup>

**6.9**

Year	TRIFR
2019	6.9
2018	6.6
2017	8.1
2016	9.2
2015	11.4

<sup>1</sup> TRIFR is the number of lost time and medical treatment injuries per million hours worked.

### Community contributions

**\$1.2m**

Year	Direct	Indirect
2019	1.2	0.0
2018	0.6	0.1
2017	0.0	0.0
2016	0.1	0.0
2015	0.1	0.0

### Greenhouse gas emissions

SCOPE 1 & 2<sup>1</sup>

**25.9** ktCO<sub>2</sub>e

Year	ktCO <sub>2</sub> e
2019	25.9
2018	26.0
2017	29.2
2016	30.0
2015	28.7

<sup>1</sup> Scope 1 and 2 data includes emissions from continuing operations for businesses where we have operational control under the NGER Act and some of our emissions in New Zealand.

### Waste

**14.8** kt

Year	Recycled	Disposed
2019 <sup>1</sup>	4.4	10.4

<sup>1</sup> Waste not previously reported in 2015 to 2018 because it was not material to the Group.



### Industrial and Safety initiatives to support Indigenous students

Across all of its businesses, Industrial and Safety has committed to supporting Indigenous students by providing them with training, development and employment opportunities. In 2019, every Industrial and Safety business hosted an intern from CareerTrackers, a national non-profit organisation with the goal of creating pathways and support systems for Indigenous tertiary students. Three interns transitioned into full-time roles at Blackwoods following graduation.

Bullivants selected the recipients of its inaugural Indigenous Scholarship in Engineering (or other related study), with two Indigenous students receiving \$10,000 each for every year of study. Caitlin Ramsay (pictured above left) is one of the scholarship recipients. The funding will support their tertiary education and both students will receive the opportunity to gain relevant hands-on business experience within the Bullivants business during university breaks.

A group of Clontarf students began or continued their employment journey at Blackwoods through school-based traineeships. For Junathean Coady (pictured above right) the combination of his hard work completing Year 12 in 2018, obtaining an industry-recognised certification and relevant experience through his traineeship has helped him secure a full-time role at Blackwoods.



### Grencap raising funds to alleviate asbestos exposure

Grencap's commitment to safety extends beyond its people, which is why Grencap has partnered with the Bernie Banton Foundation (BBF), an organisation providing support to sufferers of asbestos-related diseases and their families.

Since the partnership commenced in 2017, Grencap has provided corporate sponsorship and raised over \$20,000 for the foundation through various

fundraising drives. Grencap is the foundation's Risk Management Supporter, using its stature in the asbestos and hazardous materials industry to support the foundation by generating awareness among the industry, the general public and those at risk.

The Grencap mission to make a world a safer place aligns perfectly with BBF's focus on alleviating asbestos exposure through awareness and advocacy.

# OFFICEWORKS



## YEAR IN REVIEW

### Revenue

**\$2,314<sub>m</sub>**

2019	2,314	<div style="width: 100%; height: 10px; background-color: #008000;"></div>
2018	2,142	<div style="width: 92%; height: 10px; background-color: #cccccc;"></div>
2017	1,964	<div style="width: 85%; height: 10px; background-color: #cccccc;"></div>
2016	1,851	<div style="width: 80%; height: 10px; background-color: #cccccc;"></div>
2015	1,714	<div style="width: 74%; height: 10px; background-color: #cccccc;"></div>

### EBIT

**\$167<sub>m</sub>**

2019	167	<div style="width: 100%; height: 10px; background-color: #008000;"></div>
2018	156	<div style="width: 93%; height: 10px; background-color: #cccccc;"></div>
2017	144	<div style="width: 86%; height: 10px; background-color: #cccccc;"></div>
2016	134	<div style="width: 80%; height: 10px; background-color: #cccccc;"></div>
2015	118	<div style="width: 71%; height: 10px; background-color: #cccccc;"></div>

### Key financial indicators

For the year ended 30 June	2015	2016	2017	2018	2019
Revenue (\$m)	1,714	1,851	1,964	2,142	<b>2,314</b>
Earnings before interest and tax (\$m)	118	134	144	156	<b>167</b>
Capital employed (R12) (\$m)	1,034	994	980	939	<b>980</b>
Return on capital employed (%)	11.4	13.5	14.7	16.6	<b>17.0</b>
Capital expenditure (\$m)	39	41	36	45	<b>42</b>

Celebrating its 25-year anniversary in June 2019, Officeworks remains committed to making bigger things happen for its customers, team, the community and stakeholders. It operates 167 stores across Australia, a website that is home to more than 40,000 products, a national call centre, and a business team that helps micro-, small- and medium-sized businesses start, run and grow. It offers customers a wide range of office supplies, technology, furniture, art supplies, education resources and helpful services like print and copy and on-site tech support through Geeks2U.

## PROSPECTS

The past 12 months have delivered positive progress for Officeworks with improved team member safety, improved customer service satisfaction levels, the acquisition of Geeks2U and the opening of our biggest store yet in Mentone, Victoria. We also launched a new paid parental leave policy 'Growing Families' for our team members, directly and indirectly contributed \$4.1 million to our national partners and local community groups, reduced carbon emissions by seven per cent year-on-year and celebrated our 25-year anniversary.

Great progress has been made, but Officeworks is not being complacent. We are refreshing our strategy and making focused investments to enable us to better meet our customers' needs as their expectations change. This will

ensure we can continue to deliver satisfactory returns over the long term.

Earnings growth in the 2020 financial year will be impacted by investments in maintaining price leadership as well as delivering higher team member wages following the implementation of the new store enterprise agreement. Productivity initiatives are expected to partially offset the investment in team member wages.

This is an exciting journey for Officeworks. Our team is passionate about helping customers make bigger things happen in the 2020 financial year and beyond.

### — SARAH HUNTER

Managing Director, Officeworks



## PERFORMANCE DRIVERS

Officeworks delivered revenue of \$2,314 million for the year, an increase of 8.0 per cent on the prior corresponding period. Earnings increased 7.1 per cent to \$167 million.

The safety, health and wellbeing of its 8,000 team members is a priority for Officeworks. In the 2019 financial year, TRIFR decreased from 10.2 to 8.5, the safest year-to-date for its team members under Wesfarmers ownership.

Providing a seamless customer experience also remained a strong focus throughout the year, which was reflected in Officeworks' continued improvement in customer satisfaction levels.

The every channel approach continues to resonate with customers, with strong sales growth achieved in both stores and online. Strong momentum in the B2B segment was maintained with more customers choosing Officeworks to help them start, run and grow their business.

Earnings growth was delivered through continued investment in price leadership and effective management of cost of doing business, which resulted in an increase in return on capital of 0.4 percentage points to 17.0 per cent.

The growth in sales and earnings was underpinned by investment in new and expanded product ranges, online enhancements and improvements to the click and collect offer.

During the year, four new stores were opened, and two stores were closed. At 30 June 2019 there were 167 stores operating across Australia.

As part of its growth strategy, on 1 March 2019 Officeworks acquired Geeks2U – a national provider of on-site information, communication and technology services.

## OFFICEWORKS



7.1% increase in earnings to

**\$167m**

### Sales growth

Sales growth achieved in both stores and online.

#### OUR BUSINESS

Established 25 years ago in Richmond, Victoria, Officeworks is committed to making bigger things happen for its customers, team, the community and stakeholders. As part of Wesfarmers, Officeworks is focused on continuing to deliver satisfactory returns to shareholders over the long term. It operates 167 stores across Australia, a website that is home to more than 40,000 products, a national call centre, and a business team that helps micro-, small- and medium-sized businesses start, run and grow. Officeworks offers customers a wide range of office supplies, technology, furniture, art supplies, education resources and helpful services like print and copy and on-site tech support through Geeks2U – delivering an experience that is easy and engaging, no matter how customers choose to shop. Officeworks is focused on the safety, wellbeing and career progression of the nearly 8,000 team members it employs. It is also dedicated to operating in a sustainable manner, including building and maintaining meaningful connections with the communities in which it operates, fundraising for its national partners and local community groups, continuing to reduce its impact on the environment and source responsibly.

#### OUR MARKET

Officeworks' current addressable market in Australia is approximately \$20 billion, which incorporates core office products such as paper, pens, ink and toner and filing, as well as categories such as technology, print and copy, furniture, kitchen and cleaning products and packaging. Over the past decade, Officeworks has expanded its presence in the market through range and category expansion, and also by introducing new solutions for customers.

Officeworks will continue to expand its addressable market in line with customer needs and explore growth in new areas such as education and services for small and medium-sized businesses. In total, it is estimated that these opportunities could expand Officeworks' potential total addressable market to \$41 billion, more than double the current addressable market.

## STRATEGY

Officeworks is committed to making bigger things happen for its customers, team, the community and other stakeholders, in order to continue to deliver satisfactory returns to shareholders over the long term.

Officeworks will continue to drive growth and productivity by executing its refreshed strategy which is centred around:

- Our team
- Customer experience
- Connecting with our communities
- Operational excellence
- Growing our business

Growth strategies	Achievements	Focus for the coming years
<b>Our team</b> We are skilled, committed and healthy	<ul style="list-style-type: none"> <li>– Safest year under Wesfarmers ownership with a TRIFR of 8.5</li> <li>– Launched paid parental leave policy, 'Growing Families'</li> <li>– Of the 83 per cent of store team members who voted on a new Enterprise Agreement, 97 per cent voted in favour</li> </ul>	<ul style="list-style-type: none"> <li>– Develop a broader health and wellbeing strategy while continuing to reduce TRIFR</li> <li>– Increase focus on diversity and belonging</li> <li>– Continue focus on training and skills development</li> <li>– Implementation of new Enterprise Agreement</li> </ul>
<b>Customer experience</b> We make things easy and engaging	<ul style="list-style-type: none"> <li>– Continued improvement in customer service levels</li> <li>– 45 per cent increase in click and collect orders year-on-year</li> <li>– Trialled new store format (Mentone, Victoria)</li> </ul>	<ul style="list-style-type: none"> <li>– Enhance data analytics capability</li> <li>– Upgrade every channel functionality and features</li> <li>– Improve range curation and in-store experience</li> </ul>
<b>Connecting with our communities</b> We are a part of where we live	<ul style="list-style-type: none"> <li>– Recycled 82 per cent of all operational waste</li> <li>– Seven per cent reduction in carbon emissions year-on-year</li> <li>– Directly and indirectly contributed \$4.1 million to national and local community groups</li> </ul>	<ul style="list-style-type: none"> <li>– Reduce operational impact on the environment and source responsibly</li> <li>– Build closer connections with the communities in which we live and work</li> <li>– Continue to do more to help educate disadvantaged students</li> </ul>
<b>Operational excellence</b> We strive to do things better	<ul style="list-style-type: none"> <li>– New consolidated distribution centre nearing completion in WA</li> </ul>	<ul style="list-style-type: none"> <li>– Continue to modernise supply chain</li> <li>– Implement a new people management system</li> <li>– Continued improvement in inventory planning and stock management</li> </ul>
<b>Growing our business</b> We are ambitious in driving growth	<ul style="list-style-type: none"> <li>– Four new stores opened</li> <li>– New and expanded product ranges</li> <li>– Acquisition of Geeks2U</li> </ul>	<ul style="list-style-type: none"> <li>– Evolve and expand product and service offers</li> <li>– Invest in the every channel offer including store renewal, new stores, and click and collect</li> <li>– Grow Geeks2U offer for Officeworks customers</li> <li>– Print &amp; Copy platform upgrade</li> </ul>

## RISK

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

Risk	Mitigation
<b>New and existing competitors</b>	<ul style="list-style-type: none"> <li>– Relentless focus on providing a seamless experience for customers that is easy and engaging</li> <li>– Investment in data analytics to better understand customer needs</li> <li>– Continue to focus on innovative range, service and marketing formats</li> <li>– Effective cost control and disciplined inventory management</li> </ul>
<b>Changing customer behaviours</b>	<ul style="list-style-type: none"> <li>– Regular reviews of range to ensure it meets the evolving demands and preferences of Officeworks' customers</li> <li>– Continue investment in the every channel model, making it easier and more convenient for customers to shop whenever, wherever and however they choose</li> <li>– Innovation within existing categories and expansion into new areas</li> </ul>
<b>Data and IT security</b>	<ul style="list-style-type: none"> <li>– Dedicated internal capability focused on IT systems and security</li> <li>– Appropriate IT system controls in place</li> <li>– Security awareness training program to keep all team members educated and informed</li> </ul>
<b>Reputation loss</b>	<ul style="list-style-type: none"> <li>– Investment in leadership capability and a strong culture</li> <li>– Ongoing regulatory compliance training</li> <li>– Focus on reputational risk through governance framework</li> </ul>
<b>Ethical sourcing and sustainability</b>	<ul style="list-style-type: none"> <li>– Five-year sustainability strategy (Positive Difference Plan) to identify and mitigate sustainability risks and opportunities</li> <li>– Responsible sourcing policies supported by investment in detailed compliance programs</li> </ul>

## OFFICEWORKS SUSTAINABILITY PERFORMANCE

Officeworks understands the importance of operating a responsible and sustainable business that supports the communities where its customers, suppliers and team members live and work. During the year Officeworks managed the following material sustainability issues.

### SAFETY

Officeworks is committed to ensuring everyone goes home safe. Throughout the 2019 financial year, Officeworks continued its safety journey and finished the year with a TRIFR of 8.5, the safest year for its team members under Wesfarmers ownership.

### OPERATIONAL WASTE

During the year, Officeworks recycled 82 per cent of all waste, an increase from 76 per cent in the previous financial year. This change resulted in an 18 per cent reduction in waste sent to landfill for the period. This was achieved by taking a dynamic approach to waste service schedules that reduced the frequency of general waste collections to favour recycling services, in turn driving improved behaviours.

As the industry continued to be impacted by the effects of the China National Sword Policy, reducing contamination rates of recycling streams became more of a focus.

### COMMUNITY CONTRIBUTIONS

Officeworks recognises that connecting with communities at local, regional and national levels is important because the relationships formed with customers go beyond the products and services they purchase in our stores.

During the year, Officeworks directly and indirectly contributed \$4.1 million to communities, of which \$3.2 million was contributed towards education and environmental causes, including committing to 243,000 trees being planted as part of Restoring Australia and supporting 2,394 disadvantaged students on their education journeys.

### ETHICAL SOURCING AND MODERN SLAVERY

Officeworks' suppliers are required to adhere to its Ethical Sourcing and Modern Slavery Policy. The policy is built upon the standards set by the International Labour

Organization and the principles of the Ethical Trading Initiative.

This year Officeworks welcomed the introduction of Australian modern slavery laws, which establish a national reporting requirement. In preparation, Officeworks completed an independent gap analysis to ensure that the scope and governance of its ethical sourcing program is effective and to understand opportunities for continuous improvement. As a result of the review, Officeworks increased its focus on suppliers of goods not for resale and services and is developing an approach to investigate key suppliers beyond the primary site of manufacturing as its program expands to consider suppliers of raw materials.

### RECYCLING ELECTRONIC WASTE

With electronic waste growing three times faster than other waste streams, Officeworks assists customers to dispose responsibly of unwanted technology items for free at dedicated in store recycling collection points, enabling the recovery of valuable materials for reuse.

During the 2019 financial year, customers recycled a total of 867 tonnes of e-waste and consumables, an increase of 25 per cent on the prior year.

In August 2018, the Basel Action Network released a report following an investigation into e-waste recycling in Australia, which claimed that two devices left at Officeworks stores in Queensland in September 2017 were exported to Hong Kong, placing the government-approved co-regulator in potential contravention of international law. Officeworks conducted an investigation which resulted in immediate corrective actions plans and changed providers to an alternative government approved co-regulator with greater levels of governance and traceability to reduce the risk of similar issues in the future.

### SOURCING WOOD FIBRE RESPONSIBLY

As a leading retailer of paper products, Officeworks recognises the importance of responsible and sustainable sourcing of products that contain wood fibre. All suppliers of products containing wood fibre must disclose detailed information before those products can be ordered.

Officeworks acknowledges the FSC as the leading forestry certification scheme due to its high environmental and social standards for responsible and sustainable forest management, as well as its chain of custody processes and balanced governance structure. As at the end of the 2019 financial year, 81 per cent of all paper products sold at Officeworks met this criterion, up from 68 per cent at the end of the 2018 financial year.

### RESTORING AUSTRALIA

Restoring Australia is Officeworks' long-term commitment to making a positive difference to the environment, native wildlife, landholders and communities. Restoring Australia delivers tree planting and land restoration projects and allows customers to make sustainable purchases simply by shopping at Officeworks.

Launched in July 2017, the initiative sees Officeworks committing to planting two trees for every one used, based on the weight of paper-based products purchased by its customers. In partnership with Greening Australia, a total of 202,436 trees were planted throughout the 2019 financial year, with a further 40,564 planted from July to September 2019.

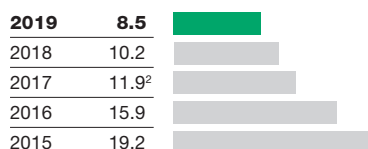
For more information about Officeworks' sustainability program, please visit [sustainability.wesfarmers.com.au](https://sustainability.wesfarmers.com.au)



### Safety performance

TOTAL RECORDABLE INJURY FREQUENCY RATE<sup>1</sup>

**8.5**

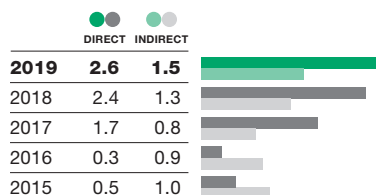


<sup>1</sup> TRIFR is the number of lost time and medical treatment injuries per million hours worked.

<sup>2</sup> Restated due to maturation of data.

### Community contributions

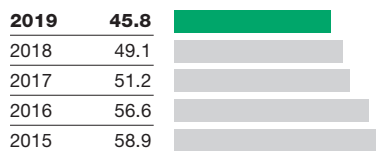
**\$4.1m**



### Greenhouse gas emissions

SCOPE 1 & 2<sup>1</sup>

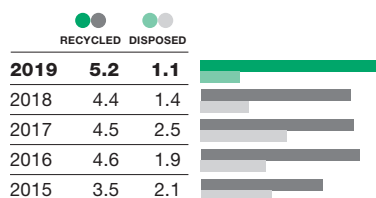
**45.8 ktCO<sub>2</sub>e**



<sup>1</sup> Scope 1 and 2 data includes emissions from continuing operations for businesses where we have operational control under the NGER Act.

### Waste

**6.3 kt**



### Getting hands on to reduce waste

As part of its journey towards zero waste to landfill, Officeworks set a target to recycle at least 85 per cent of all operational waste generated across stores, distribution centres and support centres. Central to achieving the target was ensuring all team members understood the importance of reducing the amount of waste sent to landfill and ensuring recyclable materials were recovered through the correct waste streams. To support this, a waste and recycling workshop was developed in partnership with Officeworks' waste provider, Cleanaway, based on the principles of the waste hierarchy: reduce, reuse and recycle.

Ahead of an offsite workshop, general waste bins from the participating team members' stores were delivered to a Cleanaway facility. On arrival, team members conducted a waste audit of their store's bin which involved segregating recyclable materials from non-recyclable materials. The results demonstrated that although some stores were already recycling 80 per cent of their waste, a further 46 per cent of their general waste bin could have been recycled.

Following the audit, team members reflected on why certain waste may have ended up in the wrong bin and what corrective actions could be implemented to address it. Examples included better education of cleaners and team members, ensuring that bins are in appropriate locations in store and combatting illegal dumping.

The results demonstrated that participation in the workshop and understanding the opportunity, team members were able to drive significant improvements at their stores with the Western Australian region demonstrating the greatest improvement lifting recycling rates from 73 per cent in July 2018 to 86 per cent in June 2019.

In addition, Officeworks assists customers to dispose responsibly of unwanted technology items for free at dedicated in-store recycling collection points, enabling the recovery of valuable materials for reuse.

## OTHER ACTIVITIES

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

### COLES

Coles is a leading Australian retailer which sells everyday products including fresh food, groceries, household goods, liquor, fuel and financial services via its national store networks and online platforms.

Following the demerger of the Coles division from Wesfarmers on 28 November 2018 and its listing as a standalone company on the Australian Securities Exchange, Wesfarmers became a significant shareholder in Coles Group Limited (Coles), holding 15 per cent of Coles' total shares on issue as at 30 June 2019.

Earnings from the Group's 15 per cent share of Coles' net profit after tax since demerger totalled \$128 million. For more information on Coles' performance during the year, please visit [www.colesgroup.com.au](http://www.colesgroup.com.au)

### FLYBUYS

Wesfarmers owns a 50 per cent shareholding in leading loyalty and data company flybuys, with Coles Group Limited holding the other 50 per cent. Formerly part of Coles, following the demerger in November 2018 the flybuys business was set up as an independent, standalone business.

As at 30 June 2019, there were 6.6 million active households in the flybuys loyalty scheme. For more information on flybuys, please visit [www.flybuys.com.au](http://www.flybuys.com.au)

### BWP TRUST

Wesfarmers' investment in the BWP Trust (the Trust) contributed earnings of \$42 million, compared to \$45 million last year.

The Trust was established in 1998 with a focus on warehouse retailing properties and, in particular, warehouses leased to Bunnings. 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 2019.

The Trust's portfolio as at 30 June 2019 consisted of a total of 75 properties. For more information on the Trust, please visit [www.bwptrust.com.au](http://www.bwptrust.com.au)

### GRESHAM PARTNERS

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

Wesfarmers is a participant in the Gresham Private Equity funds, which had one remaining investment as at 1 July 2018 in an underground mining services business, Barminco Limited. In August 2018, Ausdrill Limited

agreed to acquire Barminco. As part of the transaction, Wesfarmers recorded a \$42 million gain on the Group's investment in Barminco following its purchase by Ausdrill and a subsequent \$19 million revaluation of the Ausdrill shares received. In September 2019, Wesfarmers disposed of its interest in Ausdrill.

For more information on Gresham Partners, please visit [www.gresham.com.au](http://www.gresham.com.au)

### WESPINE INDUSTRIES

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

Despite WA housing approvals at the lowest level in 20 years, Wespine increased timber sales by 4 per cent to \$96.7 million with nearly 30 per cent of production shipped to customers in the Eastern States. Contribution margins also improved during the year reflecting both efficient operations and favourable production mix. Disappointingly, an increase in recordable injuries occurred during the year to 30 June 2019 following a record low frequency rate in the year to 30 June 2018. Workforce safety continues to be a focus area for management including supervision practices, hazard awareness and housekeeping.

For more information on Wespine Industries, please visit [www.wespine.com.au](http://www.wespine.com.au)

# GROUP SUSTAINABILITY PERFORMANCE

At Wesfarmers we believe long-term value creation is only possible if we play a positive role in the communities we serve.



For over 100 years, Wesfarmers has been focused on the long term. Since Wesfarmers publicly listed in 1984, our core objective has been to deliver satisfactory returns to shareholders. We believe it is only possible to achieve this over the long term if we manage our businesses in a sustainable manner and this means managing and understanding the impact we have on people, the environment and playing a positive role in the communities we serve.

Wesfarmers seeks to minimise our footprint and to deliver solutions that help our customers and the community do the same. We are committed to making a positive contribution to the communities in which we operate through strong partnerships

and by providing direct and indirect employment. We endeavour to continuously improve our performance and publicly report on our progress and challenges.

At Wesfarmers, sustainability is a critical, board level, governance and strategic issue. Management is responsible for assessing and managing sustainability risks and opportunities and both the Board of Wesfarmers and the divisional boards have oversight of these risks and opportunities.

For further information please visit our website at [sustainability.wesfarmers.com.au](http://sustainability.wesfarmers.com.au)

## SAFETY

### We maintain a relentless focus on providing safe workplaces.

At all times, safety must be our highest priority. Our overriding principle is that every single team member is entitled to go home safely at the end of their working day. If any team member is injured at work, then our safety performance requires more relentless focus.


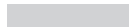

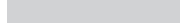
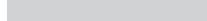
To monitor our safety performance, we use TRIFR (or total recordable injury frequency rate) which shows injuries per million hours worked by team members and long-term contractors. This year, our TRIFR decreased by 1.5 per cent from 13.7 to 13.5 (continuing operations), with improvements across most divisions. Workers compensation claims increased from 1,699 to 1,750 on a continuing operations basis.

Tragically, during the year there was a fatality of a contractor at the Bengalla coal operation joint venture in the Hunter Valley of New South Wales. The fatality was thoroughly investigated and support was provided to those involved. This has reinforced the importance of our relentless focus on continuous improvement in making our workplaces safer. At the time Wesfarmers held a non-operational 40 per cent interest in the Bengalla coal operation. This interest has since been sold.

### Safety performance

TOTAL RECORDABLE INJURY FREQUENCY RATE<sup>1</sup>

# 13.5<sup>2</sup>

2019	13.5 <sup>2</sup>	
2018	24.1 <sup>2,3</sup>	
2017	28.7 <sup>2,3</sup>	
2016	33.6 <sup>3</sup>	
2015	39.4 <sup>3</sup>	

- <sup>1</sup> TRIFR measures the number of lost time injuries and medical treatment injuries per million hours worked.
- <sup>2</sup> Restated due to maturation of data.
- <sup>3</sup> Includes discontinued operations, including Coles. 2018 TRIFR from continuing operations was 13.7.



### Intergenerational workforce

As one of the largest employers in Australia with approximately 105,000 team members, Wesfarmers understands that a diverse and inclusive workforce is a key success driver.

Recent employment trends have seen a significant decrease in the provision of meaningful work to older Australians according to the Melbourne Institute's Household, Income and Labour Dynamics in Australia Survey.

The Australian Institute of Health and Welfare also asserts that despite a significant increase in work participation rates for Australians aged 65 and over, shifting from eight per cent to 13 per cent between 2006 and 2018, underemployment rates among this community are also increasing.

Wesfarmers understands that older workers can provide a valuable contribution and wealth of experience.

Bunnings proudly acknowledges that over 30 per cent of its team members are over the age of 50, employing team members of all working ages including one who is 84. This diversity contributes significant value, demonstrated by two Bunnings team members interviewed recently by the Australian Financial Review. John Baker, 69, is currently enjoying his third year at Bunnings after a 40-year management career in businesses from McDonald's to Myer, and Glenda Borello, 61, (shown above) has been a valued Bunnings team member for over 40 years. John believes he brings 'experience, energy and enthusiasm' to the role, while Glenda says she does not think about retirement, preferring instead to continue her career at Bunnings.

Bunnings sees its diverse workforce, including its age profile, as an important aspect of its success.

## PEOPLE DEVELOPMENT

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

Wesfarmers is one of Australia's largest employers with approximately 105,000 team members. This year we paid \$6.5 billion in salaries, wages and benefits to our team members.

#### Workplace relations

More than 85 per cent of our workforce is covered by collective agreements. We recognise the right of our team members to negotiate either individually or collectively, with or without the involvement of third parties. Collective agreements typically include provisions for notice periods and provisions for consultation and negotiation. We also believe in maximising the flexibility of workplace arrangements available to our team members and their managers.

#### Training and development

Wesfarmers' businesses provide job-specific and career development training which includes technical skills, product knowledge, customer service, team work and leadership. These programs are available to full-time, part-time and casual team members.





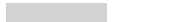
At the Wesfarmers Group level, the Talent Team is focused on connecting leaders to our guiding principles and strategic focus areas and to other leaders across the Group. We seek to support our leaders' development in collaboration with the businesses in which they are employed.

At the Group level, a key area of work is increasing our analytics capability in line with Wesfarmers' focus on data and digital. Following the launch of our Advanced Analytics Centre in 2018, this year marked the introduction of Group-wide capability building associated with data analytics.

## Female representation across the Group

2019	2018
WESFARMERS LIMITED NON-EXECUTIVE DIRECTORS	
<b>38%</b>	<b>33%</b>
WESFARMERS LEADERSHIP TEAM	
<b>45%</b>	<b>31%</b>
SENIOR EXECUTIVE POSITIONS (GENERAL MANAGER OR ABOVE)	
<b>27%</b>	<b>28%</b>
ALL MANAGEMENT AND PROFESSIONAL POSITIONS	
<b>36%</b>	<b>34%</b>
TOTAL WORKFORCE	
<b>58%</b>	<b>54%</b>

## Indigenous team members<sup>1</sup>

2019	1,755	
2018	1,647	
2017	1,342	
2016	990	
2015	977	

<sup>1</sup> Excludes Coles.



## Target Kununurra store 'wrapped' in art

During the year, the Target team in Kununurra was invited by Cally Bugg, the director of local art gallery Artopia, to be part of an inspiring local art project. The project's aim was to bring community groups and businesses together to help address anti-social behaviour, including graffiti on store walls, through the introduction of local art to the landscape. What resulted was the Target store being wrapped in unique artwork displaying a range of iconic places and animals of the Kimberley.

The Target Kununurra team will use this celebration of Aboriginal culture and the friendships formed to create opportunities for local Indigenous people.



## DIVERSITY AND INCLUSION

At Wesfarmers, we aspire to be diverse and inclusive which means everyone has a part to play. Through diverse and inclusive teams, we have insight into our diverse customers and other stakeholders, and how best to meet their needs. Diversity and inclusivity also strengthens creativity and problem solving in teams, and helps to equip our businesses with the wide range of skills and experiences required to support our businesses' future growth. It also helps to create an environment that attracts and retains high performing team members. Our diversity and inclusivity helps us achieve our objective of providing satisfactory returns to shareholders.

### GENDER BALANCE

We believe gender-balanced businesses enable us to better deliver on our objective of satisfactory returns to shareholders. 'Gender balance' at Wesfarmers is defined as a minimum of 40 per cent of either gender.

The Wesfarmers Leadership Team is balanced with 45 per cent women, as is our total workforce, made up of 58 per cent women. There is room to strengthen gender balance in senior executive positions with women holding 27 per cent of roles. There is also room to improve among management and professional roles where women hold 36 per cent of positions.

### OUR VISION FOR RECONCILIATION

Our vision for reconciliation is an Australia that affords equal opportunities to all. Wesfarmers is focused on ensuring that Aboriginal and Torres Strait Islander people feel welcome in our businesses as team members, customers, suppliers and visitors.

Wesfarmers' Reconciliation Action Plan is focused on five core areas.

#### 1. Sustainable employment

As one of Australia's largest employers, we believe we can provide Indigenous people with opportunities to participate in sustainable employment. As at 30 June 2019, we employed 1,755 Indigenous team members which is 1.8 per cent of our Australian workforce.

#### 2. Career progression

We want to provide our Indigenous team members with fulfilling jobs including opportunities to build successful careers which progress through the organisation. We have an opportunity to increase the number of Indigenous people in management positions and have plans to support the leadership development of high potential Indigenous team members in the coming year.

#### 3. Indigenous procurement

Increasing the diversity of our supplier base is an important area where we can make a real difference to the economic prosperity of Indigenous communities. During the year, we paid approximately \$25 million to Indigenous suppliers. We recognise that there is more we can do in this area to help Indigenous businesses develop and scale and we are committed to this.

#### 4. Community partnerships

We recognise the value in collaborating with national and local community partners. We are particularly proud of our partnership with The Clontarf Foundation which dates from 2001, as a founding supporter. We currently employ around 260 young Indigenous men through Clontarf. It is rewarding to see students complete their high school education and enter the workforce, sometimes with our businesses.

#### 5. Celebrating Indigenous culture

Indigenous art stands as Australia's most significant contribution to world culture.

As a nation, we benefit enormously from the opportunity to understand more about the richness and diversity of Indigenous culture through the work of Indigenous artists.

Wesfarmers has supported Indigenous cultural organisations, artists and communities for over four decades – both through actively collecting the work of living Indigenous artists for The Wesfarmers Collection of Australian Art and through our partnerships with premier Indigenous arts companies like Yirra Yaakin Aboriginal Theatre and the National Gallery of Australia.

## SUPPLIERS

**We are committed to engaging fairly with our suppliers and to sourcing ethically and sustainably. We seek strong and respectful relationships with our suppliers.**

Across the Group, our relationships with more than 14,500 suppliers are very important. This year we paid suppliers \$29.6 billion.

Building strong and collaborative relationships with suppliers is key to delivering responsibly-sourced products to our customers.

Our major supplier initiatives relate to responsible sourcing of products containing wood fibre (such as paper and timber) at Bunnings and Officeworks, responsible sourcing of raw materials in the Kmart and Target supply chains and modern slavery vigilance in all our businesses.

### ETHICAL SOURCING AND HUMAN RIGHTS

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

Wesfarmers continues to identify ethical sourcing and human rights in our supply chain as one of our most material areas of focus. Wesfarmers believes the new Australian Modern Slavery Act will improve transparency and support the goal of eliminating modern slavery in Australian public and private sector entities and their supply chains.

Our businesses directly source products from more than 14,500 suppliers in more than 20 countries. Some of the major locations we source from outside Australia include China, Bangladesh, New Zealand, India, Thailand and Vietnam. While our operations and supply chains are complex, our aim is to ensure that human rights are understood, respected and upheld across our supply chain.

Our Modern Slavery Statement is available at [sustainability.wesfarmers.com.au](http://sustainability.wesfarmers.com.au)

#### Ethical sourcing audit programs

To mitigate the risk of unethical practices in our supply chain, all our businesses apply a human rights and ethical sourcing audit program to certain suppliers. We take a risk-based approach to managing ethical sourcing issues and concentrate on suppliers supplying own-brand products as well as services, both in Australia and overseas. This year, we expanded our ethical sourcing due diligence program to consider all suppliers

of products (both goods for resale and not for resale) and services including those procured by our Corporate Office.

This year, our audit programs covered more than 3,700 factories supplying to our businesses. The number of factories audited this year has fallen, relative to last year, in part due to the Coles demerger. In addition, our businesses have continued to reduce their supplier numbers. This reflects the preference among our businesses for longer-term strategic partnerships with fewer suppliers and factories.

Factories in our audit programs must undertake an assessment as mandated by our businesses. Where an audit identifies non-compliance, the factory is required to fix the issue within an appropriate period. During the year, we identified 127 critical breaches across 90 factories. The critical breaches included allegations of excessive overtime, transparency, safety, forced labour, unauthorised subcontracting and bribery. Sixty-nine issues were remedied immediately, 43 had action plans that were on-track at the end of the reporting period, five were exited immediately and no further supply orders were placed at the remaining 10.

#### Increasing transparency

To manage business and sustainability issues in our complex supply chain, we map our tier-one suppliers. Where possible, we are also mapping tier-two and tier-three suppliers (suppliers producing components which go into a final product) for high-risk products.

#### Long-term relationships

We aim to build long-term direct supplier relationships which helps us to work over time with our suppliers to safeguard human rights.

#### Collaboration

Collaboration with industry-wide initiatives, government and non-government organisations is an important part of managing modern slavery risks. Our businesses have programs in place including BCI in Kmart and a focus on FSC timber and pulp in Bunnings and Officeworks.

#### Training and capacity building

Our buying and sourcing teams are kept up-to-date on our ethical sourcing and human rights commitments and how their actions may impact workers' rights through training, collaboration, information sharing and capacity building. The Group also trains relevant team members on how to incorporate respect for human rights into all business decisions, making team members aware of the impact their actions can have on human rights.

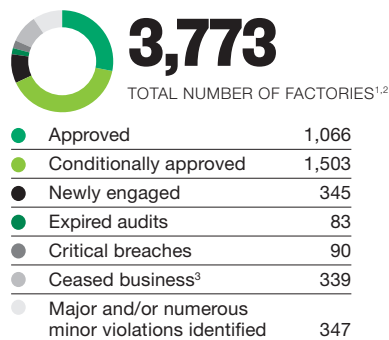
## Ethical sourcing in Bangladesh and India

Wesfarmers recognises that respecting human rights across our operations and supply chain is an area of growing importance to our employees, shareholders, customers and communities. There is both a moral and a business case for the steps we take to identify, report, address and ultimately eliminate the exploitation of vulnerable people in our supply chain, directly or indirectly, overseas and at home.

In September 2018, members of the Wesfarmers Leadership Team travelled to Bangladesh and India to visit factories supplying garments to Kmart and Target.

They observed that our team members are the first line of defence and that investing in our people and integrating ethical sourcing as part of our procurement processes is important. Choosing the right supplier partners is critical as is establishing strong relationships. Our businesses are focused on rationalising factory numbers to make it easier to better know our partners. We also look to collaborate with third parties to deliver initiatives which aim to improve working conditions.

### Ethical sourcing audit program findings



<sup>1</sup> Factories include supplier sites.

<sup>2</sup> The classification of non-conformances differs between Wesfarmers' divisions depending on whether the division aligns to the Sedex framework, reclassifies non-conformances using professional judgement, or whether the division has a bespoke ethical sourcing assessment framework.

<sup>3</sup> A business may cease ordering from a factory for a range of reasons, including relating to commercial terms or consolidation of their supplier base.



## PRODUCT SAFETY



### Half-sized stackable pallets improving efficiencies at Coregas

Half-sized stackable pallets are being introduced to Coregas sites nationally to improve storage utilisation and simplify transportation — with the additional benefit of potential carbon dioxide emissions reduction.

The new pallets are designed to transport smaller cylinders on top of standard-size pallets. Certificates of conformity were generated to ensure the safest possible design and adherence to applicable standards. The new pallets enable greater utilisation of truck space through more efficient storage and reduce transport costs associated with our small cylinders fleet.

It is also expected that local truck use will be improved by up to 30 per cent, leading to a possible reduction of 300 tonnes per year of carbon dioxide emissions.



### We are committed to providing our customers with safe products.

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

During the year, Target signed a three-year Australian Competition and Consumer Commission (ACCC) Enforceable Undertaking not to sell a convertible tricycle (with features associated with a stroller) unless it has evidence of compliance with

the Mandatory Standard. Target has also been required to amend product review processes, so that any sale of a pram, stroller, baby products or toys for children up to 36 months of age, complies with these relevant safety standards.

The safety of team members, customers, suppliers and visitors across all our sites is our highest priority and during the year, we continued to make improvements to safety. A safety incident at Target received some attention when a customer sustained an injury from an apparel display arm. As with any safety incidents in our stores, the corrective actions from the incident included a thorough risk assessment of the equipment involved.

## ECONOMIC AND COMMUNITY CONTRIBUTIONS

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

Wesfarmers is a successful company that creates value for all its stakeholders. We have a significant positive impact on the Australian economy with a total economic contribution of \$48.7 billion. This includes \$29.6 billion in payments to suppliers, \$6.5 billion in salaries, wages and other benefits to team members, \$4.6 billion in payments for rent, services and other external costs and \$1.5 billion in taxes and royalties to governments. Despite the demerger of Coles during the year, Wesfarmers remains as one of Australia's largest private sector employers. The vast majority of our shares are held in Australia, and we invest in the local communities where our businesses operate.

### Community contribution

This year, the Wesfarmers Group contributed approximately \$72 million to community organisations in Australia and New Zealand and other regions where we operate. This includes almost \$20 million in direct social investment to community organisations. The Group also facilitated donations from customers and team members totalling just over \$52 million. We make and enable these investments in addition to our economic contribution because we believe that a strong business environment is underpinned by a cohesive, healthy and inclusive community.

Reflecting the Group's divisional autonomy, our approach to community engagement is principally driven and managed by our businesses to ensure value is created in ways that best address the needs of their customers and communities.

While Wesfarmers has a local footprint in many communities, many of our divisions have major, long-term partnerships at a national level, including between Kmart and The Salvation Army through the Kmart Wishing Tree Appeal or Officeworks' relationships with The Smith Family to sponsor disadvantaged students and The Australian Literacy and Numeracy Foundation to provide literacy packs for Indigenous students in need across Australia.

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

An example of Wesfarmers' Corporate Office contribution is our long-term partnership with the Telethon Kids Institute in Western Australia which spans 26 years. Telethon Kids is a medical research institute, recognised as a world leader in the prevention of paediatric diseases and improved treatment for children. The Wesfarmers Centre of Vaccines and Infectious Diseases was established at Telethon Kids in 2014 and, since that time, Wesfarmers has committed over \$11 million in funding to advance their work until 2021.

### Wesfarmers Arts

Our support for the cultural life of the community is reflected in our long-term support for a wide range of premier performing and visual arts organisations and the ongoing development of The Wesfarmers Collection of Australian Art.

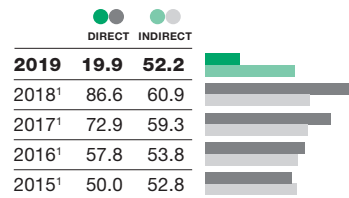
From rare watercolours dating from the earliest years of European settlement to contemporary Indigenous art, spanning painting, photography, sculpture and digital media, the Wesfarmers Collection reflects the diversity of creative Australia through the work of our country's defining artists. During the year, we shared works from our collection with museums and galleries throughout Australia and online via Instagram and the Wesfarmers Art Collection app, which is available free from the App Store.

A highlight of the Wesfarmers Collection is our holding of more than 300 premier works of art by Indigenous artists, reflecting the rich diversity of Indigenous culture in Australia. As part of our commitment to celebrating the work of living Australian Indigenous artists on the world stage, we are sharing our Indigenous collection with the international community in the exhibition Indigenous Masterpieces from the Wesfarmers Collection and National Gallery of Australia touring to Singapore and China in 2020 and 2021.

In 2019, the Wesfarmers Arts sponsorship program provided \$3.4 million in support of the activities of 14 leading arts organisations including the National Gallery of Australia, Perth Festival, the Art Gallery of Western Australia, West Australian Ballet, West Australian Opera, West Australian Symphony Orchestra, Black Swan Theatre Company, Awesome Children's Festival, Form Contemporary Craft and Design, Co3 Contemporary Dance and Yirra Yaakin Aboriginal Theatre, as well as the Western Australian tours of the Australian Chamber Orchestra, Bell Shakespeare Company and Musica Viva Australia.

### Community contributions

# \$72.1m



<sup>1</sup> Includes discontinued operations, including Coles.



### Wesfarmers and The Australian Red Cross Blood Service

During 2019, Wesfarmers and its businesses proudly participated in the life-saving Australian Red Cross Blood Service Red25 program. Red25 facilitates workplace, university and community group participation in the vital service of saving lives through blood donation.

It is estimated that one in every three Australians will need blood in their lifetime. Developing a sustainable blood supply is important to support those affected by cancer, illness, undergoing surgery and numerous other medical conditions.

A single donation can save up to three lives, meaning the 470,000 donations received by Red25 during the year impacted the lives of over 1.4 million Australians and contributed nearly a third of Australia's overall blood supply.

Wesfarmers team members contributed 3,082 donations meaning that Wesfarmers and its businesses were able to have an impact on over 9,200 lives. This significant contribution from the Group ranks Wesfarmers among the top 15 groups nationally.



## WASTE AND WATER USE



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

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

This year, the Group recorded water use of approximately 5,480 megalitres which is broadly in line with water use last year.

Bunnings has 229 rainwater systems across Australian mainland sites where water is collected for use in nurseries and as greywater in some sites. Bunnings also delivered water wise information and education for customers through in-store programs. This included working with Sydney Water where information and waterwise products were displayed during Water Wise Week, as well as Tiny Homes in five metro Sydney stores to demonstrate how customers can save water around the home.

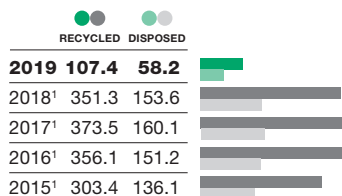
### Recycling and waste

Managing waste is a significant issue for all our businesses and reducing operational and packaging waste will be a major focus in the year ahead. Our retail businesses are signatories to APCO and report in line with its targets annually.

On a continuing operations basis this year, we decreased our waste to landfill by nine per cent to

### Waste

**165.6** tonnes '000



<sup>1</sup> Includes discontinued operations, including Coles.

58,167 thousand tonnes while keeping waste recycled comparable to last year, at 107,383 tonnes.

All Kmart and Target stores have stopped providing single-use shopping bags following the implementation of voluntary bans across Australia, with all entry level reusable bags now containing recycled material. This move has reduced plastic bag use in Western Australia and Queensland by 80 per cent since July 2018.

Assisting customers with product recycling and take-back options has also been a priority. Bunnings worked with multiple stakeholders to provide recycling programs for various products including batteries, paint, small electrical items and power tools. Collectively, these initiatives resulted in the recycling of 5,800 kilograms of batteries, 200,000 kilograms of waste paint, and over 770,000 kilograms of e-waste.

## ROBUST GOVERNANCE



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

This year, data privacy emerged as a key material issue for Wesfarmers and its businesses.

Wesfarmers is committed to complying with the laws and regulations of the countries in which its businesses operate and act in an ethical manner, consistent with the principles of honesty, integrity, fairness and respect. This includes complying with the Australian Privacy Act and all relevant legislation.

All aspects of governance are covered in the Corporate Governance Statement in the corporate governance section of the company website ([www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)).

Wesfarmers is committed to being transparent with all our stakeholders about our sustainability risks and opportunities. We measure and publish our performance for our material issues at ([sustainability.wesfarmers.com.au](http://sustainability.wesfarmers.com.au)). Our website contains case studies, detailed information about our focus areas and data available for download. Our reporting is prepared in accordance with Global Reporting Initiative (GRI) Standards and assured by Ernst & Young.

## CLIMATE-RELATED FINANCIAL DISCLOSURES



Wesfarmers acknowledges the scientific consensus on climate change and supports the 2015 Intergovernmental Panel on Climate Change (IPCC) Paris Climate Agreement (Paris Agreement). This year, our businesses have adopted absolute and intensity emissions targets and we have climate change strategies, governance systems and disclosures which support the global goal of reducing greenhouse gas emissions.

The transition to a low carbon economy presents both risks and opportunities for our businesses, shareholders, customers, team members and the communities in which we operate.

This year, Wesfarmers continued its work embedding our climate change strategy across our portfolio of businesses, in an effort to reduce our environmental footprint while also delivering long-term sustainable growth. Wesfarmers recognises the complex nature of this challenge for our businesses and communities.

Our climate change strategy is reflected in a diverse range of projects across the Group. We look forward to facing the challenges ahead and being part of the solution to achieve a low carbon economy.

As part of our strategy, Wesfarmers continues to implement the recommendations of the Financial Standards Board Taskforce on Climate-related Financial Disclosures (TCFD). We recognise the importance of climate-related financial disclosures to enable efficient allocation of capital within markets and to drive the transition to a sustainable global economy for all. This year, we have substantially increased our climate-related disclosures.

**Above:** Bunnings has increased its focus on energy efficiency, prioritising the rollout of LED lighting. Pilot trials with daylight harvesting and motion sensors are also underway at two locations in Victoria.

The following table illustrates the evolving focus of our climate change strategy and climate-related disclosures.

	<b>Phase I – Early engagement To 2016</b>	<b>Phase II – Current focus 2016 – present</b>	<b>Phase III – Future focus From 2020</b>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Group Environment Policy introduced</li> <li>Climate risks governed through the Board and the Audit and Risk Committee</li> </ul>	<ul style="list-style-type: none"> <li>Climate Change Policy developed</li> <li>Additional reporting included in the Operating and Financial Review in the annual report</li> </ul>	<ul style="list-style-type: none"> <li>Climate Change Policy implemented and refined</li> <li>Reporting against Climate Change Policy</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Initial analysis of the impact of climate change</li> <li>Commitment to support the objectives of the Paris Agreement</li> </ul>	<ul style="list-style-type: none"> <li>Impact of climate change analysed under different scenarios</li> <li>Risks, opportunities and strategic responses identified for our divisions</li> </ul>	<ul style="list-style-type: none"> <li>Further climate scenario analysis based on updated scenarios and the latest available scientific information</li> <li>Further analysis of the impact of climate change on our supply chains and product mix</li> <li>Portfolio-level strategic analysis</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>Climate change elevated as an emerging risk and long-term driver of financial and non-financial risk</li> <li>Internal carbon price developed</li> </ul>	<ul style="list-style-type: none"> <li>Climate change elevated to a strategic risk</li> <li>Internal carbon price reviewed</li> <li>Climate change assessment included in acquisition due diligence</li> </ul>	<ul style="list-style-type: none"> <li>Continue to review internal carbon price</li> <li>Further analysis of climate change on our transport and product value chains including selected detailed physical assessments</li> </ul>
<b>Metrics &amp; targets</b>	<ul style="list-style-type: none"> <li>Scope 1 and 2 emissions from our operations reported</li> </ul>	<ul style="list-style-type: none"> <li>Divisions adopted emissions targets</li> <li>Measurement of Scope 3 emissions by some divisions</li> </ul>	<ul style="list-style-type: none"> <li>Develop our understanding of our Scope 3 emissions and consider strategic responses for our businesses</li> <li>Wesfarmers senior executive performance goals to include an assessment of performance against the Climate Change Policy and towards the relevant emissions targets</li> </ul>

## Climate governance

Wesfarmers treats climate change as a critical governance and strategic issue.

The board of Wesfarmers has the highest level of oversight and responsibility for climate change within Wesfarmers. Climate change risk management is a permanent item on the Wesfarmers Operating Cycle and is discussed by the Board and the Wesfarmers Audit and Risk Committee. The Board approves the Group's strategy including Climate Change Policy, targets and strategic climate change-related decisions. The Board also receives reporting and oversees climate change risk management. A consolidated group risk report is provided to the Audit and Risk Committee and the Board of Wesfarmers for review and approval. The corporate plan is subject to a similar process and, in future years, will include emissions forecasts.

The Wesfarmers Leadership Team reviews emerging risks and opportunities, leads stakeholder engagement and facilitates sharing of best practice throughout the Group.

Each divisional board or steering committee and each divisional management team has responsibility for identifying and managing any material risks and opportunities and business performance including against the climate change strategy, in accordance with the Group's Risk Management Framework. Divisional audit, risk and compliance committees also oversee climate change-related risks for each division.

From the 2020 financial year, climate change risk management and opportunity assessment will be further embedded into the existing annual risk reviews and the corporate plan processes.

Since 2014, Wesfarmers has considered an internal carbon price as part of capital allocation decisions for projects likely to result in direct carbon emissions.

These governance arrangements facilitate the consideration of potential financial and non-financial impacts of a range of climate scenarios and build resilience into our mitigation and adaptation efforts.

Additional information on Wesfarmers' approach to corporate governance is available on pages 76 to 79 of this annual report. The full 2019 Corporate Governance Statement is available on the Wesfarmers website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)

## Development of a Group climate change strategy

Wesfarmers' climate change strategy sits alongside our environmental, energy, waste and water initiatives. By taking a proactive approach to managing climate-related risks and opportunities throughout the portfolio, we aim to prioritise those projects that achieve abatement at a relatively lower marginal cost.

During the 2019 financial year, Wesfarmers completed a Group-wide scenario analysis to understand the potential risks and opportunities associated with climate change and to strengthen the climate change resilience of the Group. As part of the analysis, each division undertook a detailed risk assessment and examined strategic opportunities.

Each division has assessed three distinct climate change scenarios. The scenarios are not forecasts or predictions nor are they intended to fully describe possible future outcomes. Rather the scenarios are intended to draw attention to the key factors that may impact our businesses. While the scenarios draw upon global practice and scientific information, it is important to note that they are hypothetical and the future may resemble none, one or some of the scenarios.<sup>1</sup>

The three scenarios reflect, respectively, the limiting of global average temperature increases above pre-industrial levels by 1.5°C, 2°C and 4°C by 2100. Each scenario was assessed over the short term (1 to 5 years), medium term (5 to 15 years) and long term (15+ years). The scenarios combine elements of the International Energy Agency's 2017 World Energy Outlook, the Representative Concentration Pathways established by the IPCC's Fifth Assessment Report and the Global Climate Models available from the Climate Change in Australia Projections for Australia's NRM Regions Report. The three scenarios are outlined in the table below.

Scenario 1 snapshot (1.5°C)	Scenario 2 snapshot (2.0°C)	Scenario 3 snapshot (4.0°C)
<ul style="list-style-type: none"> <li>• Strong, very fast reduction in emissions driven by government policy, with a focus on minimising climate change</li> <li>• The energy system rapidly transitions to zero emissions, via the uptake of renewables</li> <li>• Carbon intensive industries can only continue if they invest in carbon capture and storage technologies and/or are among the most efficient in their industry</li> <li>• Consumption of non-essential items falls and people re-use and recycle more</li> </ul>	<ul style="list-style-type: none"> <li>• A market-led transition, enabled by a policy environment which drives rapid reductions in emissions</li> <li>• A decentralised energy system emerges, dominated by demand management, renewable energy and storage technology</li> <li>• Global trade flows remain strong, and the focus on circular economies grows with an increase in recycling and a decoupling of resource use and growth</li> </ul>	<ul style="list-style-type: none"> <li>• No coordinated global action on emission reduction</li> <li>• Business does not change significantly to address climate change</li> <li>• Acute (extreme) and chronic (long-term) physical impacts of climate change are felt, with significant cumulative impact on the economy</li> <li>• Fossil fuels deliver approximately 50 per cent of the global energy mix</li> <li>• Economic growth continues to 2030 and then declines as ecosystems struggle to support the increased environmental impact</li> <li>• Resource depletion causes food and water scarcity and increases the risk of conflict</li> </ul>

## Physical and transition risks






Wesfarmers has assessed two broad categories of climate-related risks for our divisions – risks of significant physical impact (physical risks) and risks associated with the transition to a lower carbon economy (transition risks). We have done this to deepen our understanding of ways to mitigate and adapt to those risks and to build resilience during the transition to a low carbon economy.

The physical and transition risks need to be considered in the context of the diversity of Wesfarmers' businesses including in industry, operations, products, supply chain, customers, geography and scale. Even where a risk applies to several or all of our businesses, that risk is likely to impact each business differently.

Wesfarmers adopts a proactive approach to managing climate-related risks and opportunities. We respond to changes in climate with diverse strategies, appropriate to each business, to reduce our environmental footprint while also achieving long-term sustainable growth.

<sup>1</sup> TCFD Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities (June 2017)

**Physical risks**

	 <b>Flooding</b>	 <b>Storms</b>	 <b>Extreme heat and drought</b>	 <b>Bushfires</b>	 <b>Sea level rises</b>	Scenario
<b>Short term</b>	<ul style="list-style-type: none"> <li>• Extreme weather in localised areas may disrupt our supply chain, damage infrastructure or stores and damage stock. We may hold additional stock to manage this risk.</li> <li>• Suppliers of certain commodities or key inputs may be impacted. For example, certain timber suppliers to Bunnings and pulp suppliers to Officeworks may experience shortages because there is insufficient domestic supply and extreme weather is impacting timber production.</li> <li>• For some of our industrial businesses, extreme weather may impact the productivity of certain chemical processes.</li> </ul>					2 Degrees 4 Degrees
<b>Medium term</b>	<ul style="list-style-type: none"> <li>• Global and domestic supply chains may be disrupted.</li> <li>• Supply of some raw materials and inputs such as cotton, linen, rubber, metals and plastics may be impacted or more expensive.</li> <li>• Extreme heat and more regular hot days may impact employee health and safety.</li> <li>• Extreme heat and prolonged drought may increase water scarcity, impacting our customers or our water intensive operations.</li> <li>• Retail customers may prefer air-conditioned stores and undercover parking requiring refurbishment to store environments and increasing operating costs. Customer behaviour may change with reduced foot traffic in retail stores and increased online shopping.</li> <li>• In some areas, extreme weather including flooding, rising temperatures and associated water scarcity may:                             <ul style="list-style-type: none"> <li>- in relation to some of our retail businesses, damage agricultural-based inputs, reduce yields and impact growing regions; and</li> <li>- in relation to some of our industrial businesses, reduce plant productivity and increase downtime.</li> </ul> </li> <li>• Extreme weather may mean some lines of commercial insurance become harder to obtain or more expensive.</li> </ul>					2 Degrees 4 Degrees
<b>Long term</b>	<ul style="list-style-type: none"> <li>• Extended extreme weather may disrupt or damage our supply chains or infrastructure for extended periods or eliminate the supply of or render prohibitively expensive certain products or raw materials.</li> <li>• For our WesCEF businesses, extreme weather and prolonged drought may impact the amount of arable land in the Western Australian Wheatbelt or cause agriculture to relocate to northern Western Australia, reducing fertiliser demand or making alternative suppliers more competitive. Extreme heat and increased humidity may also reduce plant productivity, increase downtime and reduce product quality.</li> </ul>					2 Degrees 4 Degrees

**Strategic response**






- Proactively manage physical risks by implementing appropriate strategies for each division and the Group. The divisions' strategies will be influenced by factors including their industry, operations, products, supply chain, customers, geography and scale. The Group's strategy will be influenced by our value-creating strategies and approach to capital allocation.
- Continue to review our approach to store and distribution centre design and location, noting our store and distribution centre network already delivers significant geographic diversification. For example, we may further develop our processes to assess future sites for weather risk, update design standards to include solar power and improved energy efficiency and use renewable energy for air conditioning and heating systems.
- Continue to review our approach to supply chain management. For example, we may further develop plans with suppliers to reduce the impact of weather interruption, diversify source countries and regions and diversify raw materials.
- Continue to review product offerings. For example, we may consider product offerings based on factors including future availability of raw materials, product demand and market trends.
- Assess the potential acute and chronic physical effects on our owned and leased assets and throughout the value chain.

Transition risks						
						
	Market	Regulatory	Legal	Reputation	Technology	Customer expectations
<b>Short term</b>	<ul style="list-style-type: none"> <li>Regulatory changes such as carbon pricing (subject to the scale of the pricing) may impact the financial performance of our businesses or impact the supply or price of certain inputs including raw materials, energy, fuel and water.</li> <li>Prices may increase as a result of input cost pressures (including carbon pricing, subject to the scale of the pricing) leading to a decrease in consumer demand and cost of living pressures.</li> <li>It may be difficult on leased premises to access renewable energy or install renewable generation.</li> <li>Carbon intensive inputs and products may become scarcer or more expensive if these sectors cannot transition or offset their emissions.</li> <li>Customers and other stakeholders may increasingly focus on the sustainability of our products.</li> </ul>					<b>Scenario 1.5 Degrees 2 Degrees</b>
<b>Medium term</b>	<ul style="list-style-type: none"> <li>Carbon pricing (subject to the scale of the pricing) and other regulations may impact the competitiveness of our trade-exposed businesses (especially WesCEF) if our international competitors do not face similar carbon pricing and other regulation.</li> <li>Our businesses may need to adapt as the economy transitions to low carbon products and customer demand changes or costs increase.</li> <li>Reputational concerns may drive businesses to more proactively manage carbon and other environmental risks.</li> <li>For our retail businesses:                             <ul style="list-style-type: none"> <li>they may need to respond to increasingly environmentally conscious consumers;</li> <li>the fast-fashion and electronics markets may transition to more durable products or products that are easier to reuse or recycle; and</li> <li>certain products may evolve to support the replacement of components rather than the replacement of entire item.</li> </ul> </li> <li>For Bunnings and Officeworks, timber and pulp shortages may occur because supply decreases as plantations are used to instead generate carbon offsets or logging is reduced to slow land degradation.</li> <li>For WesCEF, demand for natural gas may fall as consumers favour renewables and hydrogen.</li> </ul>					<b>1.5 Degrees 2 Degrees</b>
<b>Long term</b>	<ul style="list-style-type: none"> <li>For our retail businesses, an increased focus on reusing or recycling may impact demand.</li> <li>For the Kmart Group, synthetic fabrics and chemicals used to produce certain textiles for clothing and accessories may become more expensive as the cost of polymers and other inputs including energy increases.</li> <li>For Officeworks, as economies digitise, the consumption of paper and associated products such as printers and ink may contract.</li> </ul>					<b>2 Degrees 4 Degrees</b>
<b>Strategic response</b>						
<ul style="list-style-type: none"> <li>Proactively manage transition risks by implementing appropriate strategies for each division and the Group. The divisions' strategies will be influenced by factors including their industry, operations, products, supply chain, customers, geography and scale. The Group's strategy will be influenced by our value-creating strategies and approach to capital allocation.</li> <li>Prioritise our uptake of projects to improve energy efficiency and increase reliance on renewable energy.</li> <li>Develop our understanding of our Scope 3 emissions and consider strategic responses for our businesses.</li> <li>Expand our analysis of the impact of carbon pricing throughout our value chains.</li> <li>Focus on opportunities to reduce our costs and improve our efficiency to offset the impact from any increases in raw materials and other prices.</li> <li>Develop and implement strategies to optimise our freight operations.</li> <li>Ensure the carbon footprint of our inputs and products is minimised and understood by suppliers and customers.</li> <li>Continue to review our approach to supply chain management. For example, we may further develop plans with suppliers to reduce the impact of weather interruption, diversify source countries and regions and diversify raw materials.</li> <li>Build further awareness of the circular and low carbon economy into all of our businesses including to:                             <ul style="list-style-type: none"> <li>reduce our use of carbon-intensive and virgin-raw materials and increase our use of recycled and carbon-efficient raw materials;</li> <li>reduce waste to landfill and design our products for recycling, reuse or responsible disposal;</li> <li>reduce use or sale of materials that cannot be recycled, implement sustainable packaging and increase product takeback offerings for priority materials or products; and</li> <li>improve customer engagement around sustainable product use, strategies to extend product life, recycling and responsible disposal.</li> </ul> </li> <li>For our industrial businesses, continue to evaluate and implement commercial technologies that deliver products at lower emissions intensities. This may include additional abatement technology when it becomes commercially viable.</li> </ul>						

## Opportunities

While climate change presents risks, there are also opportunities for the Group and our businesses. Consistent with our value-creating strategies, the Group will continue to consider opportunities to invest in existing businesses and take advantage of the flexibility of the Wesfarmers conglomerate model to renew the portfolio through opportunistic and value-accretive acquisitions or divestments of businesses. This may include businesses with particular climate-related characteristics. In assessing these opportunities, the Group applies a long-term horizon to its disciplined evaluation of investment decisions.

Across the Group's existing businesses, our climate-related opportunities are in five broad categories: resource efficiency and cost savings, renewable energy, new products and services, access to new markets and resilience in our supply chain.

		Opportunities					Scenario
							
		Resource efficiency	Energy source	Products & services	Markets	Resilience	
Short term	<ul style="list-style-type: none"> <li>Install energy efficiency technology and source renewable energy to reduce costs and emissions.</li> <li>Work with landlords to invest in renewable energy on rooftops and energy efficiency projects.</li> <li>Continue to build further circular and low carbon economy awareness in our business. For example, by continuing to reduce the waste to landfill use of plastic bags and to increase recycling.</li> <li>Continue to build the capabilities and skills of our teams by training, developing and recruiting outstanding team members to mitigate and adapt to risks and to take advantage of the opportunities associated with climate change.</li> </ul>						1.5 Degrees 2 Degrees
Medium term	<ul style="list-style-type: none"> <li>Transitioning to lower carbon operations ahead of our competitors may provide efficiency, cost or marketing opportunities.</li> <li>Opportunities may arise for the Group to make investments in or adjacent to the existing portfolio or to implement opportunistic and value-accretive transactions, including in sectors subject to increased regulation or that benefit from low carbon products, renewable energy assets or an increased focus on energy efficiency.</li> <li>For our retail businesses:                             <ul style="list-style-type: none"> <li>the fast-fashion and electronics markets may transition to more durable products or products that are easier to reuse or recycle and certain products may evolve to support the replacement of components rather than the replacement of entire item; and</li> <li>as economies digitise, the use of electronic products may increase.</li> </ul> </li> <li>For WesCEF, there may be an increase in demand for and price of natural gas if the economy transitions from coal and oil as fuel for energy generation. The WesCEF energy business does not own any generation assets which provides flexibility to respond to changing customer demands.</li> </ul>						1.5 Degrees 2 Degrees 4 Degrees
Long term	<ul style="list-style-type: none"> <li>For our retail businesses:                             <ul style="list-style-type: none"> <li>population density may increase in inner-city areas providing opportunities in product range. For example, in Bunnings, demand for storage products may increase while demand for garden products may contract; and</li> <li>consumer preferences may increasingly favour more sustainable inputs and products. Trialling or introducing products that are green, ethical or made from recycled materials may increase market share, especially in clothing and homewares.</li> </ul> </li> <li>For our industrial businesses, there may be opportunities for efficient operators as relatively inefficient and more carbon-intensive operators become less competitive.</li> </ul>						1.5 Degrees 2 Degrees

**Strategic response**

- Proactively take advantage of opportunities by implementing appropriate strategies for each division and the Group. The divisions' strategies will be influenced by factors including their industry, operations, products, supply chain, customers, geography and scale. The Group's strategy will be influenced by our value-creating strategies and disciplined approach to capital allocation.
- Wesfarmers' conglomerate model does not have a sector or industry focus, which provides flexibility to minimise our exposure to sectors or industries with particular climate risks and to maximise our exposure to sectors or businesses that offer particular climate-related opportunities. This flexible approach allows the Group to take advantage of opportunities in or adjacent to the existing portfolio and to renew the portfolio through opportunistic and value-accretive transactions.

### Group greenhouse gas emissions

(from continuing operations)

SCOPE 1 & 2<sup>1</sup>

# 1,557.7 ktCO<sub>2</sub>e

Year	ktCO <sub>2</sub> e
2019	1,557.7
2018	1,435.9
2017	1,489.7
2016	1,561.3
2015	1,496.2

### Climate change metrics for this year

Wesfarmers' Climate Change Policy is designed to ensure that the Group and its businesses are managed with a carbon awareness. Consistent with the Climate Change Policy, we report regularly on key metrics in order to measure our progress and hold ourselves accountable to our shareholders and other key stakeholders.

This year, Wesfarmers emitted a total of 1,558 thousand tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) in Scope 1 and Scope 2 emissions. Our Scope 1 emissions predominantly came from the manufacture of ammonia, ammonium nitrate, sodium cyanide, LPG and LNG as well as the use of natural gas and fuel in our retail businesses. Our Scope 2 emissions came from electricity use, predominantly in our retail businesses.

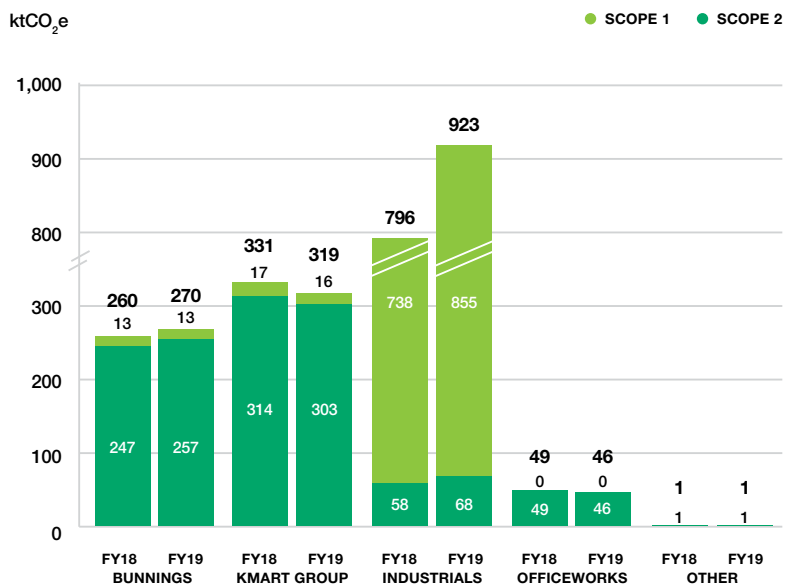
Our Scope 1 and Scope 2 emissions were eight per cent more than last year (adjusted to reflect the Coles demerger and other divestments during the year). The increase in our emissions is largely attributable to WesCEF's increased EGAN production levels in response to ongoing disruption at the competing Burrup plant and a reduction in abatement efficiency of the catalysts in the nitric acid plants. Reinvestment in the catalyst is planned for 2020, during scheduled maintenance shutdowns. It also reflects the net impact of growth in our store network and the introduction of new energy-efficiency projects in our businesses.

This year, our total energy use increased by 11 per cent compared to the prior corresponding period, with 19 petajoules of energy consumed.

The graph to the right shows the Group's Scope 1 and Scope 2 emissions for FY18 and FY19, by division.



### Wesfarmers divisional Scope 1 and 2 greenhouse gas emissions<sup>1</sup>



<sup>1</sup> Scope 1 and Scope 2 data includes emissions from continuing operations for Australian businesses where we have operational control under the NGER Act, other known non-reportable Australian-based emissions over which we have control, and our emissions in New Zealand and Asia.

**Above:** WIS continues to focus on energy efficiency projects and installation of monitored solar PV arrays to reduce the carbon footprint of its operations.



## Our Climate Change Policy and emissions targets

Wesfarmers has recently introduced a Climate Change Policy and set 2025 emissions targets for our divisions.

The policy acknowledges the scientific consensus on climate change and the diverse effects that climate change may have on our businesses, shareholders, customers, team members and the communities in which we operate.

The policy is designed to ensure that the Group and its businesses continue to be managed with a carbon awareness. It reflects the Group's desire to support the global goal of reducing greenhouse gas emissions, consistent with the Paris Agreement.

Consistent with the Wesfarmers' model of divisional autonomy, the policy operates at a divisional level with a focus on governance, targets, risks and opportunities.

The Board and senior executives are provided with information to consider the potential impact of climate change on our businesses including risks and opportunities. The Board approves policies and sets targets.

### Targets

Each division must set Scope 1 and Scope 2 emissions targets for the year ending 30 June 2025, based on 2018 emissions levels. The targets must reflect the Group's desire to support the global goal of reducing greenhouse gas emissions, consistent with the Paris Agreement. The targets must be approved by the Board. Each year, as part of their operating cycle, the divisions must forecast and report against the policy and their targets, and assess the risks and opportunities associated with climate change.

### Potential for baseline changes

The policy provides flexibility to accommodate significant changes to the scale of an existing business. Changes to a baseline must be approved by the Board.

### Mergers and acquisitions

The policy recognises the dynamic and evolving nature of the Group and specifically contemplates changes to the portfolio. Where Wesfarmers acquires a business or operation, that business or operation must, within a reasonable timeframe, comply with the policy and establish an appropriate emissions target.

### Performance goals

With effect from July 2020, Wesfarmers senior executive performance goals to include the requirement to demonstrate progress on sustainability initiatives including an assessment of performance against this policy and towards the relevant emissions targets.

## Our emissions targets

Targets have been set for each division or business, as appropriate. No single Group-wide target has been set. Responsibility for complying with the Climate Change Policy and meeting targets is with divisional management, with oversight by the Wesfarmers Board and Leadership Team. The target for each business reflects its particular attributes including its emissions profile, expected future growth, recent emissions reductions and opportunities to reduce emissions.

	Baseline <sup>1</sup> (ktCO <sub>2</sub> e)	Emissions target for year ending 30 June 2025
<b>WesCEF</b>	904	WesCEF is largely a Scope 1 business and so its target is intensity-based. WesCEF's target is that its emissions per unit of production are below the mean of comparable peers.
<b>Kmart Group</b>	331	While significant progress has been made over many years, Kmart is targeting a reduction in emissions by 20 per cent from its baseline.
<b>Bunnings</b>	260	Reflecting the strong expected growth in its store network over coming years, Bunnings is targeting a reduction in emissions by 10 per cent from its baseline.
<b>Officeworks</b>	49	Reflecting the opportunities associated with the physical characteristics of its store network, Officeworks is targeting a reduction in emissions by 25 per cent from its baseline.
<b>Industrial and Safety (ex-Coregas)</b>	15	Industrial and Safety (ex-Coregas) is targeting a reduction in emissions by 12 per cent from its baseline.
<b>Coregas</b>	11	Coregas is largely a Scope 1 business and so its target is intensity-based. Coregas' target is that its emissions per unit of production are below the mean of comparable peers.

<sup>1</sup> Baselines have been derived based on emissions reported in the FY18 NGER submission, less discontinued operations, plus other known non-reportable emissions over which we have control, plus other known international Scope 1 and 2 emissions. For WesCEF, the baseline has been increased to normalise for production outages during FY18.

### Sources of Wesfarmers Scope 1, 2 and 3 emissions

The graphic below illustrates the sources of Wesfarmers' Scope 1, Scope 2 and Scope 3 emissions, with reference to the Greenhouse Gas Protocol (GHG Protocol).



### Scope 3 emissions

Historically Wesfarmers' main focus has been on our own emissions from our divisions. Increasingly, Wesfarmers is focused on developing a more comprehensive understanding of our carbon footprint including our Scope 3 emissions and emissions in our supply chain and as our products are used by customers.

Across Wesfarmers, Scope 3 emissions derive largely from the production of goods for sale by our suppliers, transportation and waste generated across our operations.

The divisions have previously reported Scope 3 emissions from

the following sources, consistent with the methodologies and protocol categories in four GHG Protocol Corporate Value Chain (Scope 3) Accounting Reporting Standard:

- (3) Fuel- and energy-related activities using the average data method;
- (5) Waste generated in operations using the waste type-specific method;
- (6) Business travel using the distance-based method; and
- (15) Investments using the investment-specific method.

During the year, the divisions continued to work on expanding their assessment

of Scope 3 emissions in the following additional GHG Protocol categories:

- (1) Upstream-purchased goods and services using the spend-based method for Bunnings and Officeworks and the average data method for the Kmart Group and WesCEF;
- (4) Upstream transportation and distribution using the distance-based method for all divisions;
- (11) Downstream use of sold products using the average data method for the Kmart Group; and
- (12) Downstream end-of-life treatment of sold products using the average data method for the Kmart Group.

## Independent Limited Assurance Statement to the Management and Directors of Wesfarmers Limited

### Our Conclusion:

Ernst & Young was engaged by Wesfarmers Limited ('Wesfarmers') to undertake limited assurance, as defined by Australian Auditing Standards and hereafter referred to as a 'review', over selected sustainability information disclosed in Wesfarmers' 2019 Annual Report for the financial year ended 30 June 2019 ('2019 Sustainability Reporting'). Based on our review, nothing came to our attention that caused us to believe that the sustainability information in the 2019 Annual Report had not been prepared and presented fairly, in all material respects, in accordance with the criteria defined below.

### What our review covered

Ernst & Young ('EY' or 'we') reviewed:

- Selected sustainability information disclosed in the Annual Report, limited to the following:
  - The Wesfarmers 'Group Sustainability Performance' and 'Climate-related financial disclosures' sections of the Operating and Financial Review ('OFR'), excluding any content related to the Coles business or operations
  - The 'Sustainability Performance' sections for Bunnings, Kmart Group, Industrials and Officeworks
- A selection of performance metrics, as shown in the table below, excluding information related to the Coles business or operations:

#### Performance metrics

- Scope 1, Scope 2, and Scope 3 greenhouse gas emissions in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>-e)
- Waste disposed and recycled (tonnes)
- Water consumption (megalitres)
- Energy consumption (petajoules)
- Workplace health and safety data (including number of workers' compensation claims, lost time injury frequency rate [LTIFR], employee hours worked, and total recordable injury frequency rate [TRIFR])
- Community contributions (AUD)
- Aboriginal and Torres Strait Islander employee numbers
- Aboriginal and Torres Strait Islander procurement spend (AUD)
- Ethical sourcing audit program data

### Criteria

In preparing its 2019 Sustainability Reporting, Wesfarmers applied the following criteria:

- GRI Standards, including the Reporting Principles for defining report quality and report content
- National Greenhouse and Energy Reporting Act 2007 (for Scope 1 and 2 greenhouse gas data) and Scope 3 Protocol GHG Guidance (for Scope 3 greenhouse gas data)
- Other selected Criteria, as determined by Wesfarmers, and as set out in its Sustainability Reporting.

### Key responsibilities

#### EY's responsibility and independence

Our responsibility was to express a conclusion on the Wesfarmers 2019 Sustainability Reporting based on our review.

We were also responsible for maintaining our independence and confirm that we have met the requirements of the *APES 110 Code of Ethics for Professional Accountants*, including independence, and have the required competencies and experience to conduct this assurance engagement.

#### Wesfarmers' responsibility

Wesfarmers' management ('management') was responsible for selecting the Criteria and preparing and fairly presenting the Sustainability Reporting in accordance with that Criteria. This responsibility includes establishing and maintaining internal controls, adequate records, and making estimates that are reasonable in the circumstances.

#### Our approach to conducting the review

We conducted our review in accordance with the Australian Auditing and Assurance Standards Board's *Australian Standard on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ASAE 3000'), *Assurance Engagements on Greenhouse Gas Statements* ('ASAE 3410'), and the terms of reference for this engagement as agreed with Wesfarmers on 21 February 2017.

#### Summary of review procedures performed

A review consists of making enquiries, primarily of persons responsible for preparing the Wesfarmers 2019 Sustainability Reporting and related information and applying analytical and other review procedures. Our procedures included:

- Assessing Wesfarmers' adherence to the GRI Standards Reporting Principles for defining report quality and report content, including the processes involved at a Divisional and Corporate level
- Determining whether material topics and performance issues identified during our procedures had been adequately disclosed
- Performing site visits to corporate and divisional offices and sites, interviewing selected personnel, including senior leaders, to understand the key sustainability issues related to the subject matter and processes for collecting, collating and reporting the Performance Data during the reporting period

- Where relevant, gaining an understanding of systems and processes for data aggregation and reporting
- Performing analytical tests and detailed substantive testing to source documentation for material qualitative and quantitative information
- Checking the accuracy of calculations performed
- Obtaining and reviewing evidence to support key assumptions in calculations and other data
- Reviewing selected management information and documentation supporting assertions made in the subject matter
- Checking that data and statements had been accurately transcribed from corporate systems and/or supporting evidence
- Reviewing the presentation of claims, case studies and data against the relevant GRI principles contained in the criteria

We believe that the evidence obtained was sufficient and appropriate to provide a basis for our limited assurance conclusion.

#### Limited Assurance

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than, for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.


While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

#### Use of our Assurance Statement

We disclaim any assumption of responsibility for any reliance on this assurance report to any persons other than management and the Directors of Wesfarmers, or for any purpose other than that for which it was prepared.



**Dr Matthew Bell**  
Brisbane, Australia  
25 September 2019



**Ernst & Young**

# BOARD OF DIRECTORS



## MICHAEL CHANEY AO

CHAIRMAN

*BSc, MBA, Hon. LLD W.Aust, FAICD*  
Age 69

**Term:** Chairman since November 2015;  
Director since June 2015.

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

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

- Chairman of Woodside Petroleum Limited (retired April 2018)
- Chancellor of The University of Western Australia (retired December 2017)
- Chair of the National School Resourcing Board (since November 2017)
- Member of Commonwealth Science Council (retired December 2018)



## VANESSA WALLACE

DIRECTOR

*B.Comm (UNSW), MBA (IMD Switzerland), MAICD*  
Age 56

**Term:** Director since July 2010.

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

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

- Director of SEEK Limited (since 1 March 2017)
- Director of AMP Limited (resigned May 2018)
- Chairman of AMP Capital Holdings Limited (resigned June 2018)
- Executive Chairman of Strategy& (Japan) Inc (retired June 2015)
- Founding Chairman of Drop Bio Pty Ltd, a digital health company (since January 2019)
- Managing Director of MF Advisory (since 2015)



## ROB SCOTT

MANAGING DIRECTOR

*B.Comm, MAppFin, CA, GradDipAppFin*  
Age 50

**Term:** Director since November 2017.

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

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

- Director of Gresham Partners Group Limited (resigned July 2018)
- Director of Gresham Partners Holding Limited (resigned July 2018)
- Member of UWA Business School Advisory Board (since August 2017)
- Chairman of the flybuys joint venture with Coles Group Limited (since December 2018)
- Chairman of Rowing Australia (since October 2014)



## DIANE SMITH-GANDER AO

DIRECTOR

*B.Ec, MBA, Hon.DEC W.Aust (UWA), FAICD, FGIA*  
Age 61

**Term:** Director since August 2009.

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

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

- Director of AGL Energy Limited (since September 2016)
- Chairman of Broadpectrum Limited (formerly known as Transfield Services Limited) which delisted in June 2016 (director since October 2010, Chairman since October 2013, retired September 2016)
- Chair of Safe Work Australia (since February 2016)
- Trustee and director of CEDA – Committee for Economic Development of Australia (Trustee since September 2014, director since November 2015)
- Director of Keystart Home Loans group of companies (since July 2016)
- Board member of Henry Davis York (resigned July 2019)
- Chair of the Asbestos Safety and Eradication Council (since December 2016)
- Member of Australian Partnership Council Norton Rose Fulbright Australia (since February 2019)



### WAYNE OSBORN

#### DIRECTOR

*Dip Elect Eng, MBA, FAICD, FTSE*  
Age 68

**Term:** Director since March 2010.

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

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

- Director of South32 Limited (since May 2015)
- Director of Alinta Holdings (retired April 2017)
- Director of Alinta Energy Limited (retired April 2017)



### SHARON WARBURTON

#### DIRECTOR

*B Bus (Accounting & Business Law), FCA GAICD FAIB*  
Age 49

**Term:** Director since August 2019.

**Skills and experience:** Sharon has extensive board and executive experience in corporate strategy, business operations, finance, accounting and risk management, particularly in the resources, construction and infrastructure sectors, along with significant expertise in governance and remuneration.

In her executive career, Sharon was previously Executive Director Strategy and Finance at Brookfield Multiplex, and before that held senior management roles with ALDAR Properties PJSC in the United Arab Emirates, Citigroup in Sydney and Rio Tinto Limited in London and Perth.

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

- Fortescue Metals Group Ltd (director since November 2013, Co-Deputy Chairman since July 2017)
- Director of Gold Road Resources Limited (since May 2016)
- Director of NEXTDC Limited (since April 2017)
- Director of WorleyParsons Limited (since February 2019)
- Member of the Australian Takeovers Panel (since 2015)



### TONY HOWARTH AO

#### DIRECTOR

*CitWA, Hon.LLD (UWA), SF Fin, FAICD*  
Age 67

**Term:** Director since July 2007.

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

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

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



### JENNIFER WESTACOTT AO

#### DIRECTOR

*BA (Honours), FAICD, FIPAA, FANZSOG*  
Age 59

**Term:** Director since April 2013.

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

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

- Adjunct Professor at the City Futures Research Centre of the University of New South Wales
- Chair of the Mental Health Council of Australia (retired August 2019)
- Chair of the Western City & Aerotropolis Authority (since February 2019)
- Chair of Studio Schools of Australia (since July 2019)
- Co-chair of the Australia-Canada Economic Leadership Forum Organising Committee (since February 2016)
- Member of the Prime Minister's Cyber Security Review Panel (concluded April 2016)
- Board member of Cyber Security Research Centre (CSRC) Ltd (since February 2018)
- Co-Patron of Pride in Diversity (since November 2017)
- Patron of The Pinnacle Foundation (since March 2019)



### THE RIGHT HONOURABLE BILL ENGLISH KNZM

#### DIRECTOR

*BA (Honours), BCom (Otago)*  
Age 57

**Term:** Director since April 2018.

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

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

- Chairman of Mount Cook Alpine Salmon (since July 2018)
- Chair of Manawanui Support Ltd (since April 2019)
- Chair of Impact Lab Ltd (since May 2019)
- Member of the New South Wales Federal Financial Relations Review panel (since August 2019)



### MIKE ROCHE

#### DIRECTOR

*BSc, GAICD, FIA (London), FIAA (Australia)*  
Age 66

**Term:** Director since February 2019.

**Skills and experience:** Mike has more than 40 years' experience in the finance sector where he held senior positions firstly as an actuary with National Mutual/AXA and then in investment banking where he provided strategic, financial, merger and acquisition, and capital advice to major corporations, private equity and government clients. Mike spent more than 20 years with Deutsche Bank including 10 years as Head of Mergers and Acquisitions where he advised on major takeovers and privatisations. He stepped down as Deutsche Bank's Chairman of Mergers and Acquisitions (Australia and New Zealand) in 2016, and was a member of the Takeovers Panel for two terms from 2008 to 2014.

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

- Director of MaxCap Group Pty Ltd (since April 2019)
- Director of Six Park Asset Management (since December 2017)
- Director of Te Pahau Management Ltd (since November 2017)
- Trustee Director of Energy Industries Superannuation Scheme Pty Ltd (since November 2016)
- Panel member of Adara Partners (Aust) Pty Ltd (since April 2017)

## CORPORATE GOVERNANCE OVERVIEW

### The Board of Wesfarmers Limited

The Board of Wesfarmers Limited is committed to providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders. This statement details the key aspects of the governance framework and practices of Wesfarmers. Wesfarmers regularly reviews its governance framework and practices so as to ensure it consistently reflects market practice and stakeholder expectations.

The Board believes that the governance policies and practices adopted by Wesfarmers during the reporting period for the year ended 30 June 2019 follow the recommendations contained in the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles). It is noted that the fourth edition of the ASX Principles was released on 27 February 2019, and takes effect for a listed entity's first full financial year commencing on or after 1 January 2020. Many of Wesfarmers' corporate governance policies and practices set out in the 2019 Corporate Governance Statement also comply with the fourth edition of the ASX Principles.

### Roles and responsibilities of the Board and management

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

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

The Group Managing Director has responsibility for the day-to-day management of Wesfarmers and its businesses, and is supported in this function by the Wesfarmers Leadership Team.

Details of the members of the Wesfarmers Leadership Team are set out on pages 12 and 13 of this annual report and in the corporate governance section of the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg). The Board maintains ultimate responsibility for strategy and control of Wesfarmers and its businesses.

In fulfilling its roles and responsibilities, the key focus areas of the Board during the 2019 financial year are set out below.

#### Key focus areas of the Board during the 2019 financial year included:

- Overseeing management's performance in strategy implementation
- Reviewing business operations and the development plans of each division likely to impact long-term shareholder value creation whether through portfolio management, consideration of divestment options or other strategies
- Overseeing the implementation of strategy to address areas of underperformance and reposition the portfolio to deliver growth in shareholder returns
- Overseeing the implementation of the Coles demerger
- Approving the sale of Wesfarmers' 40 per cent interest in the Bengalla Joint Venture for \$860 million with a pre-tax gain on disposal of \$679 million (August 2018)
- Approving the sale of the Kmart Tyre and Auto Service business for \$350 million with a pre-tax gain on disposal of \$267 million (August 2018)
- Approving the sale of Wesfarmers' 13.2 per cent interest in Quadrant Energy for approximately US\$170 million with a pre-tax gain on disposal of US\$98 million (November 2018)
- Monitoring the Group's operating and cash flow performance, financial position and key metrics, including financial covenants and credit ratings
- Reviewing the Group's risk management framework and monitoring that the Group is operating with due regard to the risk appetite set by the Board
- Monitoring the Group's safety performance and overseeing implementation of strategies to improve safety performance and enhance workplace safety awareness
- Reviewing talent management and development
- Monitoring and evaluating growth opportunities to complement the existing portfolio
- Reviewing policies, reporting and processes to improve the Group's system of corporate governance
- Appointing the Company Secretary

# CORPORATE GOVERNANCE OVERVIEW

## Structure and composition of the Board

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

The Board currently comprises ten directors, including nine non-executive and independent directors. Detailed biographies of the directors as at 30 June 2019 are set out on pages 74 and 75 of this annual report.

On 23 July 2018, James Graham retired as a non-executive director of Wesfarmers coinciding with his appointment as Chairman-elect of the demerged Coles Group. The demerger was implemented on 28 November 2018.

Paul Bassat retired as a non-executive director from the Board at the end of the 2018 Annual General Meeting on 15 November 2018 after serving as a director for six years.

Mike Roche was appointed a director on 19 February 2019. He has more than 40 years' experience in the finance sector including the provision of strategic, financial, merger and acquisition and capital advice to major corporate, private equity and government clients. He has advised on a large number of major transactions in most sectors over his career and brings extensive and valuable experience to the Board including as a leading innovator in capital markets.

Sharon Warburton was appointed a director on 1 August 2019. She has extensive board and executive experience in corporate strategy, business operations, finance, accounting and risk management, particularly in the resources, construction and infrastructure sectors, along with significant expertise in governance and remuneration. She brings valuable, complementary and diverse experience to the Board as the Group continues to evolve its portfolio.

The current directors possess an appropriate mix of skills, commitment, experience, expertise (including knowledge of the Group and the relevant industries in which the Group operates) and diversity to enable the Board to discharge its responsibilities effectively and deliver the company's strategic priorities as a diversified corporation with current businesses operating in home improvement and outdoor living; apparel and general merchandise; office supplies; and an Industrials division with businesses in chemicals, energy and fertilisers, and industrial and safety products.

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

To the extent that any skills are not directly represented on the Board, they are augmented through management and external advisors. The Nomination Committee considers the Board skills matrix when assessing the professional development needs of the Board.

David Cheesewright who has extensive experience in international retailing and manufacturing, including 19 years with Walmart, was appointed as an advisor to the Wesfarmers Board in August 2018 and is the Wesfarmers nominee on the board of Coles Group Limited of which Wesfarmers holds a 15 per cent interest.

## Director independence

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

The Board's assessment of independence and the criteria against which it determines the materiality of any facts, information or circumstances is formed by having regard to the ASX Principles.

In particular, the Board focuses on the factors relevant to assessing the independence of a director set out in recommendation 2.3; the materiality guidelines applied in accordance with Australian Accounting Standards; any independent professional advice sought by the Board at its discretion; and developments in international corporate governance standards.

The Board has reviewed the position and relationships of all directors in office as at the date of the company's 2019 annual report and considers that all nine non-executive directors are independent.

## Skills, experience and expertise

CEO level experience

ASX-listed company experience

Capital markets

Finance and banking

Strategy and risk management

E-commerce, data and digital

Governance

Human resources and executive remuneration

Financial acumen and transaction experience

Mergers and acquisitions

Marketing/customers/retail

Regulatory and government policy

Resources and industrial

International business experience

Corporate sustainability

International and domestic political experience

Crisis and disaster management and recovery

Community engagement

International trade experience

Construction and infrastructure

## CORPORATE GOVERNANCE OVERVIEW

### Committees of the Board

The Board has established a Nomination Committee, a Remuneration Committee and an Audit and Risk Committee as standing committees to assist with the discharge of its responsibilities. Details of the current membership and composition of each committee are set out in the 2019 Corporate Governance Statement.

#### Role of the Nomination Committee

As part of the Nomination Committee's oversight of Board succession planning, it is also responsible for identifying suitable candidates to fill Board vacancies as and when they arise, or to identify candidates to complement the existing Board, and to make recommendations to the Board on their appointment. Where appropriate, external consultants are engaged to assist in searching for candidates. The Nomination Committee is responsible for scheduling regular performance reviews of the Board, its committees and individual non-executive directors. The performance review process involves a one-on-one meeting between the Chairman and each individual non-executive director. The outcomes of the review are discussed by the Board and its committees. From time to time, the evaluation process may be facilitated by an external consultant.

More details are available in the 2019 Corporate Governance Statement.

#### Key focus areas of the Nomination Committee during the 2019 financial year included:

- Identification and nomination of Mike Roche and Sharon Warburton as new non-executive directors for election to the Board bringing skills, experience and expertise to augment those of current directors
- Consideration of feedback from major shareholders during the Chairman's Roadshow conducted prior to the 2018 Annual General Meeting

#### Role of the Remuneration Committee

Full details of the remuneration paid to non-executive directors, the executive director and senior executives, along with details on Wesfarmers' policy on the remuneration of senior executives are set out in the remuneration report on pages 85 to 110 in this annual report.

Senior executives comprising members of the Wesfarmers Leadership Team have a variable or 'at risk' component as part of their total remuneration package under the Key Executive Equity Performance Plan (KEEPP). The mix of remuneration components and the performance measures used in the KEEPP have been chosen to ensure that there is a strong link between remuneration earned and the achievement of the Group's strategy and business objectives, alignment with the Group's values, management of risk in accordance with the Group's risk appetite, and, ultimately, generating satisfactory returns for shareholders.

Annual performance reviews of each member of the Wesfarmers Leadership Team, including the Group Managing Director, for the 2019 financial year have been undertaken. More details about Wesfarmers' performance and development review process for senior executives is set out in the 2019 Corporate Governance Statement.

#### Key focus areas of the Remuneration Committee during the 2019 financial year included:

- Reviewing and making a recommendation to the Board in relation to the fixed and variable remuneration of the Group Managing Director and his direct reports
- Reviewing and making recommendations to the Board in relation to the Wesfarmers variable remuneration plans, including recommending to the Board the vesting outcomes of the 2015 Wesfarmers Long Term Incentive Plan shares, based on the achievement of the performance conditions as at 30 June 2019
- Reviewing the succession and transition plans for the Wesfarmers Leadership Team
- Reviewing the senior executive remuneration framework and policies, including terms of employment such as notice periods, restraint and non-solicitation clauses
- Reviewing and recommending to the Board in relation to the impact, if any, upon the senior executive long-term incentive plans as a result of significant portfolio change including the demerger of Coles
- Reviewing and making a recommendation to the Board on non-executive director fees

#### Governance policies

The corporate governance section of the company's website ([www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)) contains access to all relevant corporate governance information, including Board and committee charters, and Group policies referred to in the 2019 Corporate Governance Statement.

#### Ethical and responsible behaviour

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

#### Investor engagement

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

#### Role of the Audit and Risk Committee

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



# CORPORATE GOVERNANCE OVERVIEW

## Key focus areas of the Audit and Risk Committee during the 2019 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
- Monitoring the Group's cyber security framework, including data protection management, third party data risk management and the reporting structure and escalation process on information security risks
- Monitoring the ethical sourcing of products for resale through the Group's retail networks to ensure that there are appropriate safeguards and processes in place
- Monitoring the retail shrinkage control measures and reporting procedures in the Group's divisions
- 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
- Reviewing and evaluating the adequacy of the Group's insurance arrangements to ensure appropriate cover for identified operational and business risks
- Monitoring the Group's tax compliance program both in Australia and overseas, including cross-border intra-Group transactions, to ensure its obligations are met in the jurisdictions in which the Group operates
- Monitoring the processes and framework established for the divisional audit and risk committees
- Appointing the Group's internal auditor for a three-year term following a competitive tender process
- Overseeing the Group's transition to the new lease accounting standard AASB 16 *Leases*, including reviewing the transition plan for the implementation of the new standard and ensuring associated disclosures are consistent with work undertaken and accepted industry practice
- Monitoring compliance with Group policies including the Code of Conduct and reporting processes

## Role of the external auditor

The company's external auditor is Ernst & Young and Darren Lewsen was appointed as the lead audit partner from 1 July 2013. In accordance with the requirements of the *Corporations Act 2001*, the Board, on the recommendation of the Audit and Risk Committee, approved Mr Lewsen to act as the lead partner for a sixth consecutive year for the 2018/2019 financial year. Mr Lewsen retired as the lead audit partner on completion of the audit of the financial statements for the year ended 30 June 2019. Mr Trevor Hammond (Partner-Assurance Ernst & Young) was appointed as the new lead audit partner from 1 July 2019.

Ernst & Young has provided the required independence declaration to the Board for the financial year ended 30 June 2019. The independence declaration forms part of the directors' report and is provided on page 84 of this annual report.

## Risk management

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

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

Management is responsible for the Group's day-to-day compliance with risk management systems. Management monitors compliance with, and the effectiveness of, the risk management systems and controls at a divisional level. Senior management across the Group is responsible for reinforcing and modelling the key behaviours required to maintain a sound risk culture, including encouraging constructive challenge and transparency. Wesfarmers' senior management reports to the Board on the adequacy of the risk management systems and processes on a consolidated basis across the Group and reports any material issues to the Board. Divisional Managing Directors are accountable for risk management outcomes, and day-to-day compliance, in their respective divisions.

## Risk Management Framework

The Risk Management Framework of Wesfarmers is reviewed on an annual basis by the Board to satisfy itself that the Risk Management Framework continues to be sound and that the Group is operating with due regard to the risk appetite set by the Board. The Risk Management Framework was approved in May 2019.

This framework details the overarching principles and risk management controls that are embedded in the Group's risk management processes, procedures and reporting systems and the division of the key risk management functions between the Board, Group Managing Director and Chief Financial Officer, Audit and Risk Committee, divisional management and Group Assurance and Risk.

Wesfarmers accepts that risk is part of doing business and the Group is committed to the identification, monitoring and management of material risks associated with its business activities.

Further details on the Wesfarmers Risk Management Framework are set out on page 15 of the 2019 Corporate Governance Statement on the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)

## Diversity

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

Wesfarmers has developed an Inclusion Policy to encourage an inclusive work environment where everybody feels respected at work and diversity in all its facets is fostered at all levels across the Group.

Further details on diversity are set out on page 59 of this annual report and in the 2019 Corporate Governance Statement on the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)

# DIRECTORS' REPORT

## Wesfarmers Limited and its controlled entities

The information appearing on pages 6 to 79 forms part of the directors' report for the financial year ended 30 June 2019 and is to be read in conjunction with the following information:

### Results and dividends

Year ended 30 June	2019 \$m	2018 \$m
<b>Profit</b>		
Profit attributable to members of the parent entity	5,510	1,197
<b>Dividends</b>		
The following dividends have been paid by the company or declared by the directors since the commencement of the financial year ended 30 June 2019:		
(a) out of the profits for the year ended 30 June 2018 and retained earnings on the fully-paid ordinary shares:		
(i) fully-franked final dividend of 120 cents (2017: 120 cents) per share paid on 27 September 2018 (as disclosed in last year's directors' report)	1,361	1,361
(b) out of the profits for the year ended 30 June 2019 on the fully-paid ordinary shares:		
(i) fully-franked interim dividend of 100 cents (2018: 103 cents) per share paid on 10 April 2019	1,134	1,168
(ii) fully-franked special dividend of 100 cents (2018: nil) per share paid on 10 April 2019	1,134	-
(iii) fully-franked final dividend of 78 cents (2018: 120 cents) per share to be paid on 9 October 2019	884	1,361

### Principal activities

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

- retailing of home improvement and outdoor living products and supply of building materials;
- retailing operations, including supermarkets (to November 2018), general merchandise and apparel;
- fuel, liquor and convenience outlets (to November 2018);
- chemicals and fertilisers manufacture;
- gas processing and distribution;
- retailing of office and technology products;
- industrial and safety product distribution; and
- management of the Group's investments.

### Directors

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

- M A Chaney (Chairman)
- R G Scott (Group Managing Director)
- S W English
- A J Howarth
- W G Osborn
- M Roche
- D L Smith-Gander
- V M Wallace
- S L Warburton
- J A Westacott

All directors served on the Board for the period from 1 July 2018 to 30 June 2019, except:

- M Roche who was appointed as a director of the company on 19 February 2019; and
- S L Warburton who was appointed a director of the company on 1 August 2019.

The following directors retired during the year:

- J P Graham retired as a director of the company on 23 July 2018, coincident with his appointment as Chairman-elect of Coles Group Limited (Coles); and
- P M Bassat retired as a director of the company on 15 November 2018, at the conclusion of the 2018 Annual General Meeting.

The qualifications, experience, special responsibilities and other details of the directors in office as at the date of this report appear on pages 74 and 75 of this annual report.

# DIRECTORS' REPORT

Wesfarmers Limited and its controlled entities

## Directors' shareholdings

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

	BWP Trust	Wesfarmers Limited	
	Units	Performance Rights	Shares
M A Chaney	–	–	87,597
S W English	–	–	1,082
A J Howarth	20,000	–	19,960
W G Osborn	–	–	14,728
M Roche	–	–	2,000
R G Scott*	–	–	751,365
D L Smith-Gander	–	–	12,045
V M Wallace	–	–	13,483
S L Warburton	–	–	1,036
J A Westacott	–	–	5,493

\* R G Scott holds 223,230 Restricted Shares and 223,230 Performance Shares under the Key Executive Equity Performance Plan (KEEPP). For further details, please see the remuneration report on pages 85 to 110 of this annual report.

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

P M Bassat retired as a director of the company on 15 November 2018, at the conclusion of the 2018 Annual General Meeting. As at that date, Mr Bassat had a relevant interest in 19,411 shares in Wesfarmers Limited and he did not have a relevant interest in the BWP Trust.

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2019 and the number of meetings attended by each director. The Gresham Mandate Review Committee was dissolved in August 2018, following Mr Graham's resignation as a director of the company on 23 July 2018. There were no meetings of the Gresham Mandate Review Committee held between 1 July 2018 and the committee's dissolution.

	Board		Audit and Risk Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend <sup>1</sup>	Attended <sup>2</sup>	Eligible to attend <sup>1</sup>	Attended <sup>2</sup>	Eligible to attend <sup>1</sup>	Attended <sup>2</sup>	Eligible to attend <sup>1</sup>	Attended <sup>2</sup>
P M Bassat <sup>3</sup>	4	4	-	-	2	2	3	3
M A Chaney <sup>4</sup>	12	12	-	-	6	6	5	5
S W English	12	12	6	6	-	-	5	5
J P Graham <sup>5</sup>	-	-	-	-	-	-	-	-
A J Howarth <sup>6</sup>	12	12	6	6	-	-	5	4
W G Osborn <sup>6</sup>	12	12	-	-	6	6	5	4
M Roche <sup>7</sup>	7	7	-	-	3	3	2	2
R G Scott	12	12	-	-	-	-	-	-
D L Smith-Gander <sup>8</sup>	12	11	6	6	-	-	5	5
V M Wallace	12	12	-	-	6	6	5	5
J A Westacott	12	12	6	6	-	-	5	5

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

<sup>2</sup> Number of meetings attended.

<sup>3</sup> P M Bassat resigned as a director of the company on 15 November 2018, at the conclusion of the 2018 Annual General Meeting.

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

<sup>5</sup> J P Graham resigned as a director of the company on 23 July 2018, coincident with his appointment as Chairman-elect of Coles.

<sup>6</sup> A J Howarth and W G Osborn were granted a leave of absence for one Nomination Committee meeting.

<sup>7</sup> M Roche was appointed as a director of the company effective 19 February 2019.

<sup>8</sup> D L Smith-Gander was granted a leave of absence for one Board meeting.

## DIRECTORS' REPORT

### Wesfarmers Limited and its controlled entities

#### Insurance and indemnification of directors and officers

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

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

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

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

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

#### 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 85 to 110 of this annual report.

#### Options

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

#### Company Secretary

Linda Kenyon was appointed as Company Secretary of Wesfarmers Limited in April 2002 and retired from the role effective 30 June 2019.

Linda holds Bachelor of Laws and Bachelor of Jurisprudence degrees from The University of Western Australia and is a Fellow of the Governance Institute of Australia (formerly the Chartered Secretaries Australia). She joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of BWP Management Limited (formerly Bunnings Property Management Limited), the responsible entity for the listed BWP Trust (formerly Bunnings Warehouse Property Trust). For the 2019 financial year, Linda was also Company Secretary of a number of Wesfarmers Group subsidiaries, and a member of the Wesfarmers Leadership Team.

Aleksandra Spaseska was appointed Executive General Manager, Company Secretariat & Group Risk in June 2019 and was appointed as Company Secretary of Wesfarmers Limited effective 1 July 2019. Aleksandra is a member of the Wesfarmers Leadership Team, the Company Secretary of a number of Wesfarmers Group subsidiary companies, and has responsibility for the coordination of risk management across the Group. Prior to this, Aleksandra was General Manager, Investor Relations. Aleksandra started with Wesfarmers in April 2008 in Business Development. She moved to Target in 2013, where she held general management positions in property and operations. Aleksandra holds a Bachelor of Commerce (Honours) and a Doctor of Philosophy from The University of Western Australia. She is a CFA Charterholder and a Fellow of the Governance Institute of Australia.

#### Significant changes in the state of affairs

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

- revenue from continuing operations up from \$26,763 million to \$27,920 million
- profit for the year up from \$1,197 million to \$5,510 million. The profit for the year included:
  - \$297 million post-tax trading results for Coles, Bengalla, KTAS and Quadrant Energy, including a \$102 million post-tax provision for supply chain automation in Coles;
  - \$2,264 million post-tax gain on demerger of Coles;
  - \$645 million post-tax gain on disposal of Bengalla;
  - \$244 million post-tax gain on disposal of KTAS; and
  - \$120 million (US\$85 million) post-tax gain on disposal of Quadrant Energy.
- dividends per share of \$2.78 (2018: \$2.23 per share)
- total assets down from \$36,933 million to \$18,333 million
- shareholders' equity down from \$22,754 million to \$9,971 million
- net debt down from \$3,933 million to \$2,500 million
- net cash flows from operating activities down from \$4,080 million to \$2,718 million

#### Review of results and operations

The operations, financial position, business strategies and prospects for future financial years of the consolidated entity are detailed in the operating and financial review on pages 14 to 73 of this report.

# DIRECTORS' REPORT

Wesfarmers Limited and its controlled entities

## Events after the reporting period

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

### Dividend

On 26 August 2019, a fully-franked final dividend of 78 cents per share resulting in a total dividend of \$884 million was declared for a payment date of 9 October 2019. This dividend has not been provided for in the 30 June 2019 full-year financial statements.

### Acquisition of Kidman Resources Limited

On 23 May 2019, Wesfarmers announced that it had entered into a Scheme Implementation Deed with Kidman Resources Limited (Kidman) under which it is proposed that Wesfarmers will acquire 100 per cent of the outstanding shares in Kidman for \$1.90 per share by way of Scheme of Arrangement. The transaction was completed on 23 September 2019.

### Acquisition of Catch Group Holdings Limited

On 12 June 2019, Wesfarmers announced that it had entered into an agreement to acquire Catch Group Holdings Limited (Catch) for cash consideration of \$230 million. The transaction was completed on 12 August 2019. Due to the timing of the acquisition and the restriction on access to the books and records of Catch until after completion, the accounting for the business combination has not yet been determined. Further information in relation to this acquisition is unable to be provided due to the limited time between completion and the release of this report.

## Non-audit services

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2019 and received, or is due to receive, the following amounts for the provision of these services:

	\$'000
Tax compliance	1,067
Other	102
<b>Total</b>	<b>1,169</b>

The total non-audit services fees of \$1,169 thousand represents 13.6 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2019. Total non-audit services fees and assurance-related services fees were \$3,995 thousand. Further details of amounts paid or payable to Ernst & Young and its related practices are disclosed in note 25 to the financial statements.

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

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

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

## Auditor

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

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

Reasons supporting this decision include:


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

A copy of the Board resolution granting approval was lodged with ASIC in accordance with section 324DAC of the *Corporations Act 2001*. The Board has undertaken a process and agreed Mr Trevor Hammond will succeed Mr Lewsen as the company's lead audit partner following completion of the audit of the financial statements for the year ended 30 June 2019.

## DIRECTORS' REPORT

### Wesfarmers Limited and its controlled entities

The directors received the following declaration from Ernst & Young:



**EY**

**Building a better working world**

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

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

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

As lead auditor for the audit of Wesfarmers Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

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

*Ernst & Young*

**Ernst & Young**

*D S Lewsen*

**D S Lewsen**  
Partner 25 September 2019

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

### Environmental regulation and performance

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

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

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

### Proceedings on behalf of the company

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

### Corporate governance

In recognising the need for high standards of corporate behaviour and accountability, the directors of Wesfarmers Limited support and have followed the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. An overview of the company's corporate governance statement can be found on pages 76 to 79 of this annual report. The full corporate governance statement is available on the corporate governance section of the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)

### Corporate information

Wesfarmers Limited is a company limited by shares that is incorporated and domiciled in Australia. The company's registered office and principal place of business is Level 14, Brookfield Place Tower 2, 123 St Georges Terrace, Perth, Western Australia.

### Rounding

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

# REMUNERATION REPORT 2019

## MESSAGE FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of the Board, I am pleased to present the 2019 Remuneration Report.

The 2019 financial year saw the delivery of strong financial results for the Group as a whole, the execution of significant portfolio change to reposition the Group for future growth, most notably with the demerger of Coles from the Group in November 2018, and increased distributions to shareholders, including the payment of a special dividend. We believe the remuneration outcomes for the executive key management personnel (KMP) appropriately reflect our company performance for the year.

The fixed annual remuneration for the Group Managing Director, Rob Scott, has remained unchanged from his appointment in November 2017, and non-executive director fees have remained unchanged since January 2017. Our approach to executive remuneration, which is reflected in the structure of the Key Executive Equity Performance Plan (KEEPP), is differentiated in a number of important respects which align with the Group's objective of providing satisfactory returns to shareholders over the long term. We were pleased to receive continued strong shareholder support for our remuneration practices, including the KEEPP, at the 2018 Annual General Meeting.

### Executive remuneration framework - 2019 awards

The key principles of the KEEPP remain unchanged in 2019. The size of the KEEPP awards is determined with reference to annual scorecards which comprise both financial and strategic targets specific to each executive KMP. In assessing these scorecards each year the Board aims to ensure that outcomes reflect shareholders' interests and experience and appropriately reflect business performance and the individual contribution of each executive KMP.

The KEEPP awards are primarily delivered in shares. The maximum cash payable to the Group Managing Director and the Group Chief Financial Officer under the 2019 KEEPP reduced to five per cent of the target award. From the 2020 financial year no cash will be payable to these participants.

KEEPP share awards are equally divided between Performance Shares, which carry four-year performance conditions, including shareholder return hurdles, and Restricted Shares which are restricted from trading for five and six years. The Board believes that the long-dated nature of these awards drives strong alignment with shareholder interests and outcomes and, when coupled with the clawback and malus provisions under the KEEPP, allow the Board to ensure that the realised outcomes are justified and reflect performance.

### Executive remuneration framework - vesting of past awards

Following sustained, successful efforts in executing the company's strategy, the relative compound annual growth rate (CAGR) in return on equity (ROE) and total shareholder return (TSR) hurdles that applied to the 2015 Wesfarmers Long Term Incentive Plan (WLTIP) were tested at 30 June 2019. The hurdles have been satisfied and 88.8 per cent of the overall awards have vested. Further details are set out in this report.

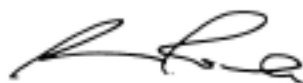
### Impact of Coles demerger on remuneration outcomes

The demerger of Coles resulted in significant impacts to the Group's reported financial results. In assessing remuneration outcomes, the committee adopted the principle that executives should not be afforded any undue benefits or detriments as a result of the demerger. This was reflected in the Board exercising discretion to remove the favourable impact of the demerger on Group NPAT and ROE when assessing the 2019 KEEPP scorecards and vesting under the 2015 WLTIP.

To preserve the integrity of the KEEPP, the Board resolved to cancel the original 2016 and 2017 KEEPP allocations immediately prior to the demerger and replace these with new awards wholly in Wesfarmers shares post the demerger. This ensured continued long-term alignment between executives and Wesfarmers shareholders. Under the original 2017 KEEPP allocation, the Group Managing Director and Group Chief Financial Officer had an absolute ROE performance hurdle. Following the significant changes to the portfolio as a result of the demerger and other activities, the absolute ROE of the Group will be significantly higher going forward. Setting an absolute ROE target in future could result in perverse outcomes (for example, a higher target could disincentivise against investing in lower but acceptable ROE opportunities; and a lower target could reward diminished return performance). Accordingly, the Board did not consider it appropriate for the replacement 2017 KEEPP allocation to retain this measure and as a result it was removed and the relative TSR component was increased.

WLTIP performance rights did not carry a right to participate in the demerger nor a right to receive Coles shares in respect of them. Without any adjustment, the value of existing performance rights would have fallen as a consequence. To ensure the participants were not unfairly disadvantaged by the demerger, the Board approved a grant of additional WLTIP performance rights (Additional Performance Rights) to eligible executive KMP who continued to be employed within the Group.

Thank you for your ongoing support of Wesfarmers. The Board believes Mr Scott is supported by a strong executive Leadership Team and that the company is well positioned to continue to improve performance and to deliver on its long-term goal of providing satisfactory returns to shareholders.



MIKE ROCHE

— Chairman, Remuneration Committee

# REMUNERATION REPORT 2019 (AUDITED)

## CONTENTS

### Executive remuneration

<b>Section 1: 2019 outcomes snapshot</b>	<b>87</b>
<b>Section 2: Remuneration governance</b>	<b>88</b>
2.1 Responsibility for setting remuneration	88
2.2 Culture and risk management in remuneration	88
2.3 Alignment between remuneration and Wesfarmers' core objective	88
<b>Section 3: Executive KMP remuneration framework</b>	<b>89</b>
3.1 2019 executive remuneration framework	89
3.2 Executive KMP	90
3.3 Executive service agreements	90
<b>Section 4: 2019 Executive KMP remuneration</b>	<b>91</b>
4.1 Fixed annual remuneration	91
4.2 KEEPP	91
4.3 WLTIP	99
4.4 Executive remuneration (statutory presentation)	100

### Non-executive director remuneration

<b>Section 5: Non-executive directors</b>	<b>102</b>
5.1 Overview of non-executive director remuneration policy and arrangements	102
5.2 Non-executive director fees and other benefits	102
5.3 Non-executive director remuneration	103

### Other remuneration information

<b>Section 6: Further information on remuneration</b>	<b>104</b>
6.1 KMP share ownership	104
6.2 Share trading restrictions	105
6.3 Other transactions and balances with KMP	105
6.4 Impact of the demerger of Coles on the 2016 and 2017 KEEPP awards and 2015 WLTIP	106
<b>Section 7: Annexures</b>	<b>109</b>
<b>Section 8: Independent audit of remuneration report</b>	<b>110</b>



## EXECUTIVE REMUNERATION

### 1. 2019 outcomes snapshot

<b>Business performance</b> <i>Refer to section 4</i>	<b>Linking business performance to remuneration outcomes</b> <i>Refer to section 4</i>
<ul style="list-style-type: none"> <li>Reported NPAT of \$5,510 million, including post-tax significant items of \$3,171 million relating to the demerger of Coles, the divestments of the Bengalla coal mine, Kmart Tyre and Auto Service (KTAS) and Quadrant Energy, and the provision for supply chain automation in Coles.</li> <li>NPAT from continuing operations was \$1,940 million.</li> <li>Bunnings, Officeworks and the Industrials division as a whole continued to deliver solid results.</li> <li>The performance of Kmart Group was below expectations and was affected by moderated trading conditions.</li> </ul> <p><i>Board discretion:</i></p> <ul style="list-style-type: none"> <li>Board discretion was exercised in assessment of the 2019 KEEPP scorecards to ensure that no undue benefit was afforded to executive KMP as a result of the Coles demerger or divestments of Bengalla and KTAS:                             <ul style="list-style-type: none"> <li>Gain on the demerger of Coles and the gains on the divestments of KTAS and Bengalla were excluded from reported Group NPAT and, where relevant, divisional EBIT.</li> <li>Reported ROE was adjusted to remove the favourable impact of the Coles demerger and the sale of KTAS and Bengalla, resulting in adjusted ROE of 14.4 per cent versus reported ROE of 38.7 per cent.</li> </ul> </li> <li>An adjusted ROE was also used to test performance hurdles for the 2015 WLTIP.</li> </ul>	<p><i>2019 KEEPP Scorecards:</i></p> <ul style="list-style-type: none"> <li>The 2019 KEEPP outcomes varied from 33.3 per cent to 89.6 per cent of the maximum opportunity.</li> <li>The outcome for Mr Scott was 86.6 per cent of the maximum opportunity and for Anthony Gianotti, Group Chief Financial Officer, was 89.6 per cent of the maximum opportunity.</li> <li>The maximum cash payable for Mr Scott and Mr Gianotti reduced to five per cent of the target award.</li> <li>Outcomes for remaining executive KMP:                             <ul style="list-style-type: none"> <li>David Baxby, Managing Director, Wesfarmers Industrials was awarded 83.3 per cent of the maximum opportunity.</li> <li>Michael Schneider, Managing Director, Bunnings Group, was awarded 67.1 per cent of the maximum opportunity.</li> <li>Ian Bailey, Managing Director, Kmart Group received 33.3 per cent of the maximum opportunity, with Mr Bailey not awarded any 2019 KEEPP outcome in relation to the Kmart Group financial results, and no cash component.</li> </ul> </li> </ul> <p><i>2015 WLTIP:</i></p> <ul style="list-style-type: none"> <li>Relative TSR (rTSR) and CAGR in ROE hurdles were tested at 30 June 2019.</li> <li>88.8 per cent of the performance rights vested into shares.</li> </ul>
<b>Fixed remuneration and non-executive director fee outcomes</b> <i>Refer to section 4 and section 5</i>	<b>Impact of the demerger of Coles from the Wesfarmers Group on existing incentive plans</b> <i>Refer to section 6.4</i>
<ul style="list-style-type: none"> <li>Mr Scott's fixed annual remuneration (FAR) remained unchanged at \$2,500,000 and Mr Gianotti's FAR remained unchanged at \$1,350,000.</li> <li>Mr Bailey's FAR was set at \$1,350,000 upon appointment as Managing Director, Kmart Group in November 2018, representing a 27 per cent reduction relative to the FAR of his predecessor.</li> <li>The FAR for Mr Baxby was increased to \$1,300,000 as part of the October 2018 review, reflecting his performance in the role.</li> <li>Mr Schneider's FAR remained unchanged at \$1,500,000.</li> <li>There have been no increases to non-executive director fees since January 2017.</li> </ul>	<p><i>KEEPP:</i></p> <ul style="list-style-type: none"> <li>To preserve the integrity of the KEEPP, following approval of the demerger, the Board resolved to cancel the original 2016 and 2017 KEEPP allocations and then, following the implementation of the demerger, to replace these with new awards, made wholly in Wesfarmers shares. Participants were no better off immediately following the demerger.</li> <li>The terms of the replacement KEEPP awards are consistent with the original design principles of the KEEPP, including, for example, the allocation of Restricted Shares that are restricted for the long term and Performance Shares that vest based upon the achievement of divisional and/or Group performance conditions.</li> </ul> <p><i>WLTIP:</i></p> <ul style="list-style-type: none"> <li>The 2015 WLTIP performance rights held by executive KMP did not participate in the demerger of Coles and no Coles shares were allocated in respect of them.</li> <li>To preserve the overall value of the performance rights following the demerger and to ensure that participants were not unfairly disadvantaged, the Board approved a grant of additional performance rights to participants in the 2015 WLTIP who continued to be employed within the Group.</li> <li>The Additional Performance Rights were granted in December 2018 on substantially the same terms as the original award of performance rights under the WLTIP.</li> </ul>

## REMUNERATION REPORT 2019 (AUDITED)

### 2. Remuneration governance

#### 2.1 Responsibility for setting remuneration

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

The Remuneration Committee has delegated responsibility to review and make recommendations to the Board in relation to remuneration policy and incentives. The Remuneration Committee assists the Board to evaluate Wesfarmers' remuneration framework so that it aligns, supports and drives achievement against the company's strategic objectives with regard to its risk management framework. Management and remuneration consultants provide information to assist the Board and Remuneration Committee, but do not substitute the Board and committee processes. No remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were obtained during the financial year ended 30 June 2019.

Details of the composition of the Remuneration Committee is set out in section 5.2. Further information regarding the objectives and role of the Remuneration Committee are contained in its charter, which is available in the Corporate Governance section of the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg)

#### 2.2 Culture and risk management in remuneration

The Board believes that cultivating the right culture and ensuring the company operates within effective risk management protocols are enablers of strategic execution over the long term. Wesfarmers can only achieve its primary objective of generating satisfactory returns for shareholders by: looking after our team members, customers and suppliers; taking care of the environment and making sure that we are environmentally conscious in all of our activities; by acting ethically and honestly in all of our dealings; and by making meaningful contributions to the communities in which we operate.

Through its use of the governance frameworks and consultation with the Audit and Risk Committee, for example in the assessment of the outcomes of the KEEPP scorecards, the Board ensures the executive KMP remuneration framework has a positive impact upon the company and all remuneration outcomes are aligned with the Board's approach to risk management. Fixed remuneration levels sufficiently reward the executive KMP for performing the key requirements of their roles. Under the KEEPP, the performance conditions set by the Board are designed to drive strategic outcomes that benefit the company and its shareholders and are assessed by the Board to be suitably risk-adjusted in accordance with the risk management framework so as to avoid unnecessary customer, team member or financial risk in the pursuit of the KEEPP outcomes. Further, in assessing the annual KEEPP scorecards, the Board considers 'how' the outcomes have been achieved, through demonstration of behaviours aligned with appropriate ethics, values and culture.

#### 2.3 Alignment between remuneration and Wesfarmers' core objective

Since public listing in 1984, Wesfarmers' core objective has been to deliver satisfactory returns to shareholders over the long term. The Group's strong focus on this objective has enabled Wesfarmers to navigate changes in markets, industry, technology and regulations. The focus and flexibility afforded by this core objective has been a key factor in the 19 per cent per annum CAGR in shareholder returns delivered since listing in 1984. This requires the Group and divisions to compete effectively in their respective markets. Through its remuneration governance framework and guiding principles (shown opposite) the Board sets the remuneration policies to ensure we attract and retain the talent we require.

The Board recognises that Wesfarmers and its divisions compete robustly in business and for talent against a variety of companies with different ownership and governance structures. Notably, some of the key competitors to Wesfarmers and its divisions are domestic and international private equity firms, foreign subsidiaries of large international companies, privately owned businesses and technology-enabled start ups. Many of these organisations adopt remuneration and incentive programs that are quite different to the structures commonly used in ASX-listed companies and are not subject to the same disclosure obligations in Australia as Wesfarmers. Wesfarmers acknowledges its disclosure obligations as a listed company and the importance of meeting community expectations.

# REMUNERATION REPORT 2019 (AUDITED)

## 3. Executive KMP remuneration framework

### 3.1 2019 executive remuneration framework

Wesfarmers' primary objective is to provide satisfactory returns to shareholders over the long term and its guiding remuneration principles are focused on driving the leadership performance and behaviours consistent with achieving this objective, while ensuring we remunerate fairly and responsibly. Each of the guiding principles is reflected within the design of the KEEPP.

#### Our remuneration objective:

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

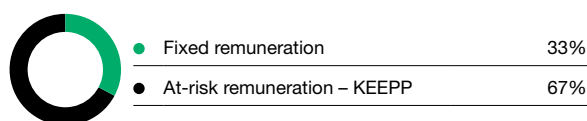
#### Our guiding remuneration principles:

<b>1</b>	Align executive and stakeholder interests through share ownership while strengthening focus on Group results through awards of long-term, at-risk deferred equity
<b>2</b>	Be transparent and fit for purpose, recognising our autonomous operating model by linking rewards to the achievement of objectives for which executives are directly accountable and responsible while retaining a link to Group performance
<b>3</b>	Attract, motivate and retain world-class talent and outstanding people to drive outcomes
<b>4</b>	Recognise and reward high performance with a strong focus on the long term
<b>5</b>	Align effective risk management and demonstration of appropriate behaviours, ethics and values with rewards
<b>6</b>	Drive strategic achievement which aligns with long-term shareholder interests

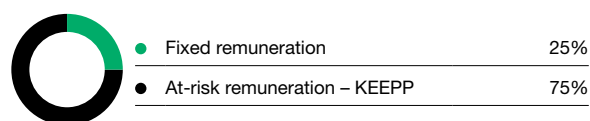
The remuneration framework for the executive KMP comprises FAR and 'at-risk' remuneration (through participation in the KEEPP). The graphs below show these components as a percentage of total remuneration for each executive KMP:

#### Components of remuneration

##### Total target remuneration



##### Total maximum remuneration



The target 'at-risk' KEEPP opportunity for each executive KMP is 200 per cent of FAR and the maximum opportunity is 300 per cent of FAR. The remuneration mix for the executive KMP is structured to reward executives for performance at a Group or divisional level, as appropriate, and to align executive and stakeholder interests through share ownership.

#### Fixed remuneration

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

#### At-risk remuneration – KEEPP

The KEEPP was introduced in the 2017 financial year, and was the only variable remuneration plan the current executive KMP were invited to participate in during the 2019 financial year.

One of the Board's main aims in the introduction of the KEEPP was to move away from short-term incentive plans (STI) and large cash payments for the executive KMP. The KEEPP has a significantly reduced cash component compared to the previous STI. Mr Scott and Mr Gianotti, since appointment in 2017 as Group Managing Director and Group Chief Financial Officer respectively, received an initial cash component equal to 10 per cent of the target award in the 2018 financial year, reducing to five per cent in the 2019 financial year and zero thereafter.

The KEEPP strongly aligns the interests of the Group and its shareholders by delivering the major part of the KEEPP award in shares. Further details on the KEEPP is provided in section 4.2.

## REMUNERATION REPORT 2019 (AUDITED)

### 3.2 Executive KMP

#### Guiding principle

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

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

The executive KMP for 2019 are as follows:

#### Current executive KMP

Rob Scott, Group Managing Director	These executive KMP held their position throughout the whole of the 2019 financial year.
Anthony Gianotti, Group Chief Financial Officer	
David Baxby, Managing Director, Wesfarmers Industrials	
Michael Schneider, Managing Director, Bunnings Group	
Ian Bailey, Managing Director, Kmart Group	Mr Bailey became a member of the executive KMP when he commenced in the role of Managing Director, Kmart Group on 1 November 2018.

#### Former executive KMP

Steven Cain, Managing Director, Coles	Mr Cain became a member of the executive KMP for the period 17 September 2018 to 20 November 2018 when he commenced in the role of Managing Director, Coles until the successful demerger of Coles from the Group.
John Durkan, Managing Director, Coles	Mr Durkan ceased in the role of Managing Director, Coles and as a member of the executive KMP on 14 September 2018.
Guy Russo, Chief Executive Officer, Department Stores	Mr Russo ceased in the role of Chief Executive Officer, Department Stores and as a member of the executive KMP on 31 October 2018.

### 3.3 Executive service agreements

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

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

The Group Managing Director and the Group Chief Financial Officer may terminate their employment within 30 days of an event giving rise to fundamental change. This includes Mr Scott ceasing to be the most senior executive of the Group, a delisting of Wesfarmers or a material reduction in role, status or delegated authority.

In addition, and upon further payment (where required), Wesfarmers may invoke a restraint period of up to 12 months following separation, preventing the executive KMP from engaging in any business activity with competitors of the Group.

# REMUNERATION REPORT 2019 (AUDITED)

## 4. 2019 Executive KMP remuneration

### 4.1 Fixed annual remuneration

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

As the Wesfarmers Group continues to be a diverse and complex conglomerate with business lines across a range of industries and an active portfolio manager, the fixed remuneration for the Group Managing Director and Group Chief Financial Officer is considered to be appropriate. Benchmarking, based on the post-demergers size of the Group, supported this conclusion.

During the annual remuneration review in October 2018, Mr Scott recommended, and the Board approved, that Mr Baxby's fixed remuneration be increased to \$1.3 million, an increase of 8.3 per cent, reflecting his performance in the role. There were no other changes to the fixed remuneration of the executive KMP at that time. In November 2018, following his appointment as Managing Director, Kmart Group, Mr Bailey's fixed remuneration was increased to \$1.35 million. This continues the rebasing of remuneration packages for the executive KMP, with the fixed remuneration for Mr Bailey set by the Board at a level significantly less than approved for his predecessor, Mr Russo.

### 4.2 KEEPP

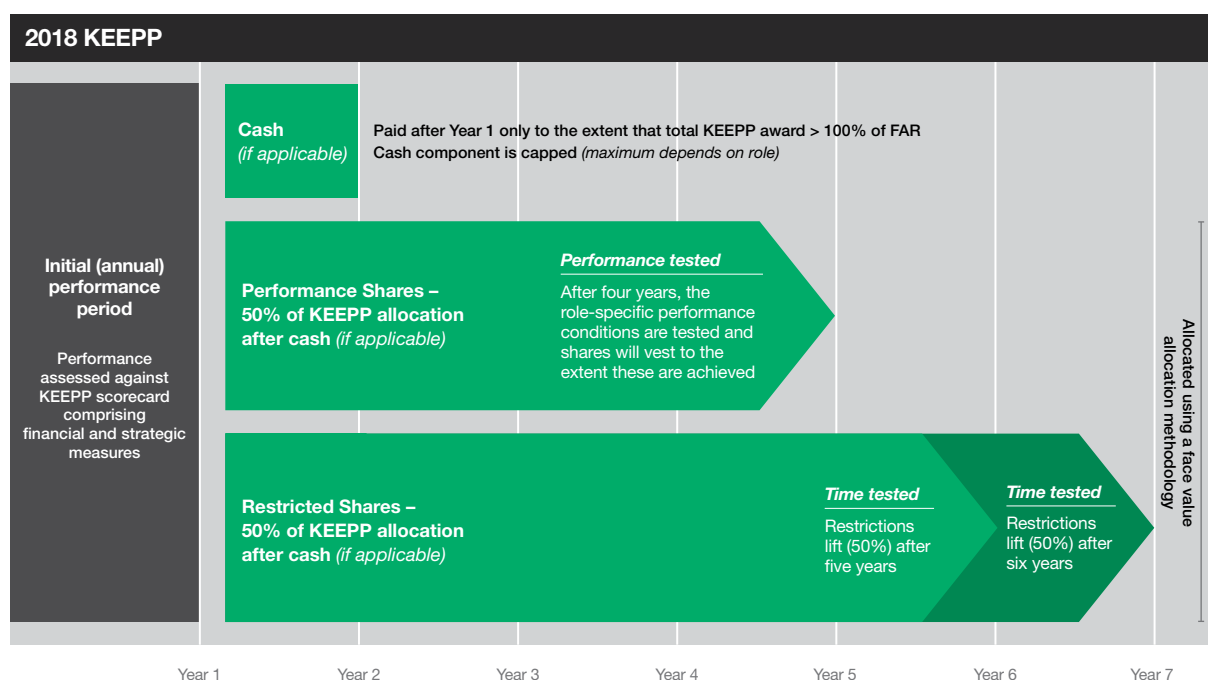
#### (a) Detailed summary of the KEEPP

The KEEPP was designed to reduce focus on short-term incentives. It reflects Wesfarmers' model and rewards the executive KMP for the financial results of the Group or their division, as applicable, while providing strong long-term alignment with shareholder returns. The plan operates over a total of seven years. Outcomes are delivered predominantly in Wesfarmers shares, split between Restricted Shares (50 per cent) and Performance Shares (50 per cent), to align with shareholder interests, with long restriction periods (up to six years from the grant date), and a relatively small, if any, cash component.

For the 2019 financial year, the maximum cash component available for the Group Managing Director and the Group Chief Financial Officer was five per cent of the target award. For the divisional managing directors, the maximum cash component was 20 per cent of the target award. The cash component is only paid to the extent the total KEEPP award is above 100 per cent of FAR.

From the 2020 financial year, the Group Managing Director and the Group Chief Financial Officer will not receive any of the KEEPP award in cash and for the divisional managing directors, the cash component will reduce further to a maximum of 17.5 per cent of the target award.

The diagram below shows the remuneration lifecycle for each element of the KEEPP.



## REMUNERATION REPORT 2019 (AUDITED)

The key details of the KEEPP are summarised below.

<b>Initial (annual) performance period - scorecard measures</b>	<p>The initial (annual) performance period is one year, commencing 1 July and ending 30 June in the relevant financial year, over which period the executive KMP's annual KEEPP award is determined using a KEEPP scorecard. The target opportunity is 200 per cent of FAR and the maximum opportunity is 300 per cent of FAR.</p> <p>The scorecard (agreed between participants and the Group Managing Director or Chairman, as applicable, and by the Remuneration Committee and the Board) is used in determining the amount to be recommended by the Group Managing Director or Chairman, as the overall value of the KEEPP award.</p> <p>The scorecard comprises financial (Group or divisional, as applicable) performance conditions that are quantifiable and measurable and specific to the Group or each division, as applicable (see section 4.2(b)), measured over the relevant annual performance period, as well as strategic objectives that are specific to the role. In order to achieve an award, the performance conditions need to be assessed as above threshold performance. In respect of the financial measures for the 2019 financial year, which include Group NPAT and ROE or divisional EBIT and ROC targets, threshold vesting begins at either 92.5 per cent or 95 per cent of target and maximum is awarded at or above 105 per cent or 110 per cent of target.</p>
<b>Annual scorecard assessment</b>	<p>The value of the full KEEPP award for the financial year is determined using performance against the annual scorecard in the year, and as recommended by the Group Managing Director or Chairman, as appropriate. If there is no scorecard in place (for example, if the executive becomes a member of the executive KMP during the preceding financial year) the value of the award is recommended by the Group Managing Director, based on a number of factors.</p> <p>Performance under the scorecards is assessed by the Board after the preparation of the financial statements each year (in respect of the financial measures), with consideration given to demonstration of behaviours aligned with appropriate ethics, values and culture, and after a review of performance against strategic measures by the Group Managing Director or Chairman, as appropriate, at the end of the financial year.</p> <p>In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions, where the Board considers this appropriate.</p>
<b>Allocation of awards (after the initial (annual) performance period)</b>	<p>After the end of the initial (annual) performance period and scorecard assessment and following determination and approval of the participant's KEEPP award amount by the Board, the KEEPP awards are granted in cash, Restricted Shares and Performance Shares. Restricted Shares and Performance Shares are granted at no cost to the participants.</p> <p>Cash will only be paid to an executive KMP if the executive KMP's total KEEPP award is greater than 100 per cent of FAR. The KEEPP cash payments are made in late August.</p> <p>The remainder of the KEEPP award is granted as Restricted Shares and Performance Shares as follows:</p> <ul style="list-style-type: none"> <li>- 50 per cent will be granted as Restricted Shares, which are subject to a 12-month service condition and any performance conditions that may be set by the Board at the date of allocation and restricted from trading for five and six years; and</li> <li>- the remaining 50 per cent will be granted as Performance Shares, which will vest subject to performance conditions over four years.</li> </ul> <p>The number of Restricted Shares and Performance Shares allocated is typically determined using a face value calculated based upon the 10-day volume-weighted average price (VWAP) of Wesfarmers shares over the period immediately following the full-year results announced in August of that year. In anticipation of the expected impact of the proposed Coles demerger on the KEEPP, the 2018 KEEPP allocation was determined using a face value calculated based upon the 10-day VWAP of Wesfarmers shares over the period immediately following the demerger of Coles from the Wesfarmers Group (i.e. 21 November – 4 December 2018).</p>
<b>Restricted Shares – conditions and vesting</b>	<p><b>2018 KEEPP award</b></p> <p>The Restricted Shares do not have further performance conditions but there is a service condition in the first 12 months from the Restricted Share grant date. The Restricted Shares provide alignment with shareholders over the long term. Half of the Restricted Shares will be restricted from trading for five years and half will be restricted for six years, providing a significant portion of remuneration linked to Group performance over the long term.</p> <p>The Restricted Shares are held in trust subject to a holding lock applied as follows:</p> <ul style="list-style-type: none"> <li>- 50 per cent of the Restricted Shares will be subject to a restriction from trading until the day following the FY23 results announcement in August 2023; and</li> <li>- the remaining 50 per cent of the Restricted Shares will be subject to a restriction from trading until the day following the FY24 results announcement in August 2024.</li> </ul> <p><b>2019 KEEPP award</b></p> <p>As at 30 June 2019, the performance and service conditions to determine vesting of the 2019 KEEPP allocation had not yet been finalised.</p>
<b>Performance Shares – conditions and vesting</b>	<p><b>2018 KEEPP award</b></p> <p>The Performance Shares have performance conditions over a four-year performance period, from 1 July 2018 to 30 June 2022.</p> <p>Performance Shares will vest based on the extent of the satisfaction of performance conditions described below.</p> <p><b>Group Managing Director and Group Chief Financial Officer:</b></p> <ul style="list-style-type: none"> <li>- Wesfarmers' rTSR against the S&amp;P/ASX 100 Index (60 per cent weighting);</li> <li>- Wesfarmers' portfolio management and investment outcomes (20 per cent weighting); and</li> <li>- Strategic measures (20 per cent weighting).</li> </ul> <p><b>Divisional Managing Directors:</b></p> <ul style="list-style-type: none"> <li>- Cumulative EBIT and ROC (80 per cent weighting); and</li> <li>- Wesfarmers' rTSR against the S&amp;P/ASX 100 Index (20 per cent weighting).</li> </ul> <p><i>EBIT and ROC condition</i></p> <p>The cumulative EBIT condition measures the respective division's creation of profit against their Corporate Plan over the four-year performance period subject to an average ROC gate, calculated using their Corporate Plan.</p>

# REMUNERATION REPORT 2019 (AUDITED)

Vesting schedule against EBIT and ROC:

- 50 per cent of the Performance Shares vest if 90 per cent of the cumulative EBIT target is achieved, subject to achieving 90 per cent of the average ROC target; and
- 100 per cent of the Performance Shares vest if 100 per cent of the cumulative EBIT target is achieved, subject to achieving 90 per cent of the average ROC target.

Straight-line vesting occurs in between.

*rTSR condition*

The rTSR condition measures the performance of an ordinary Wesfarmers share (including the value of any dividend and any other shareholder benefits paid during the performance period) against total shareholder return performance of a comparator group of companies, comprising the S&P/ASX 100 Index, over the same period.

Vesting schedule against rTSR:

Percentile ranking	Percentage of awards vesting
Below the 50th percentile	0% vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	Straight-line vesting between 50% and 100%, i.e. an additional 2% of awards vest for each percentile increase
Equal to the 75th percentile or above	100% vesting

*Non-financial conditions*

At the end of the four-year period the Board will consider the performance of the Group Managing Director and the Group Chief Financial Officer in relation to the acquisition, investment and disposal activities of the Group over that period as well as other strategic targets such as in relation to talent development, leadership and corporate reputation.

**2019 KEEPP award**

As at 30 June 2019, the performance and service conditions to determine vesting of the 2019 KEEPP allocation had not yet been finalised.

## Performance Shares – rationale for performance conditions

The strategic intent of the performance conditions is set out below:

- rTSR was chosen because it provides a relative external market performance measure having regard to Wesfarmers' ASX 100 peers, and ensures all executive KMP are remunerated against Group results.
- Wesfarmers' portfolio management and investment outcomes was chosen to recognise the criticality of decision-making with regards to acquisitions, investments and disposals.
- Strategic outcomes were chosen to reflect the importance placed by the Board on the achievement of non-financial outcomes, in addition to financial outcomes, that continue to build value for all stakeholders (shareholders, customers, and team members), support long-term sustainable performance and reinforce our strong corporate reputation.
- Four-year divisional EBIT, subject to average ROC, was chosen to ensure that the remuneration of divisional managing directors is directly linked to the achievement of long-term financial returns for the business for which they are directly accountable.

## Performance Shares – testing

Testing of the Performance Shares occurs shortly after the end of the four-year performance period.

TSR performance is independently assessed over the performance period against the constituents of the S&P/ASX 100 Index as at the start of the performance period.

The cumulative EBIT and average ROC are calculated after the preparation and audit of the financial statements following the end of the final year of the performance period and assessed against the targets set at the start of the performance period.

The portfolio and investment outcomes and the strategic targets are assessed by the Board at the end of the performance period, following appraisal of the relative success of each over the period.

These methods of assessing the performance conditions have been chosen as the Board believes they are the most appropriate way to assess the true financial performance of the company and determine remuneration outcomes. In accordance with the terms of the KEEPP, the Board has discretion to make adjustments to the performance conditions where it is considered appropriate to do so.

Following testing, any Performance Shares that do not vest will be forfeited.

## REMUNERATION REPORT 2019 (AUDITED)

<b>Cessation of employment</b>	<p>If an executive KMP ceases employment with Wesfarmers before the end of the service period, restriction period or performance period (as applicable), their entitlement to the shares (if any) will depend on the circumstances of cessation. For the Group Managing Director, the grant of Restricted Shares and Performance Shares under the 2018 KEEPP was made in accordance with the terms approved at the Wesfarmers 2018 Annual General Meeting.</p> <p><b>Restricted Shares</b></p> <p>Where an executive KMP resigns within 12 months from the Restricted Share grant date, is dismissed for cause, significant underperformance or breach of a restraint in their service agreement during the applicable restriction period or is otherwise dismissed by the Board, all Restricted Shares will be forfeited.</p> <p>In all other circumstances, the Restricted Shares will remain on foot and subject to the original conditions, as if the executive KMP (including the Group Managing Director) had not ceased employment.</p> <p>If, following cessation of employment, the Board determines in good faith that:</p> <ul style="list-style-type: none"> <li>– the executive KMP has breached any restriction or undertaking owed to the Wesfarmers Group or any compromise or arrangement in relation to their cessation of employment; or</li> <li>– the executive KMP's circumstances have changed making it no longer appropriate for them to retain the benefit of their award,</li> </ul> <p>the Board may determine that:</p> <ul style="list-style-type: none"> <li>– some or all of the executive KMP's Restricted Shares will be forfeited; and/or</li> <li>– the executive KMP is required to pay or repay as a debt the net proceeds of the sale of shares or dividends provided to them.</li> </ul> <p>However, the Board retains absolute discretion to determine to treat the Restricted Shares other than as outlined above in all circumstances.</p> <p><b>Performance Shares</b></p> <p>Where an executive KMP ceases employment during the performance period for cause, significant underperformance, breach of a restraint in their service agreement or is otherwise dismissed by the Board, and in the case of the Group Managing Director, if he resigns during the performance period, all Performance Shares will be forfeited. Where an executive KMP resigns within four years of the Performance Share grant date, it is expected that the Board will determine that Performance Shares are forfeited.</p> <p>In all other circumstances, the Performance Shares will remain on foot and subject to the original performance conditions, as if the participant had not ceased employment. However, the Board retains absolute discretion to determine to treat the Performance Shares other than as outlined above in all circumstances.</p>
<b>Change of control</b>	<p>If a change of control event occurs, the Board has broad discretion to determine the treatment of Restricted Shares and Performance Shares, having regard to any matter that the Board considers relevant.</p>
<b>Clawback</b>	<p>The terms of the KEEPP contain a mechanism for the Board to clawback or adjust any incentive awards which vest (or may vest) as a result of a material misstatement in, or omission from, the financial statements or otherwise as a result of fraud, dishonesty or breach of obligations. The Board has discretion to adjust any conditions applicable to an award, if considered appropriate. The Board may, up to the value of the overpaid remuneration, reduce or defer or otherwise require the repayment of any amount paid or payable to the executive to ensure no unfair benefit is derived.</p>
<b>Dividends and voting rights</b>	<p><b>Restricted Shares</b></p> <p>Restricted Shares carry dividend and voting rights. Dividends will be escrowed until the end of the 12-month service period and thereafter be paid to the executive KMP. If Restricted Shares are forfeited during the 12-month service period, the executive KMP is not entitled to the escrowed dividends.</p> <p><b>Performance Shares</b></p> <p>Performance Shares carry dividend and voting rights. Dividends will be escrowed for the full four-year performance period and only paid to the executive KMP to the extent that the underlying shares vest.</p> <p>A portion of the escrowed dividend amounts will be paid to the executive KMP to satisfy their tax liability on dividends paid in respect of their Restricted Shares and Performance Shares.</p>

### Changes for the 2019 KEEPP awards

Following 30 June 2019, the Board has approved an adjustment to the weighting of the performance conditions to apply to the Performance Shares to be allocated to the divisional managing directors under the 2019 KEEPP. It is expected that the performance conditions will be weighted equally between Wesfarmers' rTSR against the S&P/ASX 100 Index and divisional cumulative EBIT and ROC, a change from the 20 per cent and 80 per cent respective weighting that applies to the 2018 KEEPP Performance Shares for the divisional managing directors. This change has been made to further align divisional performance with company performance over the longer term yet retain a link to the individual's divisional performance. There is no expected change for the weighting of the performance conditions to apply to the Performance Shares to be allocated to the Group Managing Director and the Group Chief Financial Officer under the 2019 KEEPP.

Further information will be provided in the 2020 Remuneration Report.



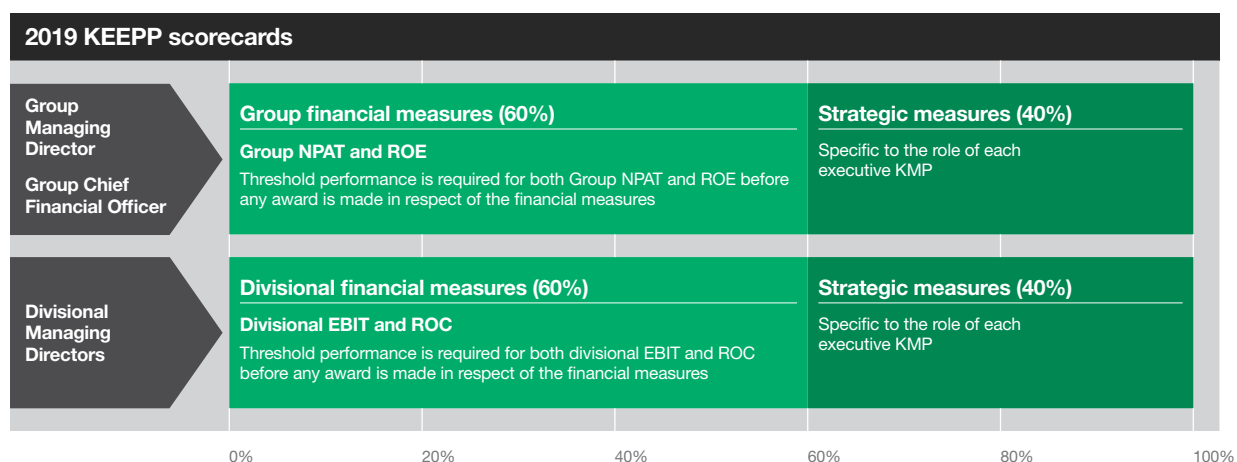
# REMUNERATION REPORT 2019 (AUDITED)

## (b) 2019 KEEPP annual scorecard

### Guiding principle

The 2019 KEEPP scorecards are transparent and fit for purpose, recognising our autonomous operating model, linking rewards to achievement of objectives for which executives are directly accountable and responsible

The 2019 KEEPP scorecards are comprised of financial and strategic measures relevant to the role of each executive KMP. The results of the performance against the annual scorecard for the 2019 KEEPP allocation are outlined below and on the following pages.



## (c) Overview of Group performance

The Group reported NPAT of \$5,510 million for the 2019 financial year, an increase of \$4,313 million from the 2018 financial year. The result for the year included post-tax significant items relating to the \$2,264 million gain on demerger of Coles; \$645 million gain on disposal of Bengalla; \$244 million gain on disposal of Kmart Tyre and Auto Service; and \$120 million gain on disposal of the Group's indirect interest in Quadrant Energy, partially offset by a \$102 million provision for supply chain automation in Coles.

The 2019 financial year has seen continued good performance from Bunnings, Officeworks and the Industrials division as a whole. The competitiveness of the retail market and subdued consumer sentiment has provided challenges for Kmart Group to maintain the strong performance delivered in the prior financial year. The table below summarises details of Wesfarmers' performance for key financial measures over the past five financial years.

Financial year ended 30 June (as reported)	2015	2016	2017	2018	2019
<b>Net profit after tax (NPAT) (\$m)</b>	2,440	407	2,873	1,197	5,510
<b>NPAT (excluding significant items) (\$m)<sup>1</sup></b>	2,440	2,353	2,873	2,772	2,339
<b>Earnings per share (EPS) (cents)</b>	216.1	36.2 <sup>4</sup>	254.7	105.8 <sup>4</sup>	487.2
<b>EPS (excluding significant items) (cents)<sup>1</sup></b>	216.1	209.5	254.7	245.1	206.8
<b>Return on equity (ROE) (rolling 12) (%)</b>	9.8	1.7 <sup>4</sup>	12.4	5.2 <sup>4</sup>	38.7 <sup>5</sup>
<b>Total dividends per share (declared) (cents)</b>	200	186	223	223	278 <sup>6</sup>
<b>Capital management distribution (paid) (cents)</b>	100	-	-	-	-
<b>Closing share price (\$ as at 30 June)<sup>2</sup></b>	39.03	40.10	40.12	49.36	36.16
<b>Adjusted closing share price (\$ as at 30 June)<sup>3</sup></b>	27.88	28.64	28.66	35.26	36.16
<b>Five-year rolling Total Shareholder Return (% , per annum)</b>	11.5	10.0	11.3	9.8	9.8

<sup>1</sup> 2019 significant items include \$2,264 million gain on demerger of Coles, \$645 million gain on sale of Bengalla, \$244 million gain on sale of KTAS, \$120 million gain on sale of Quadrant Energy, partially offset by a \$102 million provision for supply chain automation in Coles. 2018 significant items include impairments of \$1,323 million relating to BUKI and Target, as well as the \$375 million loss on sale of BUKI and \$123 million gain on sale of Curragh. 2016 significant items include non-cash impairments of \$1,844 million relating to Target and Curragh and \$102 million of restructuring costs and provisions to reset Target.

<sup>2</sup> The opening share price on 1 July 2014 was \$42.00.

<sup>3</sup> The adjusted closing share price excludes the proportional impact of the Coles demerger, based on the volume-weighted average share price of Coles Group Limited on the first five days of trading.

<sup>4</sup> 2016 and 2018 EPS and ROE includes the items outlined in footnote 1 above.

<sup>5</sup> 2019 ROE was 17.7 per cent when adjusted to remove the increase in the ROE as a result of the demerger.

<sup>6</sup> 2019 total dividends per share includes the 100 cent special dividend.

## REMUNERATION REPORT 2019 (AUDITED)

### (d) 2019 KEEPP annual scorecard outcomes

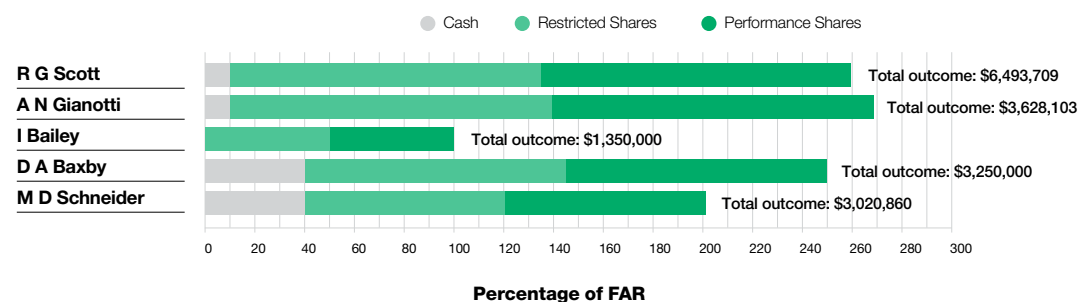
The 2019 KEEPP annual scorecard measures performance from 1 July 2018 to 30 June 2019. The table below sets out specific information relating to the actual KEEPP annual scorecard outcomes for the 2019 financial year.

Name	Total outcome 2019 KEEPP scorecard (\$)	Cash award (\$)	Balance available for Restricted Shares and Performance Shares <sup>1</sup> (\$)	Percentage of maximum 2019 KEEPP opportunity awarded %	Percentage of maximum 2019 KEEPP opportunity forfeited %
R G Scott	6,493,709	250,000	6,243,709	86.6	13.4
A N Gianotti	3,628,103	135,000	3,493,103	89.6	10.4
I Bailey	1,350,000	-	1,350,000	33.3	66.7
D A Baxby	3,250,000	520,000	2,730,000	83.3	16.7
M D Schneider	3,020,860	600,000	2,420,860	67.1	32.9

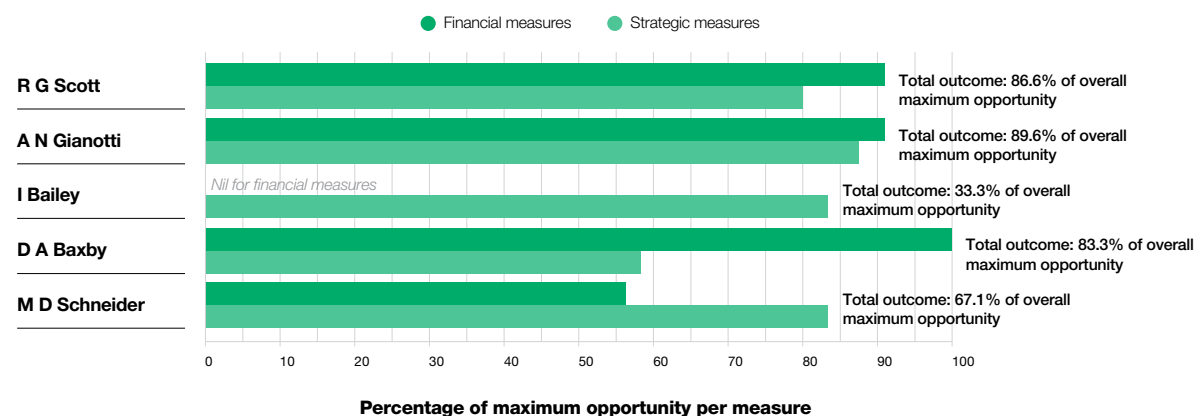
<sup>1</sup> 50 per cent allocated as Restricted Shares and 50 per cent allocated as Performance Shares.

The cash component for the 2019 KEEPP award was paid on 29 August 2019. The Restricted Shares and Performance Shares are expected to be allocated in December 2019. Details of these share grants will be provided in the 2020 Remuneration Report.

The 2019 KEEPP award will be delivered to the executive KMP as follows:



The chart below shows the achievement of each of the executive KMP for the financial measures and the strategic measures in their 2019 KEEPP annual scorecard as a percentage of the maximum opportunity per measure.



# REMUNERATION REPORT 2019 (AUDITED)

## Wesfarmers Limited

The Group achieved a reported NPAT of \$5,510 million and a reported ROE of 38.7 per cent during the 2019 financial year (refer to section 1 for details). The Board used its discretion to adjust both the NPAT and ROE to account for the impact of the demerger of Coles that resulted in a significant profit on sale and material change to Wesfarmers' equity base and capital structure, along with the profit from the divestment of KTAS and the Group's interest in Bengalla when determining the outcome of the financial measures for the Group Managing Director and the Group Chief Financial Officer under the 2019 KEEPP.

### Group Managing Director (R G Scott)

The Board considered Mr Scott to have achieved above target results against his overall strategic objectives, demonstrated through the examples set out below.

- The demerger of Coles was successfully implemented within an ambitious timetable and to budget. At the end of June 2019, both Wesfarmers and Coles were trading ahead of their respective demerger prices. Further, flybuys transitioned to a joint venture structure.
- Other divestments from the Group were completed within the 2019 financial year (for example, KTAS, the interest in Bengalla and Quadrant Energy), the acquisition of Catch Group which was well progressed in the 2019 financial year and then completed in August 2019 and the acquisition of Kidman Resources which completed in September 2019. The Group continues to actively evaluate other growth and investment opportunities.
- The 2019 financial year was a transformational year in relation to the Group's approach to data analytics and the outcomes from this investment continue to improve.
- In relation to gender balance, very good progress was made over the 2019 financial year with five of the 11 Group Leadership Team positions now held by women. Further, there has been a general improvement in the women in leadership results across the Group with a number of significant female appointments during the year.

**2019 KEEPP scorecard outcome:** 86.6 per cent of maximum

### Group Chief Financial Officer (A N Gianotti)

The Board considered Mr Gianotti to have achieved above target results against his overall strategic objectives, demonstrated through the examples set out below.

- The demerger of Coles was successfully implemented and, at the end of June 2019, both Wesfarmers and Coles were trading ahead of their respective demerger prices. Further, Mr Gianotti has been integrally involved in the significant volume of other portfolio management changes across the Group in the 2019 financial year that have generated positive results.
- Mr Gianotti led the process that delivered the very positive outcomes with capital structure, financing and ratings post demerger and has led other internally focused initiatives that continue to generate further improvements in relation to the balance sheet and capital management.
- Mr Gianotti has been instrumental in driving a greater focus on risk across the group, including cyber risk.
- In relation to talent, Mr Gianotti has overseen a review and restructure of a number of key leadership areas within the Corporate office as well as developing the financial talent capabilities within the Group. This is positioning the Group well for the future.

**2019 KEEPP scorecard outcome:** 89.6 per cent of maximum

## Kmart Group

### Managing Director, Kmart Group (I Bailey)

Mr Bailey did not achieve threshold performance for his financial measures during the 2019 financial year. Accordingly, Mr Bailey did not receive any KEEPP outcome in respect of the Kmart Group 2019 financial results.

The Board considered Mr Bailey to have achieved above target results against his overall strategic objectives, demonstrated through the examples set out below.

- Mr Bailey's strategic leadership and support during the divestment of KTAS was critical to its success, which has delivered a good outcome for shareholders. The acquisition of Catch Group provides a strategic, profitable platform from which to accelerate e-commerce sales.
- Mr Bailey has strengthened the Kmart Group's data analytics and digital capability and has delivered pleasing progress in relation to e-commerce and click and collect within both Kmart and Target.
- Since commencing as Managing Director, Kmart Group, Mr Bailey has made significant progress on the organisational structure of the division and strengthened the talent in strategic roles while continuing to focus on improving gender balance.

**2019 KEEPP scorecard outcome:** 33.3 per cent of maximum

## REMUNERATION REPORT 2019 (AUDITED)

### Wesfarmers Industrials

#### *Managing Director, Wesfarmers Industrials (D A Baxby)*

Mr Baxby delivered a strong result for the Industrials division as a whole during the 2019 financial year. In particular, the Chemicals, Energy and Fertilisers business delivered strong earnings growth in each one of its businesses which offset the below expectations performance in the Industrial and Safety business, due to a disappointing result in Blackwoods. The Board determined that Mr Baxby achieved maximum performance for his financial measures and as a result received the maximum KEEPP outcome for the overall Industrials division in relation to these.

The Board considered Mr Baxby to have achieved between threshold and target results against his overall strategic objectives, influenced by the disappointing result in Blackwoods. Examples of Mr Baxby's strategic achievements are set out below.

- Mr Baxby has played a critical strategic role in the portfolio management within the Industrials division, including, for example, the divestment of Bengalla and the acquisition of Kidman Resources which completed in September 2019, and provided instrumental support with other portfolio management assessments throughout the Group. Mr Baxby has also played a key role within the flybuys joint venture.
- In relation to talent, Mr Baxby has continued to strengthen the capabilities within the Industrials division and has assisted the transition of the new senior leadership team within Blackwoods. Over the course of the 2019 financial year, Mr Baxby has also supported the identification of talent for key strategic roles within the Group.

**2019 KEEPP scorecard outcome:** 83.3 per cent of maximum

### Bunnings Group

#### *Managing Director, Bunnings Group (M D Schneider)*

Mr Schneider was determined to have achieved between threshold and target performance for his financial measures and accordingly, Mr Schneider received a KEEPP outcome between threshold and target in respect of the Bunnings Group 2019 financial results.

The Board considered Mr Schneider to have achieved above target results against his overall strategic objectives, demonstrated through the examples set out below.

- Over the course of the 2019 financial year, Mr Schneider has made good progress in relation to the Bunnings strategy including the offering in commercial and trade, and through growing capabilities within data analytics and the digital arena.
- Significant progress has been made with e-commerce and the customer experience while aligning with the Bunnings brand.
- In relation to talent, Mr Schneider has undertaken a review of the Bunnings Leadership Team and made key appointments to strengthen the team and also improved gender balance.

**2019 KEEPP scorecard outcome:** 67.1 per cent of maximum

#### **Additional details regarding the scorecard measures**

Group financial measures such as Group NPAT and ROE were chosen because they reflect how Wesfarmers uses capital to generate earnings, manages total costs within the business and ultimately generates a profit to provide shareholder returns. Group NPAT and ROE performance is assessed following the preparation and audit of the annual financial statements.

Divisional financial measures such as EBIT and ROC were chosen because they are key financial measures at a divisional level that align with the Group financial measures and drive successful and sustainable financial business outcomes. Divisional performance is also assessed following the preparation and audit of the annual financial statements.

The strategic measures, such as supporting portfolio management, growing data analytics and digital capabilities, and accelerating the e-commerce offering, were chosen because they are key areas in enabling the Group to achieve its primary objective of generating satisfactory returns to shareholders over the long term. Focusing on the strategic priorities set as objectives within the KEEPP scorecards will enable our divisions to retain and improve their leading positions in their respective markets as well as to generate long-term growth. Gender balance remains a focus as Wesfarmers recognises the importance and value of diverse teams throughout our businesses. These are assessed by the Board following a review of performance against strategic measures by the Group Managing Director or Chairman, as appropriate, at the end of the financial year.

# REMUNERATION REPORT 2019 (AUDITED)

## 4.3 WLTIP

### (a) Overview of the 2015 WLTIP

In 2015, eligible executive KMP were invited to receive performance rights in the company under the WLTIP. There are two equally weighted performance hurdles, Wesfarmers' CAGR in ROE and Wesfarmers' TSR, relative to the CAGR in ROE and TSR of the constituents of the S&P/ASX 50 Index. Further details of the WLTIP and the terms of the 2015 WLTIP grant are set out in the 2016 Remuneration Report.

Additional Performance Rights were granted to existing eligible executives following the demerger of Coles from the Group to ensure they were not impacted by the demerger. Refer to section 6.4 for further information on the Additional Performance Rights.

Performance rights granted under the 2015 WLTIP and the Additional Performance Rights granted after the demerger were eligible to vest in 2019.

### (b) Vesting outcomes during the year – 2015 WLTIP and Additional Performance Rights

Vesting condition	Outcome (2015-2019)	Percentile ranking vs ASX 50	% of maximum opportunity	Total % of performance rights vested	Number of performance rights vested <sup>1</sup>
CAGR in ROE (50% of the award)	15.93%	85.7%	100.0%	88.8%	68,323
rTSR (50% of the award)	50.06%	63.8%	77.6%		

<sup>1</sup> This includes the outcome of the 2015 WLTIP performance rights and the Additional Performance Rights granted following the demerger of Coles from the Wesfarmers Group held by the current executive KMP.

The table above shows the performance of the Group against the targets for the 2015 WLTIP award (and the Additional Performance Rights), whose four-year performance period ended on 30 June 2019.

The Board exercised its discretion in relation to the calculation of the CAGR in ROE hurdle to ensure participants were not afforded any undue benefit from the increase in ROE that occurred as a result of the demerger of Coles from the Group and as such, the ROE from the 2019 financial year was reduced to 17.7 per cent from the reported ROE of 38.7 per cent. In this case, no adjustments to the NPAT outcome were made for the profit arising from the sale of KTAS and Bengalla. This was consistent with the historical treatment of the WLTIP (for example, where no adjustment was made in 2018 for the Bunnings United Kingdom and Ireland (BUKI) impairment, resulting in the 2014 WLTIP not vesting). As the standard methodology for calculating rTSR already incorporated the demerger of Coles into the calculation of Wesfarmers' TSR, the Board was not required to exercise any discretion in relation to the calculation of the rTSR hurdles as a result of the demerger.

The Group outperformed the majority of its peers over the vesting period, with regard to CAGR in ROE and rTSR leading to a majority of the awards vesting (88.8 per cent of the potential total award). The shares were allocated to participating executive KMP on vesting of performance rights on 23 September 2019 and are shown below in section 4.3(c). As permitted by the plan, in 2015 Mr Scott elected to apply a trading restriction to the shares allocated on vesting of his 2015 WLTIP rights until 13 November 2020.

### (c) Movement in performance rights held under WLTIP

The table below sets out details of performance rights vested and lapsed in relation to the 2015 WLTIP and Additional Performance Rights during the 2019 financial year. No performance rights are held by related parties of executive KMP.

Name	Held at 1 July 2018 <sup>1,2</sup>		Granted during year <sup>3</sup>		Vested		Lapsed during year <sup>4</sup>		Held at 30 June 2019
	Number	%	Number	%	Number	%	Number	%	
R G Scott	34,299		13,949		(42,843)	88.8	(5,405)	11.2	–
A N Gianotti	20,399		8,296		(25,480)	88.8	(3,215)	11.2	–

<sup>1</sup> Reflects prior year WLTIP allocations which are subject to performance conditions at that time which remain unvested (i.e. the 2015 WLTIP allocation of performance rights).

<sup>2</sup> As at 1 July 2018, J P Durkan held 79,608 performance rights and G A Russo held 55,725 performance rights. There was no change to either holding as at the date each ceased to be a member of the executive KMP, being 14 September 2018 and 31 October 2018 respectively.

<sup>3</sup> Reflects the WLTIP Additional Performance Rights allocated following the demerger of Coles from the Wesfarmers Group. Additional Performance Rights were granted to R G Scott and A N Gianotti on 6 December 2018. It was determined that there was no material incremental fair value to expense from the 2015 Additional Performance Rights. Following the introduction of the KEEPP it is not expected that there will be any further WLTIP allocations in the future.

<sup>4</sup> Both the 2015 WLTIP performance rights and Additional Performance Rights vested during the financial year. The performance rights that did not vest, because the performance hurdles were not met, lapsed.

## REMUNERATION REPORT 2019 (AUDITED)

### 4.4 Executive remuneration (statutory presentation)

#### How remuneration outcomes are presented

Remuneration outcomes are presented based on the requirements of accounting standards (which has the benefit of being readily comparable with other companies) rather than a take-home pay basis (being cash and benefits and the value of equity on vesting during the financial year). Examples of this are:

- The KEEPP cash component is recognised for the year to which it relates. The KEEPP Restricted Shares are recognised as an expense over a 12-month period typically spanning two financial years and the KEEPP Performance Shares are recognised over the performance period (four years) based on their assessed value when originally granted to the executive. The value recognised for the KEEPP Restricted Shares and Performance Shares may be significantly different to their value if and when the incentive vests to the executive.
- WLTIP awards are recognised over the performance period (four years) based on their assessed value when originally granted to the executive. This may be significantly different to their value, if and when the incentive vests to the executive.
- In some circumstances, amounts are recorded as remuneration when no shares or rights vest to the executive and in other cases there can be negative remuneration from equity awards in a given year, for example due to non-vesting.

Under the Accounting Standards, and as a result of the demerger of Coles, the Coles Group Limited directors pre-demerger are recognised as Coles Group Limited KMP for 2019 up to the date of demerger. The information on the following page for Mr Durkan and Mr Cain is duplicated, for the applicable period, in the 2019 Coles Group Limited Annual Report and they were not separately remunerated by both Wesfarmers and Coles Group Limited over the relevant period.

#### Footnotes to statutory executive KMP remuneration table on the following page

<sup>1</sup> Long-term benefits relate to leave entitlements earned during the year.

<sup>2</sup> The amounts included in 'share-based payments' relate to the KEEPP, WLTIP, Wesfarmers Employee Share Acquisition Plan (WESAP) and annual incentive, as applicable:

- The portion of the 2017 and 2018 annual incentive shares that continue to be expensed in the 2019 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions. Annual incentive shares are share-based awards received by the executive KMP under other incentive plans prior to commencing as KMP and participating in the KEEPP.
- The portion of the 2015, 2016 and 2017 WESAP shares that continue to be expensed in the 2019 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions.
- The portion of the 2016 KEEPP, 2017 KEEPP and the 2015 WLTIP that continue to be expensed in the 2019 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions, together referred to as the service period.
- The amounts included for the 2018 KEEPP are detailed in section 7(a) and the incremental fair value of the 2016 KEEPP replacement allocation and the 2017 KEEPP replacement allocation are shown in section 6.4.
- The expensing for the Restricted Shares and Performance Shares that are yet to be granted under the 2019 KEEPP will be included in the remuneration table in the 2020 Remuneration Report.

<sup>3</sup> The percentage performance related for the 2019 financial year is the sum of the KEEPP cash and share-based payments divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year. The percentage of total remuneration that consists of performance rights and KEEPP shares only, being the amount expensed in the 2019 financial year for the 2015 WLTIP and the 2016, 2017 and 2018 KEEPP shares (including the 2016 KEEPP replacement allocation and 2017 KEEPP replacement allocation), as applicable, is as follows – R G Scott 58.0 per cent, A N Gianotti 50.5 per cent, I Bailey 27.3 per cent, D A Baxby 43.8 per cent, M D Schneider 42.4 per cent, J P Durkan 24.0 per cent and G A Russo 16.8 per cent.

<sup>4</sup> Cash payments made to eligible participants in relation to the KEEPP for the 2019 financial year. S A Cain, J P Durkan and G A Russo did not participate in the KEEPP for the 2019 financial year.

Mr Durkan participated in a cash-based performance bonus during the 2019 financial year. The target opportunity was 100 per cent of FAR and the maximum opportunity was 200 per cent of FAR. The outcome of the performance bonus was based on achievement against strategic hurdles. The hurdles were chosen to support the demerger of Coles and the leadership transition within Coles as well as to deliver other projects as required by the Group Managing Director. Mr Durkan's outcome under the performance bonus was assessed by the Board after a review of performance against the strategic measures by the Group Managing Director. Mr Durkan was determined to have exceeded his strategic objectives and received an above target award. Overall, Mr Durkan received 75 per cent of the maximum opportunity (and 25 per cent of the maximum opportunity was forfeited) and this was paid to him in cash on 29 August 2019.

Mr Russo participated in a cash-based performance bonus during the 2019 financial year. The target opportunity was 100 per cent of FAR and the maximum opportunity was 200 per cent of FAR. The outcome of the performance bonus was based on the achievements of Kmart Group financial hurdles (60 per cent weighting) and strategic hurdles (40 per cent weighting). The financial performance hurdles (being, EBIT, ROC and sales) were chosen because they are key divisional measures and the strategic hurdles were chosen to support the transition of Mr Bailey as Managing Director, Kmart Group, to deliver key initiatives regarding data analytics, ethical sourcing and talent as well as to deliver other projects as required by the Group Managing Director. Mr Russo's outcome under the performance bonus was assessed by the Board after the preparation of the financial statements and after a review of performance against the strategic measures by the Group Managing Director. None of the financial targets were met and Mr Russo has not received any award in relation to these. Mr Russo was determined to have met his strategic objectives and received an on target award in relation to this component. Overall, Mr Russo received 15 per cent of the maximum opportunity (and 85 per cent of the maximum opportunity was forfeited) and this was paid to him in cash on 29 August 2019.

<sup>5</sup> Short-term benefits, 'non-monetary benefits', include the cost to the company of providing vehicles, life insurance and travel. Short-term benefits, 'other', includes the cost of directors and officers liability insurance.

<sup>6</sup> Superannuation contributions are made on behalf of the executive KMP in accordance with Wesfarmers' statutory superannuation obligations. Also included is any part of the executive KMP's salary that has been sacrificed into superannuation.

<sup>7</sup> Payments made on termination to R J B Goyder and T J Bowen, principally in relation to contractual notice period and in relation to a restraint.

<sup>8</sup> The cash salary for R G Scott for the 2018 financial year proportionately reflects his salary and time in role as Deputy Chief Executive Officer prior to his appointment as Group Managing Director on 16 November 2017. Mr Scott's cash salary for the 2019 financial year reflects a full year in role as Group Managing Director.

<sup>9</sup> A N Gianotti became a member of the KMP, effective 13 November 2017.

<sup>10</sup> I Bailey became a member of the KMP, effective 1 November 2018.

<sup>11</sup> D A Baxby became a member of the KMP, effective 14 August 2017.

<sup>12</sup> J P Durkan ceased to be a member of the KMP effective 14 September 2018. The remuneration outcomes presented for Mr Durkan are required to be duplicated, for the applicable period, in the 2019 Remuneration Report for Coles Group Limited in their 2019 annual report and he was not separately remunerated by both Wesfarmers and Coles Group Limited over the relevant period.

<sup>13</sup> G A Russo ceased to be a member of the KMP effective 31 October 2018.

<sup>14</sup> S A Cain became a member of the KMP, effective 17 September 2018 and then ceased following the implementation of the Coles demerger scheme, effective 20 November 2018. The remuneration outcomes presented for Mr Cain are required to be duplicated, for the applicable period, in the 2019 Remuneration Report for Coles Group Limited in their 2019 annual report and he was not separately remunerated by both Wesfarmers and Coles Group Limited over the relevant period.

<sup>15</sup> R J B Goyder ceased to be a member of the KMP following his retirement on 16 November 2017.

<sup>16</sup> T J Bowen ceased to be a member of the KMP following his departure from the Group on 10 November 2017.

# REMUNERATION REPORT 2019 (AUDITED)

## Statutory executive KMP remuneration table

	Short-term benefits				Long-term benefits <sup>1</sup>	Post-employment benefits	Share-based payments <sup>2</sup>	Termination benefits	Total	Performance related <sup>3</sup>
	Cash salary (\$)	Bonus and KEEPP cash <sup>4</sup> (\$)	Non-monetary benefits <sup>5</sup> (\$)	Other <sup>5</sup> (\$)	Leave (\$)	Super-annuation <sup>6</sup> (\$)	KEEPP and other equity (\$)	Termination payments <sup>7</sup> (\$)		(\$)
<b>Executive director</b>										
<b>R G Scott<sup>8</sup> – Group Managing Director, Wesfarmers Limited</b>										
2019	2,349,890	250,000	157,169	14,093	41,666	20,531	3,915,183	-	6,748,532	61.7
2018	2,177,046	500,000	148,876	545,052	41,666	20,049	3,117,541	-	6,550,230	55.2
<b>Senior executives</b>										
<b>A N Gianotti<sup>9</sup> – Group Chief Financial Officer, Wesfarmers Limited</b>										
2019	1,275,409	135,000	59,311	14,093	22,500	20,531	2,037,622	-	3,564,466	61.0
2018	799,266	270,000	49,305	432,517	14,178	12,698	1,050,857	-	2,628,821	50.2
<b>I Bailey<sup>10</sup> – Managing Director, Kmart Group</b>										
2019	888,886	-	2,119	9,344	14,918	11,114	1,047,297	-	1,973,678	53.1
<b>D A Baxby<sup>11</sup> – Managing Director, Wesfarmers Industrials</b>										
2019	1,254,469	520,000	3,195	14,093	21,667	20,531	1,429,300	-	3,263,255	59.7
2018	1,040,821	540,000	2,810	8,116	17,589	20,049	734,361	-	2,363,746	53.9
<b>M D Schneider – Managing Director, Bunnings Group</b>										
2019	1,389,505	600,000	91,886	14,093	25,000	21,804	2,025,464	-	4,167,752	63.0
2018	1,306,451	675,000	133,273	9,228	25,000	21,804	1,830,986	-	4,001,742	62.6
<b>Former senior executives</b>										
<b>J P Durkan<sup>12</sup> – Managing Director, Coles</b>										
2019	447,089	687,123	3,567	2,934	7,635	5,133	365,158	-	1,518,639	69.3
2018	2,179,951	990,000	3,195	9,228	36,666	20,049	1,673,163	-	4,912,252	54.2
<b>G A Russo<sup>13</sup> – Chief Executive Officer, Department Stores</b>										
2019	605,977	187,027	10,552	4,749	10,390	10,690	167,019	-	996,404	35.5
2018	1,828,196	832,500	3,195	9,228	30,833	21,804	2,749,201	-	5,474,957	65.4
<b>S A Cain<sup>14</sup> – Managing Director, Coles</b>										
2019	345,795	-	-	2,510	5,936	10,266	-	-	364,507	-
<b>R J B Goyder<sup>15</sup> – Group Managing Director, Wesfarmers Limited</b>										
2018	1,270,041	-	142,153	3,514	22,253	10,689	372,188	968,720	2,789,558	13.3
<b>T J Bowen<sup>16</sup> – Group Chief Financial Officer, Wesfarmers Limited</b>										
2018	661,971	-	8,681	3,363	11,235	10,756	279,772	950,196	1,925,974	14.5
<b>Total</b>										
2019	8,557,020	2,379,150	327,799	75,909	149,712	120,600	10,987,043	-	22,597,233	-
2018	11,263,743	3,807,500	491,488	1,020,246	199,420	137,898	11,808,069	1,918,916	30,647,280	-

## REMUNERATION REPORT 2019 (AUDITED)

### NON-EXECUTIVE DIRECTOR REMUNERATION

#### 5. Non-executive directors

All non-executive directors held their positions and were KMP for the whole of the 2019 financial year unless otherwise stated. See section 5.2 for details of non-executive directors, including dates of appointment or cessation (where relevant).

#### 5.1 Overview of non-executive director remuneration policy and arrangements

##### Our policy objectives and guiding principles:

- 1 To be market competitive:** aim to set fees at a level competitive with non-executive directors in comparator companies
- 2 To safeguard and preserve independence:** to not include any performance-related element in remuneration

#### 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 the non-executive directors, including consideration of external benchmarking. A review was undertaken during the 2019 financial year. No change was made to the main board fees, Audit and Risk Committee fees or Remuneration Committee fees as the current level of fees were considered appropriate, including after the demerger of Coles, for a diverse and complex conglomerate with business lines across a range of industries and an active portfolio manager. The current fee levels were determined to be in line with those of similarly sized (post-demerger) companies.

#### 5.2 Non-executive director fees and other benefits

##### Guiding principle

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

The fees shown in the table below (inclusive of superannuation) took effect from 1 January 2017, and no changes were made in relation to the fees for the 2019 calendar year. Members of the Nomination Committee and Gresham Mandate Review Committee (which was dissolved in August 2018 following the resignation of Mr Graham from the Board in July 2018) do not receive any additional fees. Non-executive directors are entitled to reimbursement for business-related expenses, including travel expenses and also receive the benefit of coverage under a directors and officers liability insurance policy.

Fees/benefits	Description	2019 (\$)
Board fees	<b>Main Board<sup>1</sup></b>	
	Chairman – M A Chaney	770,000
	Members – all non-executive directors	230,000
Committee fees	<b>Audit and Risk Committee</b>	
	Chairman – A J Howarth	80,000
	Members – D L Smith-Gander, J A Westacott, S W English	40,000
	<b>Remuneration Committee</b>	
	Chairman – W G Osborn <sup>2</sup>	52,000
	Members – M A Chaney <sup>3</sup> , V M Wallace, M Roche <sup>4</sup> , J P Graham <sup>5</sup> , P M Bassat <sup>6</sup>	26,000
Superannuation	Made to the Wesfarmers Group Superannuation Plan or another regulated superannuation fund. An amount is deducted from gross fees to meet statutory superannuation obligations.	
Other Group fees	Non-executive directors are paid additional fees, where applicable, for participation on the boards of Wesfarmers' related bodies corporate (for example BWP Management Limited).	

<sup>1</sup> S L Warburton was appointed to the Board of Wesfarmers Limited, effective 1 August 2019 and is expected to be KMP for part of the 2020 financial year.

<sup>2</sup> W G Osborn stepped down as Chairman of the Remuneration Committee on 30 June 2019 but continues as a member of the committee.

<sup>3</sup> The Chairman of the Board does not receive a separate fee for membership of any of the Board's committees.

<sup>4</sup> M Roche was appointed to the Remuneration Committee, effective 19 February 2019, and became Chairman of the committee on 30 June 2019.

<sup>5</sup> Following the announcement of J P Graham as Chairman-elect of the proposed demerged Coles group, Mr Graham retired from the Board, effective 23 July 2018.

<sup>6</sup> P M Bassat retired from the Board, effective 15 November 2018.



# REMUNERATION REPORT 2019 (AUDITED)

## 5.3 Non-executive director remuneration

The fees paid or payable to the non-executive directors in relation to the 2019 financial year are set out below:

		Short-term benefits		Post-employment benefits		Total (\$)
		Fees – Wesfarmers Limited (\$)	Fees – Wesfarmers Group (\$)	Other benefits <sup>1</sup> (\$)	Superannuation <sup>2</sup> (\$)	
<b>Non-executive directors</b>						
<b>M A Chaney</b>	<b>2019</b>	<b>749,469</b>	<b>-</b>	<b>15,161</b>	<b>20,531</b>	<b>785,161</b>
	2018	749,951	-	10,206	20,049	780,206
<b>S W English<sup>3</sup></b>	<b>2019</b>	<b>249,469</b>	<b>-</b>	<b>14,093</b>	<b>20,531</b>	<b>284,093</b>
	2018	40,725	-	1,567	4,275	46,567
<b>A J Howarth<sup>4</sup></b>	<b>2019</b>	<b>289,469</b>	<b>105,500</b>	<b>14,093</b>	<b>20,531</b>	<b>429,593</b>
	2018	289,951	104,300	9,228	20,049	423,528
<b>W G Osborn</b>	<b>2019</b>	<b>261,469</b>	<b>-</b>	<b>14,093</b>	<b>20,531</b>	<b>296,093</b>
	2018	261,951	-	9,228	20,049	291,228
<b>M Roche<sup>5</sup></b>	<b>2019</b>	<b>85,897</b>	<b>-</b>	<b>5,097</b>	<b>7,970</b>	<b>98,964</b>
<b>D L Smith-Gander</b>	<b>2019</b>	<b>249,469</b>	<b>-</b>	<b>14,093</b>	<b>20,531</b>	<b>284,093</b>
	2018	249,951	-	9,228	20,049	279,228
<b>V M Wallace</b>	<b>2019</b>	<b>235,469</b>	<b>-</b>	<b>14,093</b>	<b>20,531</b>	<b>270,093</b>
	2018	235,951	-	9,228	20,049	265,228
<b>J A Westacott</b>	<b>2019</b>	<b>249,469</b>	<b>-</b>	<b>14,093</b>	<b>20,531</b>	<b>284,093</b>
	2018	249,951	-	9,228	20,049	279,228
<b>Former non-executive directors</b>						
<b>P M Bassat<sup>6</sup></b>	<b>2019</b>	<b>87,827</b>	<b>-</b>	<b>6,412</b>	<b>8,173</b>	<b>102,412</b>
	2018	235,951	-	9,228	20,049	265,228
<b>J P Graham<sup>7</sup></b>	<b>2019</b>	<b>21,333</b>	<b>-</b>	<b>888</b>	<b>-</b>	<b>22,221</b>
	2018	256,000	-	9,228	-	265,228
<b>Total</b>	<b>2019</b>	<b>2,479,340</b>	<b>105,500</b>	<b>112,116</b>	<b>159,860</b>	<b>2,856,816</b>
	2018	2,570,382	104,300	76,369	144,618	2,895,669

<sup>1</sup> Short-term benefits, 'other benefits', includes the cost of directors and officers liability insurance and the cost of other business-related expenses.

<sup>2</sup> 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.

<sup>3</sup> S W English was appointed as a non-executive director on 30 April 2018.

<sup>4</sup> A J Howarth receives fees for participation on the board of BWP Management Limited.

<sup>5</sup> M Roche was appointed as a non-executive director on 19 February 2019.

<sup>6</sup> P M Bassat retired from the Board, effective 15 November 2018.

<sup>7</sup> Following the announcement of J P Graham as Chairman-elect of the proposed demerged Coles group, Mr Graham retired from the Board, effective 23 July 2018. Mr Graham's fees were paid to Gresham Partners Group Limited for participation on the Board of Wesfarmers Limited.

## REMUNERATION REPORT 2019 (AUDITED)

### OTHER REMUNERATION INFORMATION

#### 6. Further information on remuneration

##### 6.1 KMP share ownership

###### Guiding principle

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

The Board considers it an important foundation of the Wesfarmers remuneration framework that the executive KMP and directors hold a significant number of Wesfarmers shares to encourage them to behave like long-term 'owners'.

- At the date of this report, all current executive KMP hold at least one year's FAR in Wesfarmers shares, with the majority holding significantly more.
- Non-executive directors are required to hold a minimum of 1,000 Wesfarmers shares within two months of appointment.
- Non-executive directors are also expected to increase their holdings in Wesfarmers shares to the equivalent of their annual main board fee within a five-year period of appointment.

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

#### Director and executive KMP equity holdings

Name	Balance at beginning of year <sup>1</sup>	Allocated under remuneration framework <sup>2</sup>	Net change <sup>3</sup>	Balance at year-end <sup>4</sup>	Breakdown of balance at year-end			
					Held in an equity plan			
					Vested and restricted <sup>5</sup>	Vested and unrestricted <sup>6</sup>	Not vested <sup>7</sup>	Other shares <sup>8</sup>
<b>Non-executive directors and former non-executive directors</b>								
P M Bassat <sup>9</sup>	19,411	-	-	19,411	-	-	-	19,411
M A Chaney	87,597	-	-	87,597	-	-	-	87,597
S W English	1,000	-	82	1,082	-	-	-	1,082
J P Graham <sup>10</sup>	790,188	-	-	790,188	-	-	-	790,188
A J Howarth	18,654	-	1,306	19,960	-	2,406	-	17,554
W G Osborn	14,728	-	-	14,728	-	-	-	14,728
M Roche <sup>11</sup>	-	-	2,000	2,000	-	-	-	2,000
D L Smith-Gander	12,045	-	-	12,045	-	-	-	12,045
V M Wallace	13,483	-	-	13,483	-	12,512	-	971
J A Westacott	5,493	-	-	5,493	-	986	-	4,507
<b>Executive KMP and former executive KMP</b>								
R G Scott	447,848	446,460	(142,943)	751,365	166,617	12,386	315,727	256,635
A N Gianotti	152,666	190,526	(38,948)	304,244	64,595	33,377	161,094	45,178
I Bailey <sup>12</sup>	-	85,708	71,698	157,406	19,839	-	137,567	-
D A Baxby	35,792	136,056	(35,792)	136,056	25,174	-	110,882	-
S A Cain <sup>13</sup>	-	-	10,000	10,000	-	-	-	10,000
J P Durkan <sup>14</sup>	163,506	-	-	163,506	62,935	7,120	93,451	-
G A Russo <sup>15</sup>	427,878	-	8	427,886	107,365	192,333	128,188	-
M D Schneider	102,731	177,698	(75,423)	205,006	60,709	-	144,297	-
<b>Total</b>	<b>2,293,020</b>	<b>1,036,448</b>	<b>(208,012)</b>	<b>3,121,456</b>	<b>507,234</b>	<b>261,120</b>	<b>1,091,206</b>	<b>1,261,896</b>

# REMUNERATION REPORT 2019 (AUDITED)

## Footnotes to director and executive KMP equity holdings table on prior page

- <sup>1</sup> This number reflects the fully-paid ordinary shares held directly, vested equity under the incentive plans as well as unvested equity under the incentive plans. The unvested equity may include the 2016 KEEPP Performance Shares, 2017 KEEPP Restricted Shares and Performance Shares and 2017 annual incentive shares, as appropriate. Annual incentive shares are share-based awards received by the executive KMP under other incentive plans prior to commencing as KMP and participating in the KEEPP.
- <sup>2</sup> This number reflects the equity allocated under the 2016 KEEPP Replacement Shares, 2017 KEEPP Replacement Shares and 2018 KEEPP Restricted Shares and Performance Shares. The number for I Bailey also includes the 2018 annual incentive shares allocated in August 2018, awarded prior to commencing as KMP and participating in the KEEPP.
- <sup>3</sup> The net change may include changes due to personal trades, equity granted as remuneration (including the cancellation of the 2016 KEEPP allocations and 2017 KEEPP allocations and their associated replacement allocations) and forfeited equity.
- <sup>4</sup> This number reflects the fully-paid ordinary shares held directly, vested equity under the incentive plans as well as unvested equity under the incentive plans. The unvested equity may include the 2016 KEEPP Replacement Performance Shares, the 2017 KEEPP Replacement Performance Shares, and the 2018 KEEPP Restricted Shares and Performance Shares and the 2018 annual incentive shares as appropriate. Annual incentive shares are share-based awards received by the executive KMP under other incentive plans prior to commencing as KMP and participating in the KEEPP. Where a director or executive KMP has ceased to be a director or executive KMP throughout the year, the balance at year-end reflects the balance of equity as at the date they ceased to be a director or executive KMP.
- <sup>5</sup> The vested and restricted equity includes any share-based awards received by the executive KMP that are now fully vested but remain subject to a restriction within the incentive plans. This includes the 2016 KEEPP Replacement Restricted Shares, 2017 KEEPP Replacement Restricted Shares and the 2017 annual incentive shares as appropriate. Annual incentive shares are share-based awards received by the executive KMP under other incentive plans prior to commencing as KMP and participating in the KEEPP. For KMP who ceased to be KMP during the financial year, the table reflects their equity holding at the date they ceased to be KMP.
- <sup>6</sup> The vested and unrestricted equity includes any share-based awards received by the executive KMP that are now fully vested and available to be removed from the incentive plans upon instruction from the executive KMP.
- <sup>7</sup> The unvested equity includes the 2016 KEEPP Replacement Performance Shares, the 2017 KEEPP Replacement Performance Shares, and the 2018 KEEPP Restricted Shares and Performance Shares and the 2018 annual incentive shares as appropriate. Annual incentive shares are share-based awards received by the executive KMP under other incentive plans prior to commencing as KMP and participating in the KEEPP. For KMP who ceased to be KMP during the financial year, the table reflects their equity holding at the date they ceased to be KMP.
- <sup>8</sup> This number reflects the the fully-paid ordinary shares held directly outside of an equity plan.
- <sup>9</sup> P M Bassat retired as a director of the Group on 15 November 2018.
- <sup>10</sup> J P Graham retired as a director of the Group on 23 July 2018.
- <sup>11</sup> The information for M Roche reflects his time as a member of the KMP, from 19 February 2019.
- <sup>12</sup> The information for I Bailey reflects his time as a member of the KMP, from 1 November 2018.
- <sup>13</sup> The information for S A Cain reflects his time as a member of the KMP, from 17 September 2018 to 20 November 2018.
- <sup>14</sup> J P Durkan ceased to be a member of the KMP effective 14 September 2018.
- <sup>15</sup> G A Russo ceased to be a member of the KMP effective 31 October 2018.

## 6.2 Share trading restrictions

Wesfarmers' Securities Trading Policy reflects the *Corporations Act 2001* prohibition on KMP and their closely related parties entering into any arrangement that would have the effect of limiting the KMP's exposure to risk relating to an element of their remuneration that remains subject to restrictions on disposal.

Wesfarmers directors, the Wesfarmers Leadership Team, and certain members of their immediate family and controlled entities are also required to obtain clearance from the Wesfarmers Company Secretary for the sale, purchase or transfer of Wesfarmers, BWP Trust and Coles Group Limited securities and for short selling, short-term trading, security interests, margin loans and hedging relating to Wesfarmers, BWP Trust and Coles Group Limited securities. The Wesfarmers Company Secretary refers all requests for clearance to at least two members of the Disclosure Committee. Clearance from the Chairman is also required for requests from Wesfarmers directors. Clearance cannot be requested for dealings that are subject to the *Corporations Act 2001* prohibition referred to above.

The policy is available in the Corporate Governance section of the company's website at [www.wesfarmers.com.au/cg](http://www.wesfarmers.com.au/cg). Breaches of the policy are subject to disciplinary action, which may include termination of employment.

## 6.3 Other transactions and balances with KMP

Mr Graham, who was a director of Wesfarmers until he retired on 23 July 2018, 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. For the period in 2019 in which Mr Graham was a director of Wesfarmers, fees of \$138,974 (2018: \$5,596,377) were paid to Gresham Partners Group Limited for the provision of office accommodation and advisory services.

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 team members or customers and are minor or domestic in nature.

There were no loans made during the year, or remaining unsettled at 30 June 2019, between Wesfarmers and its KMP and/or their related parties.

## REMUNERATION REPORT 2019 (AUDITED)

### 6.4 Impact of the demerger of Coles on the 2016 and 2017 KEEPP awards and 2015 WLTIP

As foreshadowed in the 2018 Remuneration Report and the demerger scheme booklet, the demerger of Coles from the Wesfarmers Group had implications for the KEEPP and the WLTIP and these are explained below.

#### Impact on the 2016 and 2017 KEEPP awards

The Wesfarmers Board considered it of the utmost importance that the integrity of the KEEPP was preserved by having awards under the KEEPP wholly aligned with Wesfarmers shares. The design of the KEEPP is to incentivise the executive KMP to demonstrate performance and behaviours which deliver satisfactory returns to Wesfarmers shareholders over the long term. Accordingly, following shareholder and court approval of the Coles demerger, the Wesfarmers Board resolved on 14 September 2018 to cancel the existing KEEPP share allocations made in 2016 and 2017, subject to the scheme receiving all the required approvals.

After the demerger was completed, the cancelled 2016 and 2017 KEEPP Restricted Shares and Performance Shares were replaced with new KEEPP awards made wholly in Wesfarmers shares. The terms and conditions of the replacement KEEPP awards are consistent with the original design principles of the KEEPP, including, for example, the allocation of Restricted Shares that are restricted over the long term and Performance Shares that vest based upon the achievement of divisional and/or Group performance conditions, depending on the participant's role. The Board also ensured that the KEEPP participants were no better or worse off immediately following the demerger, including by setting performance conditions that remain appropriately challenging in light of the demerger. Details of the cancelled KEEPP awards along with the replacement KEEPP awards are set out below.

#### Cancelled 2016 and 2017 KEEPP awards

The table below sets out the details of the shares originally granted to the executive KMP under the 2016 and 2017 KEEPP.

Name	Year <sup>1</sup>	Number of Restricted Shares cancelled	Number of Performance Shares cancelled
R G Scott	2016 KEEPP	32,088	32,088
	2017 KEEPP	60,848	60,848
A N Gianotti	2017 KEEPP	32,214	32,214
D A Baxby	2017 KEEPP	17,896	17,896
M D Schneider	2017 KEEPP	35,793	35,793

<sup>1</sup> The share price on the date the 2016 and 2017 KEEPP awards were cancelled was \$31.96.

#### Replacement 2016 and 2017 KEEPP awards

The table below sets out the details of the replacement 2016 and 2017 KEEPP awards to the executive KMP.

Name	Year <sup>1,2</sup>	Number of replacement Restricted Shares <sup>3,5</sup>	Number of replacement Performance Shares <sup>4,5</sup>	Incremental fair value of replacement KEEPP allocation (\$)
R G Scott	2016 KEEPP	45,138	45,138	-
	2017 KEEPP	85,595	85,595	-
A N Gianotti	2017 KEEPP	45,315	45,315	-
D A Baxby	2017 KEEPP	25,174	25,174	-
M D Schneider <sup>6</sup>	2017 KEEPP	50,350	42,294	-

<sup>1</sup> The grant date for the replacement 2016 and 2017 KEEPP awards was 6 December 2018.

<sup>2</sup> The share price on the grant date of the replacement 2016 and 2017 KEEPP awards was \$31.73.

<sup>3</sup> The number of replacement Restricted Shares were calculated using the formula set out on the following page. All of the Replacement 2016 KEEPP Restricted Shares and the Replacement 2017 KEEPP Restricted Shares vested on 30 June 2019.

<sup>4</sup> The number of replacement Performance Shares were calculated using the formula set out on the following page. No Replacement 2016 KEEPP Performance Shares or Replacement 2017 KEEPP Performance Shares vested or were forfeited during this reporting period.

<sup>5</sup> The maximum possible value of the replacement 2016 and 2017 KEEPP is the fair value at grant date. For the replacement 2016 KEEPP, the Performance Shares subject to market conditions (rTSR hurdle) have a fair value of \$14.49. The Restricted Shares and the Performance Shares subject to non-market conditions (e.g. divisional EBIT and ROC) have been valued with reference to the Wesfarmers share price on grant date, being \$31.73. For the replacement 2017 KEEPP, the Performance Shares subject to market conditions (rTSR hurdle) have a fair value of \$20.35. The Restricted Shares and the Performance Shares subject to non-market conditions (e.g. divisional EBIT and ROC) have been valued with reference to the Wesfarmers share price on grant date, being \$31.73. Should the executive KMP resign prior to vesting, the Restricted Shares and Performance Shares would be forfeited. Accordingly, the minimum value of the unvested award would be nil.

<sup>6</sup> The Replacement 2017 KEEPP Performance Shares granted to M D Schneider has been reduced to reflect the portion of the original 2017 KEEPP Performance Share allocation that was subject to the cumulative EBIT and ROC performance of BUKI, subsequently divested from the Group in June 2018.

# REMUNERATION REPORT 2019 (AUDITED)

## Terms of the Replacement 2016 and 2017 KEEPP awards

The key details of the replacement 2016 and 2017 KEEPP share awards are summarised below. The terms relating to cessation of employment, change of control, clawback, and dividends and voting rights are as per the table in section 4.2(a), noting the service periods, restriction periods and performance periods for the Replacement 2016 and 2017 KEEPP, as applicable, are as set out below.

**Allocation of awards** The replacement 2016 and 2017 KEEPP awards were granted as Restricted Shares and Performance Shares as follows:

- 50 per cent was granted as Restricted Shares, which will vest subject to a service condition followed by an additional restriction period; and
- 50 per cent was granted as Performance Shares, which will vest subject to performance conditions over a four-year period.

Restricted Shares and Performance Shares were granted at no cost to the executive.

The number of shares allocated under the Replacement 2016 and 2017 KEEPP allocation were determined using the following calculation:

$$\begin{array}{r} \text{Number of shares} \\ \text{originally granted} \\ \text{under the 2016/2017} \\ \text{KEEPP} \end{array} \times \frac{\text{Wesfarmers 5-day} \\ \text{post-demerger VWAP} + \text{Coles 5-day} \\ \text{post-demerger VWAP}}{\text{Wesfarmers 5-day post-demerger VWAP}}$$

### Replacement 2016 KEEPP

**Replacement 2016 Restricted Shares – conditions and vesting** Replacement Restricted Shares are subject to a continued service condition, commencing on the grant date and ending on 30 June 2019.

After the end of the service period, the Replacement Restricted Shares will vest and the vested Replacement Restricted Shares will be held in trust with a holding lock applied as follows:

- 50 per cent of the vested Replacement Restricted Shares will be subject to a restriction from trading until the day following the FY21 results announcement in August 2021; and
- the remaining 50 per cent of the vested Replacement Restricted Shares will be subject to a restriction from trading until the day following the FY22 results announcement in August 2022.

**Replacement 2016 Performance Shares – conditions and vesting** Replacement Performance Shares have financial performance conditions over a four-year performance period, from 1 July 2016 to 30 June 2020.

The performance conditions and weightings are as follows:

- Cumulative EBIT and ROC (80 per cent weighting); and
- Wesfarmers' rTSR against the S&P/ASX 50 Index (20 per cent weighting).

*EBIT and ROC condition*

The vesting schedule against the EBIT and ROC condition for the Replacement 2016 Performance Shares is consistent with the vesting schedule of the EBIT and ROC condition for the 2018 KEEPP, as set out in the table in section 4.2(a) of this report.

*TSR condition*

The vesting schedule against the rTSR condition for the Replacement 2016 Performance Shares is consistent with the vesting schedule of the rTSR condition for the 2018 KEEPP, as set out in the table in section 4.2(a) of this report.

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

### Replacement 2017 KEEPP

**Replacement 2017 Restricted Shares – conditions and vesting** Replacement Restricted Shares are subject to a continued service condition, commencing on the grant date and ending on 30 June 2019.

After the end of the service period, the Replacement Restricted Shares will vest and the vested Replacement Restricted Shares will be held in trust with a holding lock applied as follows:

- 50 per cent of the vested Replacement Restricted Shares will be subject to a restriction from trading until the day following the FY22 results announcement in August 2022; and
- the remaining 50 per cent of the vested Replacement Restricted Shares will be subject to a restriction from trading until the day following the FY23 results announcement in August 2023.

**Replacement 2017 Performance Shares – conditions and vesting** Replacement Performance Shares have performance conditions over a four-year performance period, from 1 July 2017 to 30 June 2021.

**Group Managing Director and Group Chief Financial Officer:**

- Wesfarmers' rTSR against the S&P/ASX 100 Index (70 per cent weighting); and
- Strategic measures (30 per cent weighting).

Under the original 2017 KEEPP allocation, the Group Managing Director and the Group Chief Financial Officer also had an absolute ROE performance hurdle. Given the significant changes to the portfolio as a result of the demerger and other activities, the Board did not consider it appropriate for the Replacement 2017 KEEPP allocation to also have an absolute ROE hurdle and as a result the weighting of the rTSR hurdle was increased from 50 per cent to 70 per cent and the strategic measures weighting is unchanged at 30 per cent weighting.

**Divisional Managing Directors:**

- Cumulative EBIT and ROC (80 per cent weighting); and
- Wesfarmers' rTSR against the S&P/ASX 100 Index (20 per cent weighting).

## REMUNERATION REPORT 2019 (AUDITED)

<b>Replacement 2017 Performance Shares conditions and vesting (continued)</b>	<p><i>EBIT and ROC condition</i></p> <p>The vesting schedule against the EBIT and ROC condition for the Replacement 2017 Performance Shares is consistent with the vesting schedule of the EBIT and ROC condition for the 2018 KEEPP, as set out in the table in section 4.2(a) of this report.</p> <p><i>rTSR condition</i></p> <p>The vesting schedule against the rTSR condition for the Replacement 2017 Performance Shares is consistent with the vesting schedule of the rTSR condition for the 2018 KEEPP, as set out in the table in section 4.2(a) of this report.</p> <p><i>Non-financial condition</i></p> <p>The Board will assess the performance of the Group Managing Director and the Group Chief Financial Officer in respect of their strategic targets.</p> <p>Following testing, any Replacement Performance Shares that do not vest will be forfeited. In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions where it is considered appropriate to do so.</p>
---	---

### 2015 WLTIP and Additional Performance Rights

The 2015 WLTIP performance rights allocated did not carry a right to participate in the demerger of Coles. In order to preserve the overall value of the performance rights following the demerger of Coles from the Group, and to ensure that participants were not disadvantaged by the demerger, the Board decided to grant participants in the 2015 WLTIP who continued to be employed within the Wesfarmers Group Additional Performance Rights.

The Additional Performance Rights were granted in December 2018 on substantially the same terms as the participant's original 2015 award of performance rights under the WLTIP. The terms of the 2015 WLTIP are set out in the 2016 Remuneration Report. The WLTIP Additional Performance Rights are a grant of performance rights subject to a four-year performance period in line with the original performance rights, from 1 July 2015 until 30 June 2019. The Additional Performance Rights vest subject to satisfaction of two performance hurdles: Wesfarmers' CAGR in ROE (with a 50 per cent weighting) and Wesfarmers' TSR (with a 50 per cent weighting), relative to the CAGR in ROE and TSR of the S&P/ASX 50 Index. Shares allocated on vesting of the Additional Performance Rights are not subject to any trading restrictions. Additional Performance Rights do not carry any right to dividends or voting rights prior to vesting. The Additional Performance Rights were granted at no cost and no payment was required to be made in order for the Additional Performance Rights to vest and for participants to receive their share allocation.

The calculation method used to determine the number of Additional Performance Rights to be granted (rounding down to the nearest whole performance right) was as follows:

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

### Additional Performance Rights granted

The table below sets out the number of the Additional Performance Rights granted to the executive KMP on 6 December 2018.

Name	Number of 2015 WLTIP Performance Rights granted in November 2015	Number of 2015 Additional Performance Rights granted in December 2018 <sup>1</sup>
R G Scott	34,299	13,949
A N Gianotti	20,399	8,296

<sup>1</sup> It was determined that there was no material incremental fair value to expense from the 2015 Additional Performance Rights.

# REMUNERATION REPORT 2019 (AUDITED)

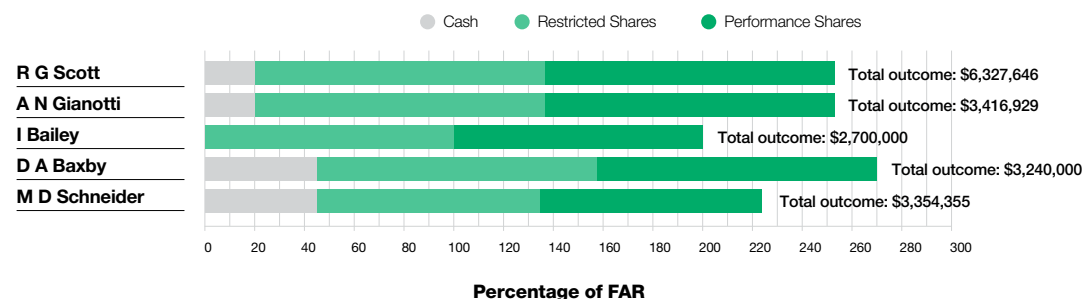
## 7. Annexures

Additional information in relation to the KEEPP allocations from previous financial years is set out in these annexures.

### (a) 2018 KEEPP allocations – awards made during the 2019 financial year

As presented in the 2018 Remuneration Report, during the 2019 financial year, following the testing of the 2018 KEEPP annual scorecards in August 2018, where applicable, the executive KMP received cash on 17 August 2018 and were granted shares on 6 December 2018, as their 2018 KEEPP award. As Mr Bailey participated in the KEEPP for the first time in the 2019 financial year and there was no scorecard in place for him in relation to the 2018 KEEPP allocation, the amount of KEEPP awarded to Mr Bailey during the year was approved by the Board on 15 August 2018 on recommendation from the Group Managing Director. Mr Bailey received 200 per cent of FAR and there was no cash component.

The 2018 KEEPP award was delivered to the executive KMP as follows:



### Details of 2018 KEEPP Restricted Shares and Performance Shares component

The table below sets out details of the Restricted Shares and Performance Shares that were allocated to executive KMP under the 2018 KEEPP in the 2019 financial year.

Name	Restricted Shares allocated (subject to a five- and six-year restriction from trading) <sup>1</sup>	Performance Shares allocated (vesting subject to performance conditions over a four-year performance period) <sup>2</sup>	Total Share Award value <sup>3</sup> (\$)	Fair value of Restricted Shares and Performance Shares at grant date <sup>4</sup> (\$)	Maximum amount that could be expensed over remaining performance period <sup>5</sup> (\$)
R G Scott	92,497	92,497	5,827,608	5,377,396	2,905,722
A N Gianotti	49,948	49,948	3,146,884	2,818,751	1,613,355
I Bailey	42,854	42,854	2,699,940	2,619,148	1,806,718
D A Baxby	42,854	42,854	2,699,940	2,619,148	1,541,838
M D Schneider	42,527	42,527	2,679,338	2,599,158	1,543,293

<sup>1</sup> The 2018 KEEPP Restricted Shares were granted on 15 November 2018 for R G Scott and 6 December 2018 for the remaining executive KMP and are still subject to restrictions. No 2018 KEEPP Restricted Shares vested or were forfeited during the reporting period.

<sup>2</sup> The 2018 KEEPP Performance Shares were granted on 15 November 2018 for R G Scott and 6 December 2018 for the remaining executive KMP and are still subject to performance conditions until 30 June 2022. Accordingly, no 2018 KEEPP Performance Shares vested or were forfeited during the reporting period.

<sup>3</sup> The number of Restricted Shares and Performance Shares allocated was determined using the face value of Wesfarmers shares, based upon the 10-day VWAP of Wesfarmers shares over the period immediately following the demerger of Coles from the Wesfarmers Group (i.e. 21 November – 4 December 2018) being \$31.501605. This amount shown represents the total face value upon allocation, being the total number of Restricted Shares and Performance Shares multiplied by the 10-day VWAP.

<sup>4</sup> For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2 *Share-Based Payment*. The Performance Shares subject to market conditions (rTSR hurdle) have been independently valued using the Monte Carlo simulation using the Black-Scholes framework. The Restricted Shares and the Performance Shares subject to non-market conditions (e.g. divisional EBIT and ROC) have been valued with reference to the Wesfarmers share price on grant date. For Mr Scott, the value per Performance Share for the rTSR performance hurdle is \$20.78 and the value per Restricted Share and per Performance Share subject to the portfolio management and investment outcomes hurdle and other strategic hurdles is \$32.62, valued as at 15 November 2018 following approval of the grant at the Wesfarmers 2018 Annual General Meeting. For all other KEEPP participants the value per Performance Share for the rTSR performance hurdle is \$20.02 and the value per Restricted Share and per Performance Share subject to the portfolio management and investment outcomes hurdle and other strategic hurdles or the divisional EBIT and ROC hurdle is \$31.73, valued as at 6 December 2018. The fair value at the grant date represents the maximum possible total fair value of the shares. The minimum value of unvested shares is nil.

<sup>5</sup> Should the executive KMP resign prior to vesting, the Restricted Shares and Performance Shares would be forfeited. Accordingly, the minimum value of the unvested award would be nil.

## REMUNERATION REPORT 2019 (AUDITED)

### (b) 2017 KEEPP - KEEPP awards that vested during the 2019 financial year

The table below sets out details of shares that vested in relation to the 2017 KEEPP allocation during the 2019 financial year.

Name	Restricted Shares vested during the year <sup>1,3</sup>		Performance Shares vested during the year <sup>2,3</sup>		Maximum amount that could be expensed over remaining performance period <sup>4</sup> (\$)
	Number	%	Number	%	
R G Scott	60,848	100	-	-	791,067
A N Gianotti	32,214	100	-	-	418,815
D A Baxby	17,896	100	-	-	346,376
M D Schneider	35,793	100	-	-	484,251

<sup>1</sup> The 2017 Restricted Shares were subject to a 12-month forfeiture period and vested in September 2018, although these remained subject to a five- and six-year trading restriction until August 2022 and August 2023 respectively.

<sup>2</sup> No Performance Shares reached the end of the four-year performance period in the year. The performance period is due to end 30 June 2021.

<sup>3</sup> Following shareholder and court approval of the demerger of Coles from the Group, this allocation was subsequently cancelled. Further details are provided in section 6.4.

<sup>4</sup> Should the executive KMP resign prior to vesting, the Restricted Shares and Performance Shares would be forfeited. Accordingly, the minimum value of the unvested award would be nil.

### (c) 2016 KEEPP - Performance Shares that vested during the 2019 financial year

The table below sets out details of Performance Shares that vested in relation to the 2016 KEEPP allocation during the 2019 financial year.

Name	Restricted Shares vested during the year <sup>1,3</sup>		Performance Shares vested during the year <sup>2,3</sup>		Maximum amount that could be expensed over remaining performance period <sup>4</sup> (\$)
	Number	%	Number	%	
R G Scott	-	-	-	-	337,459

<sup>1</sup> The 2016 Restricted Shares vested in November 2017 although these remained subject to a five- and six-year trading restriction until August 2021 and August 2022 respectively.

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

<sup>3</sup> Following shareholder and court approval of the demerger of Coles from the Group, this allocation was subsequently cancelled. Further details are provided in section 6.4.

<sup>4</sup> Should the executive KMP resign prior to vesting, the Restricted Shares and Performance Shares would be forfeited. Accordingly, the minimum value of the unvested award would be nil.

## 8. Independent audit of remuneration report

The remuneration report has been audited by Ernst & Young. Please see page 167 of this annual report for Ernst & Young's report on the remuneration report.

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



M A Chaney AO  
Chairman



R G Scott  
Managing Director

Perth

25 September 2019



# FINANCIAL STATEMENTS

For the year ended 30 June 2019 – Wesfarmers Limited and its controlled entities

## CONTENTS

### Financial statements

Income statement	<b>Page 112</b>
Statement of comprehensive income	<b>Page 113</b>
Balance sheet	<b>Page 114</b>
Cash flow statement	<b>Page 115</b>
Statement of changes in equity	<b>Page 116</b>

### Notes to the financial statements

About this report	<b>Page 117</b>
Segment information	<b>Page 119</b>

Key numbers P. 122	Capital P. 131	Risk P. 135	Group structure P. 145	Unrecognised items P. 153	Other P. 154
1. Revenue and other income	10. Capital management	15. Financial risk management	18. Associates and joint arrangements	21. Commitments and contingencies	23. Parent disclosures
2. Expenses	11. Dividends and distributions	16. Hedging	19. Subsidiaries	22. Events after the reporting period	24. Deed of Cross Guarantee
3. Tax expense	12. Equity and reserves	17. Impairment of non-financial assets	20. Discontinued operations		25. Auditors' remuneration
4. Cash and cash equivalents	13. Earnings per share				26. Related party transactions
5. Receivables	14. Interest-bearing loans and borrowings				27. Other accounting policies
6. Inventories					28. Share-based payments
7. Property, plant and equipment					29. Director and executive disclosures
8. Goodwill and intangible assets					30. Tax transparency disclosures
9. Provisions					

**INCOME STATEMENT**

For the year ended 30 June 2019

	Note	Consolidated	
		2019 \$m	RESTATED 2018 \$m
<b>Continuing operations</b>			
<b>Revenue</b>	1	<b>27,920</b>	26,763
<b>Expenses</b>			
Raw materials and inventory		(17,240)	(16,344)
Employee benefits expense	2	(4,525)	(4,290)
Freight and other related expenses		(381)	(326)
Occupancy-related expenses	2	(1,533)	(1,474)
Depreciation and amortisation	2	(537)	(521)
Impairment expenses	2	-	(373)
Other expenses	2	(1,198)	(1,264)
<b>Total expenses</b>		<b>(25,414)</b>	(24,592)
Other income	1	239	99
Share of net profits/(losses) of associates and joint ventures	18	229	74
		<b>468</b>	173
<b>Earnings before interest and income tax expense (EBIT)</b>		<b>2,974</b>	2,344
Finance costs	2	(175)	(210)
<b>Profit before income tax</b>		<b>2,799</b>	2,134
Income tax expense	3	(859)	(725)
<b>Profit after tax from continuing operations</b>		<b>1,940</b>	1,409
<b>Discontinued operations</b>			
Profit after tax for Coles	20	2,483	1,037
Profit after tax for Bengalla	20	710	119
Profit after tax for KTAS	20	253	25
Profit after tax for Quadrant Energy	20	124	14
Loss after tax for BUKI		-	(1,657)
Profit after tax for Curragh Coal Mine		-	250
<b>Profit/(loss) after tax from discontinued operations</b>		<b>3,570</b>	(212)
<b>Profit attributable to members of the parent</b>		<b>5,510</b>	1,197
<b>Earnings per share attributable to ordinary equity holders of the parent from continuing operations</b>			
		<b>cents</b>	cents
Basic earnings per share		171.5	124.6
Diluted earnings per share		171.4	124.4
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
	13		
Basic earnings per share		487.2	105.8
Diluted earnings per share		486.7	105.6

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 30 June 2019

	Note	Consolidated	
		2019 \$m	RESTATED 2018 \$m
<b>Profit attributable to members of the parent</b>		<b>5,510</b>	1,197
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
<b>Foreign currency translation reserve</b>	12		
Exchange differences on translation of foreign operations		14	(7)
Exchange differences recognised in the income statement on disposal of foreign operations		-	(2)
<b>Cash flow hedge reserve</b>	12		
Unrealised gains on cash flow hedges		151	96
Realised losses transferred to net profit		2	29
Realised (gains)/losses transferred to non-financial assets		(204)	114
Transfer of hedges to Coles on demerger		(22)	-
Share of associates and joint ventures reserves		(2)	(7)
Tax effect	3	24	(72)
<i>Items that will not be reclassified to profit or loss:</i>			
<b>Retained earnings</b>	12		
Remeasurement loss on defined benefit plan		(1)	(1)
Tax effect	3	-	-
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<b>(38)</b>	150
<b>Total comprehensive income/(loss) for the year, net of tax, attributable to members of the parent arising from:</b>			
Continuing operations		1,903	1,568
Discontinued operations		3,569	(221)
		<b>5,472</b>	1,347

About this report

Segment  
informationKey  
numbers

Capital

Risk

Group  
structureUnrecognised  
items

Other

**BALANCE SHEET**

As at 30 June 2019

	Note	Consolidated	
		2019 \$m	2018 \$m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	795	683
Receivables - trade and other	5	1,027	1,657
Inventories	6	4,246	6,011
Derivatives	16	101	126
Other		181	229
<b>Total current assets</b>		<b>6,350</b>	<b>8,706</b>
<b>Non-current assets</b>			
Investment in associates and joint ventures	18	3,393	748
Deferred tax assets	3	194	692
Property	7	819	1,920
Plant and equipment	7	3,059	6,488
Goodwill	8	3,090	13,491
Intangible assets	8	986	4,369
Derivatives	16	393	391
Other		49	128
<b>Total non-current assets</b>		<b>11,983</b>	<b>28,227</b>
<b>Total assets</b>		<b>18,333</b>	<b>36,933</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		3,620	6,541
Interest-bearing loans and borrowings	14	356	1,159
Income tax payable		222	299
Provisions	9	851	1,726
Derivatives	16	7	16
Other		160	284
<b>Total current liabilities</b>		<b>5,216</b>	<b>10,025</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	14	2,673	2,965
Provisions	9	381	1,033
Derivatives	16	1	-
Other		91	156
<b>Total non-current liabilities</b>		<b>3,146</b>	<b>4,154</b>
<b>Total liabilities</b>		<b>8,362</b>	<b>14,179</b>
<b>Net assets</b>		<b>9,971</b>	<b>22,754</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	12	15,809	22,277
Reserved shares	12	(81)	(43)
(Accumulated losses)/retained earnings	12	(208)	176
Reserves	12	(5,549)	344
<b>Total equity</b>		<b>9,971</b>	<b>22,754</b>

**CASH FLOW STATEMENT**

For the year ended 30 June 2019

	Note	Consolidated	
		2019 \$m	2018 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		48,770	75,354
Payments to suppliers and employees		(44,892)	(69,836)
Dividends and distributions received from associates		65	50
Interest received		27	15
Borrowing costs		(170)	(195)
Income tax paid		(1,082)	(1,308)
<b>Net cash flows from operating activities</b>	4	<b>2,718</b>	<b>4,080</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and intangibles	4	(1,356)	(1,815)
Proceeds from sale of property, plant and equipment and intangibles	4	529	606
Net proceeds from demerger and sale of businesses		858	534
Net proceeds from sale of associate		231	-
Acquisition of subsidiaries, net of cash acquired		(17)	-
Net redemption of loan notes		-	17
<b>Net cash flows from/(used in) investing activities</b>		<b>245</b>	<b>(658)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,000	688
Repayment of borrowings		(1,164)	(1,905)
Equity dividends paid		(3,628)	(2,528)
Demerger transaction costs recognised directly in equity		(59)	(7)
<b>Net cash flows used in financing activities</b>		<b>(2,851)</b>	<b>(3,752)</b>
<i>Net increase/(decrease) in cash and cash equivalents</i>		<b>112</b>	<b>(330)</b>
<i>Cash and cash equivalents at beginning of year</i>		<b>683</b>	<b>1,013</b>
<b>Cash and cash equivalents at end of year</b>	4	<b>795</b>	<b>683</b>

About this report

Segment  
informationKey  
numbers

Capital

Risk

Group  
structureUnrecognised  
items

Other

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Consolidated	Note	Attributable to equity holders of the parent						Total equity
		Issued capital	Reserved shares	Retained earnings	Hedging reserve	Demerger reserve	Other reserves	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2017</b>		22,268	(26)	1,509	(82)	-	272	23,941
Net profit for the year		-	-	1,197	-	-	-	1,197
<b>Other comprehensive income</b>								
Exchange differences on translation of foreign operations	12	-	-	-	-	-	(7)	(7)
Exchange differences recognised in the income statement on disposal of foreign operations	12	-	-	-	-	-	(2)	(2)
Changes in the fair value of cash flow hedges, net of tax	12	-	-	-	160	-	-	160
Remeasurement loss on defined benefit plan, net of tax	12	-	-	(1)	-	-	-	(1)
Total other comprehensive income for the year, net of tax		-	-	(1)	160	-	(9)	150
<b>Total comprehensive income for the year, net of tax</b>		-	-	1,196	160	-	(9)	1,347
Share-based payment transactions	12	9	-	-	-	-	3	12
Acquisition of shares on-market for Key Executive Equity Performance Plan (KEEPP)	12	-	(17)	-	-	-	-	(17)
Equity dividends	11	-	-	(2,529)	-	-	-	(2,529)
		9	(17)	(2,529)	-	-	3	(2,534)
<b>Balance at 30 June 2018 and 1 July 2018</b>		<b>22,277</b>	<b>(43)</b>	<b>176</b>	<b>78</b>	<b>-</b>	<b>266</b>	<b>22,754</b>
Net profit for the year		-	-	5,510	-	-	-	5,510
<b>Other comprehensive income</b>								
Exchange differences on translation of foreign operations	12	-	-	-	-	-	14	14
Changes in the fair value of cash flow hedges, net of tax	12	-	-	-	(51)	-	-	(51)
Remeasurement loss on defined benefit plan, net of tax	12	-	-	(1)	-	-	-	(1)
Total other comprehensive income for the year, net of tax		-	-	(1)	(51)	-	14	(38)
<b>Total comprehensive income for the year, net of tax</b>		-	-	5,509	(51)	-	14	5,472
Share-based payment transactions	12	14	-	-	-	-	4	18
Capital distribution and demerger dividend	11,12,20	(6,482)	-	-	-	(8,124)	-	(14,606)
Transfer of gain on demerger	20	-	-	(2,264)	-	2,264	-	-
Acquisition of shares on-market for Wesfarmers Long Term Incentive Plan (WLTIP)	12	-	(5)	-	-	-	-	(5)
Acquisition of shares on-market for Key Executive Equity Performance Plan (KEEPP)	12	-	(33)	-	-	-	-	(33)
Equity dividends	11	-	-	(3,629)	-	-	-	(3,629)
		(6,468)	(38)	(5,893)	-	(5,860)	4	(18,255)
<b>Balance at 30 June 2019</b>		<b>15,809</b>	<b>(81)</b>	<b>(208)</b>	<b>27</b>	<b>(5,860)</b>	<b>284</b>	<b>9,971</b>

# NOTES TO THE FINANCIAL STATEMENTS: ABOUT THIS REPORT

For the year ended 30 June 2019

## About this report

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

The consolidated financial report of the Group for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 25 September 2019. The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for investments held by associates and certain financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged;
- is presented in Australian dollars with all values rounded to the nearest million dollars (\$'000,000) unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2018. Refer to note 27 for further details; and
- does not early adopt Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

## 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		
122	Note 1	Revenue and other income
124	Note 3	Tax expense
126	Note 6	Inventories
127	Note 7	Property, plant and equipment
128	Note 8	Goodwill and intangible assets
129	Note 9	Provisions
143	Note 17	Impairment of non-financial assets
145	Note 18	Associates and joint arrangements
153	Note 21	Commitments and contingencies

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) at year-end is contained in note 19.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intragroup 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.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

## Foreign currency

The functional currencies of overseas subsidiaries are listed in note 19. As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into Australian dollars at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

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

## Other accounting policies

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

## NOTES TO THE FINANCIAL STATEMENTS: ABOUT THIS REPORT

For the year ended 30 June 2019

### The notes to the financial statements

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

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

The notes are organised into the following sections:

- *Key numbers*: provides a breakdown of individual line items in the financial statements that the directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;

- *Capital*: provides information about the capital management practices of the Group and shareholder returns for the year;
- *Risk*: discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks;
- *Group structure*: explains aspects of the group structure and how changes have affected the financial position and performance of the Group;
- *Unrecognised items*: provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance; and
- *Other*: provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements. Except for the disclosure of the impact of AASB 16 *Leases*, these are not considered critical in understanding the financial performance or position of the Group.

### Significant items in the current reporting period

#### Completion of Coles demerger

On 16 March 2018, Wesfarmers announced its intention to demerge Coles and its subsidiaries. The demerger was completed on 28 November 2018. Wesfarmers retained a 15 per cent minority ownership in Coles, which is classified as an investment in associate and accounted for using the equity method. The remaining 85 per cent interest in Coles reflected a demerger distribution.

The Coles business is presented as a discontinued operation. The gain on demerger after tax is \$2,264 million. Refer to note 20 for further details.

#### Sale of Bengalla

On 7 August 2018, Wesfarmers announced that it had entered into an agreement with New Hope Corporation to sell its 40 per cent interest in Bengalla for \$860 million subject to certain conditions, including regulatory approval.

The transaction was completed on 3 December 2018 and Bengalla is presented as a discontinued operation. The gain on disposal after tax is \$645 million. Refer to note 20 for further details.

#### Sale of KTAS

On 13 August 2018, Wesfarmers announced that it had entered into an agreement with Continental A.G. to sell its KTAS business for \$350 million.

The transaction was completed on 1 November 2018 and KTAS is presented as a discontinued operation. The gain on disposal after tax is \$244 million. Refer to note 20 for further details.

#### Sale of indirect interest in Quadrant Energy

On 22 August 2018, Wesfarmers announced that it had agreed to sell its interest in Australian Energy Consortium Pty Ltd (AEC), which holds a 13.2 per cent interest in Quadrant Energy, to Santos Limited for US\$170 million (A\$232 million).

The transaction was completed on 27 November 2018 and Quadrant Energy has been presented as a discontinued operation. The gain on disposal after tax is \$120 million. Refer to note 20 for further details.

#### Acquisition of Kidman Resources Limited

On 23 May 2019, Wesfarmers announced that it had entered into a Scheme Implementation Deed with Kidman Resources Limited (Kidman) under which it is proposed that Wesfarmers will acquire 100 per cent of the outstanding shares in Kidman for \$1.90 per share by way of Scheme of Arrangement. The transaction was completed on 23 September 2019.

#### Acquisition of Catch Group Holdings Limited

On 12 June 2019, Wesfarmers announced that it had entered into an agreement to acquire Catch Group Holdings Limited for cash consideration of \$230 million. This transaction was completed on 12 August 2019. Refer to note 22 for further details.



# NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION

For the year ended 30 June 2019

## Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided.

Each segment represents a strategic business unit that offers different products and operates in different industries and markets. The Board and executive management team (the chief operating decision-makers) monitor the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

The types of products and services from which each reportable segment derives its revenues are disclosed below. Segment performance is evaluated based on operating profit or loss (segment result), which in certain respects, is presented differently from operating profit or loss in the consolidated financial statements.

Interest income and expenditure are not allocated to operating segments, as this type of activity is managed on a Group basis.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. Those transfers are eliminated on consolidation and are not considered material.

The operating segments and their respective types of products and services are as follows:

### Retail

#### Bunnings

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

#### Kmart Group

##### Kmart

- Retailer of apparel and general merchandise, including toys, leisure, entertainment, home and consumables.

##### Target

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

#### Officeworks

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

## Industrials

### Chemicals, Energy and Fertilisers (WesCEF)

- Manufacturer and marketing of chemicals for industry, mining and mineral processing;
- Manufacturer and marketing of broadacre and horticultural fertilisers;
- Marketing and distributor of LPG and LNG;
- LPG and LNG extraction for domestic and export markets; and
- Manufacturer of wood-plastic composite decking and screening products.

### Industrial and Safety (WIS)

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

## Other

Includes:

- *Food and staples retailing*: 15.0 per cent interest in Coles Group Limited;
- *Forest products*: non-controlling interest in Wespine Industries Pty Ltd;
- *Property*: non-controlling interest in BWP Trust;
- *Investment banking*: non-controlling interest in Gresham Partners Group Limited;
- *Private equity investment*: non-controlling interests in Gresham Private Equity Fund No. 2; and
- *Corporate*: includes treasury, head office, central support functions and other corporate entity expenses. Corporate is not considered an operating segment and includes activities that are not allocated to other operating segments.

## Seasonality

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

- For retail divisions, earnings are typically greater in the first half of the financial year due to the impact of the Christmas holiday shopping period; and
- For WesCEF, earnings are typically greater in the second half of the financial year due to the impact of the Western Australian winter season break on fertiliser sales.

### Revenues by segment for FY2019<sup>1</sup> from continuing operations

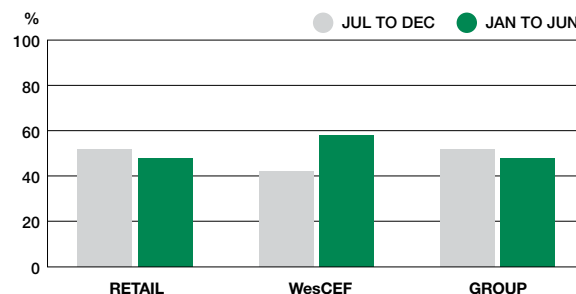


	\$m	%
● Bunnings	13,166	47.2
● Kmart Group	8,598	30.8
● WesCEF	2,078	7.4
● WIS	1,752	6.3
● Officeworks	2,314	8.3

<sup>1</sup>Other: \$12 million

1. Revenue from contracts with customers disaggregated by segment is materially consistent with the disclosure above.

### Seasonality of revenues in FY2019 from continuing operations



**NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION**

For the year ended 30 June 2019

	CONTINUING OPERATIONS					
	BUNNINGS		KMART GROUP <sup>1,2</sup>		INDUSTRIALS	
	2019	2018	2019	2018	2019	2018
	\$m	\$m	\$m	\$m	WesCEF <sup>2</sup>	\$m
<b>Segment revenue</b>	13,166	12,544	8,598	8,505	2,078	1,830
Adjusted EBITDA <sup>7</sup>	1,818	1,683	733	820	513	458
Depreciation and amortisation	(192)	(179)	(193)	(194)	(80)	(79)
<b>Segment result</b>	<b>1,626</b>	<b>1,504</b>	<b>540</b>	<b>626</b>	<b>433</b>	<b>379</b>
Items not included in segment result <sup>5,6</sup>	-	-	-	(306)	-	-
EBIT						
Finance costs						
Profit before income tax expense						
Income tax expense						
<b>Profit attributable to members of the parent</b>						
<b>Other segment information</b>						
Segment assets	5,118	5,025	3,755	3,559	1,563	1,539
Investments in associates and joint ventures	17	17	-	-	89	92
Tax assets						
Total assets						
Segment liabilities	(1,983)	(1,875)	(1,476)	(1,426)	(392)	(343)
Tax liabilities						
Interest-bearing loans and borrowings						
Total liabilities						
Segment net assets	3,152	3,167	2,279	2,133	1,260	1,288
Other net assets <sup>8</sup>	(2,599)	(3,098)	(488)	(45)	(768)	(709)
Net assets	553	69	1,791	2,088	492	579
Capital expenditure <sup>9</sup>	470	497	199	286	58	60
Share of net profit or loss of associates and joint ventures included in EBIT	-	-	-	-	14	18

<sup>1</sup> The Department Stores Division has been renamed Kmart Group.

<sup>2</sup> The Kmart Group result excludes KTAS and the WesCEF result excludes Quadrant Energy as they are discontinued operations.

<sup>3</sup> The 2019 Other result includes the gain on disposal of Wesfarmers' direct and indirect interest in Barmingo and subsequent increase in the fair value of Wesfarmers' indirect interest in Ausdrill shares totalling \$61 million and share of profits from Wesfarmers' 15 per cent interest in Coles.

<sup>4</sup> Discontinued operations relate to Bengalla, KTAS and Quadrant Energy which were disposed of during the 2019 financial year, BUKI and the Curragh Coal Mine which were disposed of during the 2018 financial year, as well as Coles which was demerged in November 2018.

<sup>5</sup> The 2019 segment result excludes the \$2,319 million pre-tax gain on demerger of Coles, the \$679 million pre-tax gain on disposal of Bengalla, the \$267 million pre-tax gain on disposal of KTAS, the \$138 million (US\$98 million) pre-tax gain on disposal of Quadrant Energy and \$146 million provision for Coles supply chain automation.

<sup>6</sup> The 2018 segment result from continuing operations excludes Target's pre-tax impairment of \$306 million. The 2018 segment result from discontinued operations excludes BUKI's pre-tax writedown of \$861 million (£491 million), store closure provision of \$70 million (£40 million), \$375 million (£210 million) pre-tax loss on disposal relating to BUKI and \$120 million pre-tax gain on disposal of the Curragh Coal Mine. Refer to note 17 for further information on the Target impairment and BUKI writedown.

<sup>7</sup> Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and other items not included in the segment results outlined in footnotes 5 and 6.

<sup>8</sup> Other net assets relate predominantly to intercompany financing arrangements and segment tax balances.

<sup>9</sup> Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding movements in accruals from continuing and discontinued operations is \$1,356 million (2018: \$1,815 million).

# NOTES TO THE FINANCIAL STATEMENTS: SEGMENT INFORMATION

For the year ended 30 June 2019

INDUSTRIALS								DISCONTINUED OPERATIONS <sup>4,5</sup>	
WIS		OFFICEWORKS		OTHER <sup>3</sup>		CONSOLIDATED		2019	2018
2019	2018	2019	2018	2019	2018	2019	2018		
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1,752	1,750	2,314	2,142	12	(8)	27,920	26,763	16,764	43,115
124	159	195	181	128	(130)	3,511	3,171	859	2,400
(38)	(41)	(28)	(25)	(6)	(3)	(537)	(521)	(272)	(762)
86	118	167	156	122	(133)	2,974	2,650	587	1,638
-	-	-	-	-	-	-	(306)	3,257	(1,186)
-	-	-	-	-	-	2,974	2,344	3,844	452
-	-	-	-	-	-	(175)	(210)	-	(11)
-	-	-	-	-	-	2,799	2,134	3,844	441
-	-	-	-	-	-	(859)	(725)	(274)	(653)
-	-	-	-	-	-	1,940	1,409	3,570	(212)
1,752	1,698	1,531	1,452	1,027	721	14,746	13,994	-	21,499
-	-	-	-	3,287	529	3,393	638	-	110
-	-	-	-	194	692	194	692	-	-
-	-	-	-	-	-	18,333	15,324	-	21,609
(348)	(335)	(559)	(532)	(353)	(553)	(5,111)	(5,064)	-	(4,692)
-	-	-	-	(222)	(299)	(222)	(299)	-	-
-	-	-	-	(3,029)	(4,124)	(3,029)	(4,124)	-	-
-	-	-	-	-	-	(8,362)	(9,487)	-	(4,692)
1,404	1,363	972	920	904	(3,034)	9,971	5,837	-	16,917
(1,008)	(631)	40	8	4,823	4,662	-	187	-	(187)
396	732	1,012	928	5,727	1,628	9,971	6,024	-	16,730
83	50	42	45	-	2	852	940	426	922
-	-	-	-	215	56	229	74	4	23

## Capital expenditure by segment for FY2019 from continuing operations



	\$m	%
● Bunnings	470	55.2
● Kmart Group	199	23.4
● WesCEF	58	6.8
● WIS	83	9.7
● Officeworks	42	4.9

## Geographical information

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

	Revenue <sup>1</sup>		Non-current assets	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Australia	25,786	24,789	11,082	26,856
New Zealand	2,066	1,912	257	203
United Kingdom	41	42	4	4
Other foreign countries	27	20	10	6
	27,920	26,763	11,353	27,069

<sup>1</sup> Revenue from contracts with customers disaggregated by geographic location is materially consistent with the disclosure above.

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

## 1. Revenue and other income from continuing operations

	Consolidated	
	2019 \$m	2018 \$m
Revenue from contracts with customers <sup>1</sup>	27,818	26,720
Interest revenue	26	8
Other	76	35
<b>Revenue</b>	<b>27,920</b>	<b>26,763</b>
Gains on disposal of property, plant and equipment and other assets	124	25
Other	115	74
<b>Other income</b>	<b>239</b>	<b>99</b>

<sup>1</sup> The Group initially applied AASB 15 *Revenue from Contracts with Customers* using the modified retrospective approach at the date of initial application, being 1 July 2018. Refer to note 27 for further details. Under this method, comparative information has not been restated.

## Recognition and measurement

### Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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. Control of goods typically passes at the point of sale in store (refer to Bunnings, Kmart Group and Officeworks in the Segment Note).
- Sales to commercial customers under contracts, of products:
  - i. for which the Group has distribution rights, principally related to industrial maintenance and industrial safety (refer to WIS in the Segment Note); and
  - ii. produced or purchased by the Group including fertilisers, chemicals, speciality gases, LPG and LNG (refer to WesCEF in the Segment Note).

The Group's contracts with customers for the sale of goods generally include one performance obligation. Revenue for the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, typically at either the point of sale or at the time of delivery of the goods to the customer. Cash payment is generally received at the point of sale. Revenue from lay-by transactions is recognised on the date when the customer completes payment and takes possession of the merchandise. Any cash received in advance of the completion of the performance obligation is recognised on the balance sheet as a contract liability.

Where satisfaction of a performance obligation is completed over time, revenue is recognised in line with the progress towards complete satisfaction of the performance obligation. This is typically in respect for services rendered and largely reflects revenue of \$52 million for FY2019 for the WIS division.

A right of return is not a separate performance obligation and the Group recognises revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover the returned products from the customer is also recognised.

The accounting policies in relation to revenue from contracts with customers have been applied from 1 July 2018. For the accounting policy applied for the period prior to 1 July 2018 refer to note 27.

## Other revenue

### Interest revenue

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, other than those arising from associates, 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: gift cards

Revenue from the sale of gift cards is recognised when the card is redeemed and the customer purchases goods by using the card, or when the gift card is no longer expected to be redeemed (breakage). At 30 June 2019, \$83 million of revenue is deferred in relation to gift cards (2018: \$224 million). Gift card liabilities are contract liabilities as payment has been received for a performance obligation to be completed at a future point in time.

The key assumption in measuring the contract liability for gift cards and vouchers is the expected breakage, which is reviewed annually based on historical information. Any reassessment of expected breakage in a particular year impacts on the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing). Any reasonably possible change in the estimate is unlikely to have a material impact.

### Key judgement: flybuys

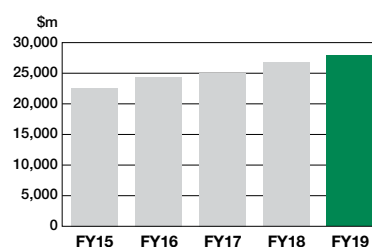
The Group is a participant in the flybuys loyalty program whereby eligible customers are granted loyalty points based on the dollars they spend. Following the demerger of Coles and the loss of control of Loyalty Pacific Pty Ltd, the Group has concluded that they are an agent in this arrangement as the nature of the loyalty program is that flybuys is responsible for supplying the awards to the customer and as such the Group's role is to only arrange for flybuys to provide the goods or services.

The Group records the revenue associated with the loyalty program upon satisfaction of the performance obligation, being the issue of loyalty points to the customer at the point of sale. Costs associated with the program are recognised in raw materials and inventory expenses.

## Total revenue from continuing operations

**\$27,920m**

▲ **4.3%**



	\$m
<b>FY19</b>	<b>27,920</b>
FY18	26,763
FY17	25,083
FY16	24,419
FY15	22,577

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

## 2. Expenses

### from continuing operations

	Consolidated	
	2019 \$m	2018 \$m
Remuneration, bonuses and on-costs	4,140	3,918
Superannuation expense	303	288
Share-based payments expense	82	84
<b>Employee benefits expense</b>	<b>4,525</b>	<b>4,290</b>
Minimum lease payments	1,176	1,095
Contingent rental payments	76	83
Other	281	296
<b>Occupancy-related expenses</b>	<b>1,533</b>	<b>1,474</b>
Depreciation	424	416
Amortisation of intangibles	47	42
Amortisation other	66	63
<b>Depreciation and amortisation</b>	<b>537</b>	<b>521</b>
Impairment of plant, equipment and other assets	-	303
Impairment of freehold property	-	23
Impairment of goodwill	-	47
<b>Impairment expenses</b>	<b>-</b>	<b>373</b>
Repairs and maintenance	219	172
Utilities and office expenses	440	426
Insurance expenses	113	169
Other	426	497
<b>Other expenses</b>	<b>1,198</b>	<b>1,264</b>
Interest expense	153	181
Discount rate adjustment	7	11
Amortisation of debt establishment costs	3	5
Other finance related costs	12	13
<b>Finance costs</b>	<b>175</b>	<b>210</b>

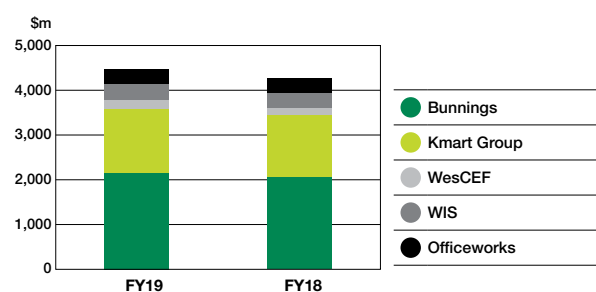
### Recognition and measurement

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

#### Employee benefits expense by segment from continuing operations



### Occupancy-related expenses

#### Operating leases

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

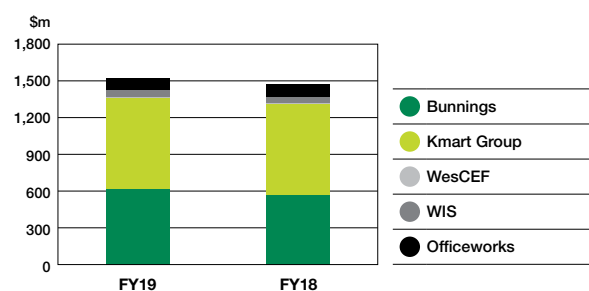
Fixed rate increases to lease payments, excluding contingent or index based rental increases, are recognised on a straight-line basis over the lease term.

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

#### Contingent rental payments

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

#### Occupancy-related expenses by segment from continuing operations



#### 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 notes 5 and 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 2019, had there been major long-term construction projects, the weighted average interest rate applicable would have been 4.66 per cent (2018: 3.79 per cent).

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

### 3. Tax expense

	Consolidated	
	2019	2018
	\$m	\$m
<b>The major components of tax expense are:</b>		
<b>Income statement (continuing operations)</b>		
<i>Current income tax expense</i>		
Current year (paid or payable)	810	752
Adjustment for prior years	10	(8)
<i>Deferred income tax expense</i>		
Temporary differences	39	(19)
<b>Income tax reported in the income statement</b>	<b>859</b>	<b>725</b>
<b>Statement of changes in equity</b>		
Net (loss)/gain on revaluing cash flow hedges	(24)	72
<b>Income tax (benefit)/expense reported in equity</b>	<b>(24)</b>	<b>72</b>
<b>Tax reconciliation (continuing operations)</b>		
Profit before tax	2,799	2,134
Income tax rate at the statutory rate of 30%	840	640
Adjustments relating to prior years	10	(8)
Non-deductible items	12	99
Share of results of associates and joint ventures	(14)	(4)
Other	11	(2)
<b>Income tax on profit before tax</b>	<b>859</b>	<b>725</b>
<b>Deferred income tax in the balance sheet relates to the following:</b>		
Provisions	113	250
Employee benefits	211	427
Accruals and other payables	66	130
Interest-bearing loans and borrowings	151	103
Derivatives	2	5
Inventories	49	90
Property, plant and equipment	138	273
Other individually insignificant balances	65	87
<b>Deferred tax assets</b>	<b>795</b>	<b>1,365</b>
Accelerated depreciation for tax purposes	123	212
Derivatives	148	155
Accrued income and other	260	159
Intangible assets	8	106
Other individually insignificant balances	62	41
<b>Deferred tax liabilities</b>	<b>601</b>	<b>673</b>
<b>Net deferred tax asset</b>	<b>194</b>	<b>692</b>
<b>Deferred income tax in the income statement relates to the following:</b>		
Provisions	2	(5)
Depreciation, amortisation and impairment	(13)	(20)
Other individually insignificant balances	50	6
<b>Deferred tax expense</b>	<b>39</b>	<b>(19)</b>

Refer to note 30 for tax transparency disclosures.

### Recognition and measurement

#### Current taxes

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

#### Deferred taxes

Deferred income tax is provided using the full liability balance sheet method. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them.

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

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

Deferred income tax is provided on temporary differences at balance sheet date between accounting carrying amounts and the tax bases of assets and liabilities, other than for the following:

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

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

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

#### Offsetting deferred tax balances

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

#### Key estimate: unrecognised deferred tax assets

Capital losses: The Group has unrecognised benefits relating to carried forward capital losses, which can only be offset against eligible capital gains. The Group has determined that at this stage future eligible capital gains to utilise the tax assets are not currently sufficiently probable. The unrecognised deferred tax assets of \$39 million (2018: \$119 million) relate wholly to capital losses in Australia.

#### Key judgement: unrecognised deferred tax liability

A deferred tax liability has not been recognised on indefinite life intangibles for which the carrying value has been assessed as recoverable through sale, consistent with the Group's practice and strategy to maximise shareholder returns.

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

## 4. Cash and cash equivalents

	Consolidated	
	2019 \$m	2018 \$m
For the purpose of the cash flow statement, cash and cash equivalents comprise the following:		
Cash on hand and in transit	266	492
Cash at bank and on deposit	529	191
	795	683
<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit	5,510	1,197
<i>Non-cash items</i>		
Depreciation and amortisation	810	1,283
Impairment and writedowns of assets	23	1,216
(Gain)/loss on disposal/demerger of businesses	(3,266)	254
Net gain on disposal of non-current assets including investments and associates	(249)	(9)
Share of net (profits)/losses of associates and joint ventures	(233)	(97)
Dividends and distributions received from associates	65	50
Discount adjustment in borrowing costs	7	22
Other	(39)	3
<i>(Increase)/decrease in assets</i>		
Receivables - trade and other	109	(215)
Inventories	(557)	(54)
Prepayments	(83)	(10)
Deferred tax assets	130	61
Other assets	(3)	(2)
<i>Increase/(decrease) in liabilities</i>		
Trade and other payables	473	279
Current tax payable	(78)	8
Provisions	129	42
Other liabilities	(30)	52
<b>Net cash flows from operating activities</b>	<b>2,718</b>	<b>4,080</b>
<b>Net cash capital expenditure</b>		
<b>Cash capital expenditure</b>		
Payment for property	323	411
Payment for plant and equipment	975	1,171
Payment for intangibles	58	233
	1,356	1,815
Less: Proceeds from sale of property, plant, equipment and intangibles	529	606
<b>Net cash capital expenditure</b>	<b>827</b>	<b>1,209</b>

## 4. Cash and cash equivalents (continued) Recognition and measurement

### Cash at bank and on deposit

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

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. Refer to note 15(d) for credit risk disclosures.

## 5. Receivables

	Consolidated	
	2019 \$m	2018 \$m
<b>Trade and other</b>		
Trade receivables	948	1,351
Allowance for credit losses	(47)	(58)
Other debtors	126	364
	1,027	1,657
<b>Allowance for credit losses</b>		
Movements in the allowance account for credit losses were as follows:		
Carrying value at beginning of year	58	60
Allowance for credit losses recognised	3	2
Unused amount reversed	(2)	(4)
Disposal/demerger of controlled entities	(12)	-
<b>Allowance for credit losses at year-end</b>	<b>47</b>	<b>58</b>

Set out below is the information about the credit risk exposure on the Group's trade receivables and other debtors using a provision matrix.

Days past due	Estimated total gross carrying amount at default \$m	Expected credit loss rate %	Lifetime expected credit loss \$m
Current	784	0.3	2
Under one month	141	0.8	1
One to two months	40	3.8	2
Two to three months	22	5.0	1
Over three months	87	46.9	41
<b>Total</b>	<b>1,074</b>		<b>47</b>

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

### 5. Receivables (continued)

#### Recognition and measurement

Trade receivables and other debtors are all classified as financial assets held at amortised cost on the basis they are held with the objective of collecting contractual cash flows and the cash flows relate to payments of principal and interest on the principal amount outstanding.

#### Trade receivables

Trade receivables generally have terms of up to 30 days. They are recognised initially in accordance with the Group's revenue policy and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

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

#### Other debtors

These amounts generally arise from transactions outside the usual operating activities of the Group. They do not contain impaired assets and are not past due. Based on the credit history, it is expected that these other balances will be received when due.

#### Impairment of trade receivables and other debtors

Collectability and impairment of trade receivables and other debtors are assessed on an ongoing basis at a divisional level. The Group applies a simplified approach in calculating forward-looking expected credit losses (ECLs) for trade receivables. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to debtors and the economic climate.

The accounting policy in relation to impairment of trade receivables and other debtors has been applied from 1 July 2018. For the accounting policy applied for the period prior to 1 July 2018 refer to note 27.

### 6. Inventories

	Consolidated	
	2019	2018
	\$m	\$m
Raw materials	30	37
Work in progress	-	2
Finished goods	4,209	5,972
Right of return assets	7	-
	4,246	6,011

Inventories recognised as an expense from continuing operations for the year ended 30 June 2019 totalled \$18,072 million (2018: \$17,198 million).

#### Recognition and measurement

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

#### Key estimate: net realisable value

The key assumptions, which require the use of management judgement, are the variables affecting costs recognised in bringing the inventory to their location and condition for sale, estimated costs to sell and the expected selling price. These key assumptions are reviewed at least annually. The total expense relating to inventory writedowns from continuing operations during the year was a net reversal of \$3 million (2018: expense of \$10 million). Any reasonably possible change in the estimate is unlikely to have a material impact.

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

- *Raw materials*: purchase cost on a weighted average basis.
- *Manufactured finished goods and work in progress*: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.
- *Retail and wholesale merchandise finished goods*: purchase cost on a weighted average basis, after deducting any settlement discounts, supplier rebates and including logistics expenses incurred in bringing the inventories to their present location and condition.

Volume-related supplier rebates, and supplier promotional rebates where they exceed spend on promotional activities, are accounted for as a reduction in the cost of inventory and recognised in the income statement when the inventory is sold.

#### Key estimate: supplier rebates

The recognition of certain supplier rebates in the income statement requires management to estimate both the volume of purchases that will be made during a period of time and the related product that was sold and remains in inventory at reporting date. Management's estimates are based on existing and forecast inventory turnover levels and sales. Reasonably possible changes in these estimates are unlikely to have a material impact.



# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

## 7. Property, plant and equipment

	PROPERTY		PLANT AND EQUIPMENT			Total
	Land	Buildings	Leasehold improvements	Plant, vehicles and equipment	Mineral lease and development	
<b>Consolidated</b>	\$m	\$m	\$m	\$m	\$m	\$m
<b>Year ended 30 June 2019</b>						
Cost	448	519	793	6,705	-	8,465
Accumulated depreciation and impairment	-	(148)	(351)	(4,088)	-	(4,587)
<b>Net carrying amount</b>	<b>448</b>	<b>371</b>	<b>442</b>	<b>2,617</b>	<b>-</b>	<b>3,878</b>
<b>Movement</b>						
Net carrying amount at the beginning of the year	1,142	778	906	5,484	98	8,408
Additions	108	203	123	772	1	1,207
Disposals and write-offs	(802)	(595)	(497)	(3,037)	(99)	(5,030)
Depreciation and amortisation	-	(12)	(95)	(607)	-	(714)
Transfers between classes	-	(4)	4	-	-	-
Other including foreign exchange movements	-	1	1	5	-	7
<b>Net carrying amount at the end of the year</b>	<b>448</b>	<b>371</b>	<b>442</b>	<b>2,617</b>	<b>-</b>	<b>3,878</b>
Assets under construction included above:	-	99	39	200	-	338
<b>Year ended 30 June 2018</b>						
Cost	1,142	938	1,734	12,620	158	16,592
Accumulated depreciation and impairment	-	(160)	(828)	(7,136)	(60)	(8,184)
<b>Net carrying amount</b>	<b>1,142</b>	<b>778</b>	<b>906</b>	<b>5,484</b>	<b>98</b>	<b>8,408</b>
<b>Movement</b>						
Net carrying amount at the beginning of the year	1,334	861	913	5,865	467	9,440
Additions	229	186	193	1,013	17	1,638
Disposals and write-offs	(419)	(230)	(173)	(474)	(246)	(1,542)
Depreciation and amortisation	-	(20)	(152)	(939)	(19)	(1,130)
Transfers between classes	-	(19)	123	12	(116)	-
Other including foreign exchange movements	(2)	-	2	7	(5)	2
<b>Net carrying amount at the end of the year</b>	<b>1,142</b>	<b>778</b>	<b>906</b>	<b>5,484</b>	<b>98</b>	<b>8,408</b>
Assets under construction included above:	-	237	97	477	-	811

### Recognition and measurement

The carrying value of property, plant and equipment is measured as the cost of the asset, less accumulated depreciation and impairment. The cost of the asset also includes the cost of replacing parts that are eligible for capitalisation, and the cost of major inspections.

### Depreciation and amortisation

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

Expenditure on mining areas of interest in which production has commenced is amortised over the life of the mine, based on the rate of depletion of the economically recoverable reserves.

Leasehold improvements are amortised over the period of the lease or the anticipated useful life of the improvements, whichever is shorter.

### Derecognition

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefits. Any gain or loss from derecognising the asset (the difference between the proceeds of disposal and the carrying amount of the asset) is included in the income statement in the period the item is derecognised.

### Impairment

Refer to note 17 for details on impairment testing.

### Key estimates: property, plant and equipment

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

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

### 8. Goodwill and intangible assets

	GOODWILL		INTANGIBLE ASSETS				Total \$m
	Goodwill \$m	Brand \$m	Contractual and non- contractual relationships <sup>1</sup> \$m	Software \$m	Gaming and liquor licences \$m		
<b>Consolidated</b>							
<b>Year ended 30 June 2019</b>							
Cost	3,313	855	44	313	-	4,525	
Accumulated amortisation and impairment	(223)	(24)	(22)	(180)	-	(449)	
<b>Net carrying amount</b>	<b>3,090</b>	<b>831</b>	<b>22</b>	<b>133</b>	<b>-</b>	<b>4,076</b>	
<b>Movement</b>							
Net carrying amount at the beginning of the year	13,491	3,654	38	519	158	17,860	
Additions	21	-	-	50	-	71	
Disposals and write-offs	(10,422)	(2,821)	(13)	(346)	(158)	(13,760)	
Amortisation for the year	-	(2)	(3)	(90)	-	(95)	
Other including foreign exchange movements	-	-	-	-	-	-	
<b>Net carrying amount at end of year</b>	<b>3,090</b>	<b>831</b>	<b>22</b>	<b>133</b>	<b>-</b>	<b>4,076</b>	
<b>Year ended 30 June 2018</b>							
Cost	15,647	3,918	57	1,401	158	21,181	
Accumulated amortisation and impairment	(2,156)	(264)	(19)	(882)	-	(3,321)	
<b>Net carrying amount</b>	<b>13,491</b>	<b>3,654</b>	<b>38</b>	<b>519</b>	<b>158</b>	<b>17,860</b>	
<b>Movement</b>							
Net carrying amount at the beginning of the year	14,360	3,812	41	566	157	18,936	
Additions	2	100	-	121	1	224	
Disposals and write-offs	(78)	-	-	(17)	-	(95)	
Amortisation for the year	-	(4)	(3)	(146)	-	(153)	
Impairment charge	(825)	(256)	-	(2)	-	(1,083)	
Other including foreign exchange movements	32	2	-	(3)	-	31	
<b>Net carrying amount at end of year</b>	<b>13,491</b>	<b>3,654</b>	<b>38</b>	<b>519</b>	<b>158</b>	<b>17,860</b>	

<sup>1</sup> Contractual and non-contractual relationships are intangible assets that have arisen through business combinations. They represent the value of pre-existing customer relationships in the acquired company.

### Recognition and measurement

#### Goodwill

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

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

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

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

Intangible asset	Useful life
Brand <sup>1</sup>	Indefinite and finite (up to 20 years)
Contractual and non-contractual relationships	Finite (up to 15 years)
Software	Finite (up to seven years)
Gaming and liquor licences	Indefinite

<sup>1</sup> Includes trade names and other intangible assets with characteristics of a brand.

Assets with an assumed indefinite useful life are reviewed at each reporting period to determine whether this assumption continues to be appropriate. If not, it is changed to a finite life and accounted for prospectively as a change in accounting estimate.

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

Certain brands have been assessed as having indefinite lives on the basis of strong brand strength, ongoing expected profitability and continuing support. The brand incorporates complementary assets such as store formats, networks and product offerings.

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

## 8. Goodwill and intangible assets (continued)

	Consolidated	
	2019 \$m	2018 \$m
<b>Allocation of goodwill to groups of cash generating units</b>		
<b>Carrying amount of goodwill</b>		
Bunnings	868	868
Kmart Group	716	759
WesCEF	2	2
WIS	686	686
Officeworks	818	799
Coles	-	10,377
	<b>3,090</b>	<b>13,491</b>
<b>Allocation of indefinite life intangible assets to groups of cash generating units</b>		
<b>Carrying amount of intangibles</b>		
Bunnings	1	1
Kmart Group	649	660
WIS	22	22
Officeworks	160	160
Coles	-	2,963
	<b>832</b>	<b>3,806</b>

### Impairment

Refer to note 17 for details on impairment testing.

## 9. Provisions

	Consolidated	
	2019 \$m	2018 \$m
<b>Current</b>		
Employee benefits	605	1,194
Self-insured risks	127	241
Restructuring and make good	39	54
Lease provision	-	2
Off-market contracts	1	5
Other	79	230
	<b>851</b>	<b>1,726</b>
<b>Non-current</b>		
Employee benefits	84	167
Self-insured risks	109	344
Mine rehabilitation	-	45
Restructuring and make good	44	26
Lease provision	138	250
Off-market contracts	2	12
Other	4	189
	<b>381</b>	<b>1,033</b>
<b>Total provisions</b>	<b>1,232</b>	<b>2,759</b>

### Recognition and measurement

Provisions are recognised when:

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

#### Key estimate: discounting

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

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

Employee benefit provisions have been calculated using discount rates of between 1.5 and 2.9 per cent (2018: between 2.5 and 4.0 per cent).

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the year ended 30 June 2019

### 9. Provisions (continued)

#### Employee benefits

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

#### Wages and salaries

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

#### Annual leave and long service leave

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

#### Key estimate: long service leave

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

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

The total long service leave liability is \$327 million (2018: \$623 million). Given the magnitude of the liability and the nature of the key assumptions, any reasonably possible change in one or a combination of the estimates is unlikely to have a material impact.

#### Lease provision

The lease provision covers stepped lease arrangements to enable the lease expenses to be recognised on a straight-line basis over the lease term. The lease provision also includes future payments for leased premises that are surplus to the Group's requirements, net of actual and expected sub-leasing revenue. 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, the Group often takes on responsibility for contracts that are in place within the acquiree.

Changes in market conditions may result in the original terms of the contract becoming unfavourable in comparison to market conditions present at the date of acquisition.

The obligation for future above-market payments are provided for, calculated using the discount rate determined at acquisition date. The 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 actuarial valuation performed at each reporting date.

#### Key estimate: self-insured risks

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

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

These assumptions are reviewed periodically and any reassessment of these assumptions will affect workers' compensation or claims expense (either increasing or decreasing the expense). Any reasonable change in these assumptions will not have a significant impact on the Group.

#### Mine rehabilitation

Mining lease agreements impose obligations to remediate areas where mining activity has taken place. Provisions for remediation have been calculated assuming current technologies. As part of the valuation methodology, the risks are incorporated in the cash flows rather than the discount rates.

#### Restructuring and make good

These provisions relate principally to:

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

Provisions for restructuring are recognised where steps have been taken to implement a detailed plan, including discussions with affected personnel.

	Lease provision	Off-market contracts	Self-insured risks	Mine rehabilitation	Restructuring and make good	Other	Total
Consolidated	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Carrying amount at 1 July 2017</b>	235	234	616	269	231	339	1,924
Arising during year	22	5	201	22	40	322	612
Utilised	(5)	(33)	(232)	(1)	(74)	(229)	(574)
Disposal/demerger of controlled entities	-	(189)	-	(245)	(117)	(13)	(564)
<b>Carrying amount at 30 June 2018 and 1 July 2018</b>	<b>252</b>	<b>17</b>	<b>585</b>	<b>45</b>	<b>80</b>	<b>419</b>	<b>1,398</b>
Arising during year	10	-	141	1	182	36	370
Utilised	(2)	(6)	(136)	-	(34)	(25)	(203)
Disposal/demerger of controlled entities	(122)	(8)	(354)	(46)	(145)	(347)	(1,022)
<b>Carrying amount at 30 June 2019</b>	<b>138</b>	<b>3</b>	<b>236</b>	<b>-</b>	<b>83</b>	<b>83</b>	<b>543</b>

# NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

For the year ended 30 June 2019

## 10. Capital management

### The Group's capital management objectives

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

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

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

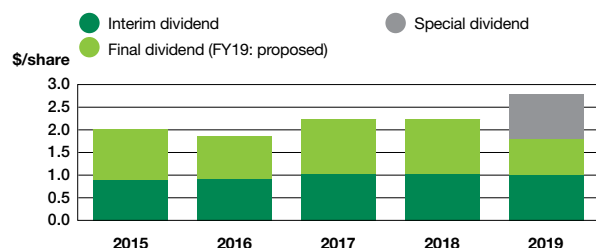
	Note	Consolidated	
		2019 \$m	2018 \$m
<b>Equity and reserves</b>			
Issued capital	12	15,809	22,277
Reserved shares	12	(81)	(43)
(Accumulated losses)/retained earnings	12	(208)	176
Reserves	12	(5,549)	344
		9,971	22,754
<b>Net debt</b>			
Total interest-bearing debt	14	3,029	4,124
Less: cash and cash equivalents	4	(795)	(683)
		2,234	3,441
<b>Total capital employed</b>		<b>12,205</b>	<b>26,195</b>

The Group manages its capital through various means, including:

- adjusting the amount of ordinary dividends paid to shareholders;
- maintaining a dividend investment plan;
- raising or returning capital; and
- raising or repaying debt for working capital requirements, capital expenditure and acquisitions.

Wesfarmers regularly monitors its capital requirements using various benchmarks, with the main internal measures being cash interest cover, debt cover and fixed charges cover. The principal external measures are the Group's credit ratings from Standard & Poor's and Moody's.

### Shareholder distributions



	Consolidated <sup>1</sup>	
	2019 \$m	2018 \$m
<b>Cash interest cover</b>		
Profit before income tax	6,643	2,575
Finance costs	175	221
Depreciation and amortisation	809	1,283
EBITDA (A)	7,627	4,079
Net cash interest paid (B)	143	183
<b>Cash interest cover (times) (A/B)</b>	<b>53.3</b>	<b>22.3</b>
Adjusted EBITDA <sup>2,3</sup> (C)	4,370	5,571
<b>Cash interest cover (times) (C/B) (applying adjusted EBITDA)</b>	<b>30.6</b>	<b>30.4</b>
<b>Debt cover</b>		
Total interest-bearing debt	3,029	4,124
Less: cash and cash equivalents	(795)	(683)
Net financial debt (D)	2,234	3,441
EBITDA (A)	7,627	4,079
<b>Debt cover (times) (D/A)</b>	<b>0.3</b>	<b>0.8</b>
Adjusted EBITDA <sup>2,3</sup> (C)	4,370	5,571
<b>Debt cover (times) (D/C) (applying adjusted EBITDA)</b>	<b>0.5</b>	<b>0.6</b>
<b>Fixed charges cover</b>		
EBITDA (A)	7,627	4,079
Minimum lease payments	1,707	2,490
EBITDA plus minimum lease payments (E)	9,334	6,569
Finance costs (net of discount adjustment) and minimum lease payments (F)	1,875	2,689
<b>Fixed charges cover (times) (E/F)</b>	<b>5.0</b>	<b>2.4</b>
Adjusted EBITDA <sup>2,3</sup> (C)	4,370	5,571
Minimum lease payments	1,707	2,490
Adjusted EBITDA plus minimum lease payments (G)	6,077	8,061
<b>Fixed charges cover (times) (G/F) (applying adjusted EBITDA)</b>	<b>3.2</b>	<b>3.0</b>
<b>Group credit ratings</b>		
Standard & Poor's	A-(stable)	A-(stable)
Moody's	A3(stable)	A3(stable)

- <sup>1</sup> The income statement metrics include both continuing and discontinued operations.
- <sup>2</sup> The FY2019 adjusted EBITDA excludes the \$2,319 million pre-tax gain on demerger of Coles, the \$679 million pre-tax gain on disposal of Bengalla, the \$267 million pre-tax gain on disposal of KTAS, the \$138 million (US\$98 million) pre-tax gain on disposal of Quadrant Energy and \$146 million provision for Coles supply chain automation.
- <sup>3</sup> The FY2018 adjusted EBITDA excludes Target's pre-tax impairment of \$306 million and \$1,186 million relating to discontinued operations which includes BUKI's pre-tax writedown of \$861 million, store closure provision of \$70 million, \$375 pre-tax loss on disposal relating to BUKI and \$120 million pre-tax gain on disposal of the Curragh Coal Mine.

# NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

For the year ended 30 June 2019

## 11. Dividends and distributions

	Consolidated	
	2019	2018
	\$m	\$m
<b>Declared and paid during the year (fully-franked at 30 per cent)</b>		
Interim dividend for 2019: \$1.00 (2018: \$1.03)	1,134	1,168
Final dividend for 2018: \$1.20 (2017: \$1.20)	1,361	1,361
Special dividend for 2019: \$1.00 <sup>1</sup>	1,134	-
Capital distribution and demerger dividend <sup>2</sup>	14,565	-
	<b>18,194</b>	<b>2,529</b>
<b>Proposed and unrecognised as a liability (fully-franked at 30 per cent)</b>		
Final dividend for 2019: \$0.78 (2018: \$1.20)	884	1,361
<b>Franking credit balance</b>		
Franking credits available for future years at 30 per cent adjusted for debits and credits arising from the payment of income tax payable and from recognised dividends receivable or payable	391	978
Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the year	(379)	(583)

<sup>1</sup> A fully-franked special dividend of 100 cents per share was paid on 10 April 2019.

<sup>2</sup> The capital distribution and demerger dividend represents the fair value of the Coles distribution to shareholders. Refer to note 20 for further details.

Wesfarmers' dividend policy considers availability of franking credits, current earnings and future cash flow requirements and targeted credit metrics.

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

An issue of shares under the dividend investment plan results in an increase in issued capital unless the Group elects to purchase the required number of shares on-market.

## 12. Equity and reserves

### The nature of the Group's contributed equity

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

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

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

## 12. Equity and reserves (continued)

Movement in shares on issue	Ordinary Shares		Reserved Shares	
	'000	\$m	'000	\$m
<b>At 1 July 2017</b>	1,133,840	22,268	(2,088)	(26)
Acquisition of shares on-market for KEEPP	-	-	(418)	(17)
Exercise of in-substance options	-	-	164	-
Transfer from other reserves	-	9	-	-
<b>At 30 June 2018 and 1 July 2018</b>	<b>1,133,840</b>	<b>22,277</b>	<b>(2,342)</b>	<b>(43)</b>
Exercise of in-substance options	-	-	119	-
Acquisition of shares-on-market for WLTIP	-	-	(174)	(5)
Acquisition of shares on-market for KEEPP	-	-	(1,056)	(33)
KEEPP and WLTIP vested during the year	-	-	744	-
Demerger capital distribution <sup>1</sup>	-	(6,441)	-	-
Demerger transaction costs, net of tax	-	(41)	-	-
Transfer from other reserves	-	14	-	-
<b>At 30 June 2019</b>	<b>1,133,840</b>	<b>15,809</b>	<b>(2,709)</b>	<b>(81)</b>

<sup>1</sup> The capital distribution is the allocation of the Coles demerger distribution to share capital and has been calculated by reference to the market value of Coles' shares and the market value of Wesfarmers' shares post demerger.

### Nature and purpose of reserves

#### Restructure tax reserve

The restructure tax reserve is used to record the recognition of tax losses arising from the equity restructuring of the Group under the 2001 ownership simplification plan.

These tax losses were generated on adoption by the Group of the tax consolidation regime.

#### Capital reserve

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

#### Foreign currency translation reserve

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

#### Cash flow hedge reserve

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

#### Financial assets reserve

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

#### Share-based payments reserve

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

#### Demerger reserve

The demerger reserve is used to recognise the gain on Coles demerger and demerger dividend. Refer to note 20 for further details.

# NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

For the year ended 30 June 2019

## 12. Equity and reserves (continued)

	Retained earnings	Restructure tax reserve	Capital reserve	Foreign currency translation reserve	Cash flow hedge reserve	Financial assets reserve	Share-based payments reserve	Demerger reserve
Consolidated	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2017</b>	1,509	150	24	52	(82)	5	41	-
Net profit for the year	1,197	-	-	-	-	-	-	-
Equity dividends	(2,529)	-	-	-	-	-	-	-
Remeasurement loss on defined benefit plan, net of tax	(1)	-	-	-	-	-	-	-
Net gain on financial instruments recognised in equity	-	-	-	-	96	-	-	-
Realised losses transferred to balance sheet/net profit	-	-	-	-	143	-	-	-
Share of associates and joint venture reserve	-	-	-	-	(7)	-	-	-
Tax effect of transfers and revaluations	-	-	-	-	(72)	-	-	-
Currency translation differences	-	-	-	(7)	-	-	-	-
Exchange differences recognised in the income statement on disposal of foreign operations	-	-	-	(2)	-	-	-	-
Share-based payment transactions	-	-	-	-	-	-	3	-
<b>Balance at 30 June 2018 and 1 July 2018</b>	<b>176</b>	<b>150</b>	<b>24</b>	<b>43</b>	<b>78</b>	<b>5</b>	<b>44</b>	<b>-</b>
Net profit for the year	5,510	-	-	-	-	-	-	-
Equity dividends	(3,629)	-	-	-	-	-	-	-
Remeasurement loss on defined benefit plan, net of tax	(1)	-	-	-	-	-	-	-
Net gain on financial instruments recognised in equity	-	-	-	-	129	-	-	-
Realised gains transferred to balance sheet/net profit	-	-	-	-	(202)	-	-	-
Share of associates and joint ventures reserve	-	-	-	-	(2)	-	-	-
Tax effect of transfers and revaluations	-	-	-	-	24	-	-	-
Currency translation differences	-	-	-	14	-	-	-	-
Share-based payment transactions	-	-	-	-	-	-	4	-
Capital distribution and demerger dividend	-	-	-	-	-	-	-	(8,124)
Transfer of gain on demerger	(2,264)	-	-	-	-	-	-	2,264
<b>Balance at 30 June 2019</b>	<b>(208)</b>	<b>150</b>	<b>24</b>	<b>57</b>	<b>27</b>	<b>5</b>	<b>48</b>	<b>(5,860)</b>

## 13. Earnings per share

	Consolidated	
	2019	2018
Profit attributable to ordinary equity holders of the parent (\$m)	5,510	1,197
WANOS <sup>1</sup> used in the calculation of basic EPS (shares, million) <sup>2</sup>	1,131	1,131
WANOS <sup>1</sup> used in the calculation of diluted EPS (shares, million) <sup>2</sup>	1,132	1,133
- Basic EPS (cents per share)	487.2	105.8
- Diluted EPS (cents per share)	486.7	105.6

<sup>1</sup> Weighted average number of ordinary shares.

<sup>2</sup> The variance in the WANOS used in the calculation of the basic EPS and the diluted EPS is attributable to the dilutive effect of in-substance options and restricted shares.

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

## Calculation of earnings per share

### Basic earnings per share

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

### Diluted earnings per share

Diluted earnings per share is calculated as per basic earnings per share with an adjustment for the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares. Dilution arises as a result of the employee reserved shares issued under the employee share plan being accounted for as in-substance options and unvested restricted shares.

## NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

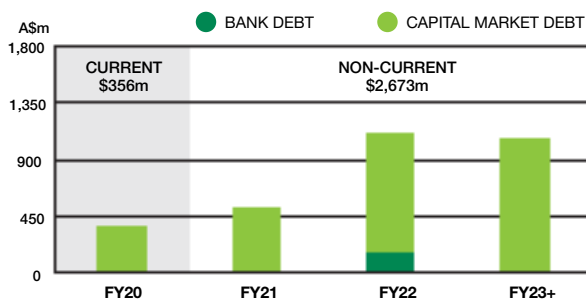
For the year ended 30 June 2019

### 14. Interest-bearing loans and borrowings

	Consolidated	
	2019 \$m	2018 \$m
<b>Current</b>		
Unsecured		
Bank debt	6	660
Capital market debt	350	499
	<b>356</b>	<b>1,159</b>
<b>Non-current</b>		
Unsecured		
Bank debt	142	150
Capital market debt	2,531	2,815
	<b>2,673</b>	<b>2,965</b>
<b>Total interest-bearing loans and borrowings</b>	<b>3,029</b>	<b>4,124</b>

The illustration below provides details, including the principal repayment obligations, of all loans and borrowings on issue at 30 June 2019:

#### Outstanding loans and borrowings



The table below sets out an analysis of net borrowings and the movements in net borrowings for the periods presented:

	LIABILITIES FROM FINANCING ACTIVITIES			Assets held to hedge long-term borrowings \$m	Total \$m
	Borrowings due within 1 year \$m	Borrowings due after 1 year \$m			
<b>Net debt as at 1 July 2017</b>	1,347	4,066	(488)		4,925
Cash flows	(1,367)	150	-		(1,217)
Transfers	1,366	(1,366)	-		-
Foreign exchange adjustments	55	110	(110)		55
Fair value changes, relating to hedged risk	(243)	-	243		-
Other non-cash movements	1	5	2		8
<b>Net debt as at 30 June 2018 and 1 July 2018</b>	<b>1,159</b>	<b>2,965</b>	<b>(353)</b>		<b>3,771</b>
Cash flows	1,005	(171)	-		834
Transfers	184	(184)	-		-
Foreign exchange adjustments	-	65	(60)		5
Fair value changes, relating to hedged risk	-	2	(2)		-
Debt assumed by Coles on demerger	(2,000)	-	-		(2,000)
Other non-cash movements	8	(4)	31		35
<b>Net debt as at 30 June 2019</b>	<b>356</b>	<b>2,673</b>	<b>(384)</b>		<b>2,645</b>

#### Funding activities

The Group continues its strategy of maintaining diversity of funding sources, pre-funding upcoming maturities (if required) and maintaining a presence in key markets. In March 2019, a \$500 million domestic bond matured, and was repaid from available cash balances. No new bond issuance occurred during the year. During the year, all bank facilities were renegotiated and extended for a duration of three years.

#### Recognition and measurement

Capital market debt includes foreign and domestic corporate bonds. All loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

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



# NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

## 15. Financial risk management

The Group holds financial instruments for the following purposes:

**Financing:** to raise finance for the Group's operations or, in the case of short-term deposits, to invest surplus funds. The types of instruments used include bank loans, bank accepted bills, commercial paper, corporate bonds and cash and short-term deposits.

**Operational:** the Group's activities generate financial instruments, including cash, trade receivables, trade payables and finance advances.

**Risk management:** to reduce risks arising from the financial instruments described above, including forward exchange contracts and interest rate swaps.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The Group's holding of these financial instruments exposes it to risk. The Board reviews and agrees the Group's policies for managing each of these risks, which are summarised below:

- liquidity risk (note 15(b));
- market risk, including foreign currency, interest rate and commodity price risk (note 15(c)); and
- credit risk (note 15(d)).

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

### 15(a) Offsetting financial instruments

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

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

### 15(b) Liquidity risk

#### Nature of the risk

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

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

#### Liquidity risk management

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bank accepted bills, commercial paper, corporate bonds and the overnight money market across a range of maturities. Although the bank debt facilities have fixed maturity dates, from time to time they are reviewed and extended, thus deferring the repayment of the principal. The Group aims to spread maturities to avoid excessive refinancing in any period.

The Group endeavours to maintain funding flexibility by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally invested in instruments that are tradeable in highly liquid markets with highly rated counterparties.

	Consolidated	
	2019	2018
	\$m	\$m
<b>Financing facilities available</b>		
<b>Total facilities</b>		
Bank loans and guarantees	3,346	2,999
	<b>3,346</b>	<b>2,999</b>
<b>Facilities used at balance date</b>		
Bank loans and guarantees	346	811
	<b>346</b>	<b>811</b>
<b>Facilities unused at balance date</b>		
Bank loans and guarantees	3,000	2,188
	<b>3,000</b>	<b>2,188</b>

#### Assets pledged as security

As at 30 June 2019 there were no assets pledged as security (2018: \$80 million).

#### Maturity of financial liabilities

The following tables analyse the Group's financial liabilities, including net and gross settled financial instruments, into relevant maturity periods based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows and will not necessarily reconcile with the amounts disclosed in the balance sheet.

Expected future interest payments on loans and borrowings and derivative cash flows exclude accruals recognised in trade and other payables at the reporting date.

For foreign exchange derivatives, cross-currency interest rate swaps and hedged commodity swaps, the amounts disclosed are the gross contractual cash flows to be paid.

For interest rate swaps, the cash flows are the net amounts to be paid at each quarter, excluding accruals included in trade and other payables at the reporting date, and have been estimated using forward interest rates applicable at the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS: RISK**

For the year ended 30 June 2019

**15(b) Liquidity risk (continued)**

	< 3 months, or on demand	3-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
<b>Consolidated</b>	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Year ended 30 June 2019</b>										
<b>Non-derivatives</b>										
Trade and other payables	3,343	39	238	-	-	-	-	-	3,620	3,620
Loans and borrowings before swaps	6	-	350	500	1,164	1,114	-	-	3,134	3,029
Expected future interest payments on loans and borrowings	8	10	18	54	46	31	-	-	167	-
<b>Total non-derivatives</b>	<b>3,357</b>	<b>49</b>	<b>606</b>	<b>554</b>	<b>1,210</b>	<b>1,145</b>	<b>-</b>	<b>-</b>	<b>6,921</b>	<b>6,649</b>
<b>Derivatives</b>										
Hedge interest rate swaps (net settled)	-	(1)	(3)	(3)	-	-	-	-	(7)	(7)
Hedged commodity swaps (net settled)	(3)	(3)	(4)	(4)	-	-	-	-	(14)	(14)
Cross-currency interest rate swaps (gross settled)										
- (inflow)	(3)	(3)	-	(42)	(1,056)	(1,145)	-	-	(2,249)	(377)
- outflow	4	11	43	86	931	786	-	-	1,861	-
Net cross-currency interest rate swaps	1	8	43	44	(125)	(359)	-	-	(388)	(377)
Hedge forward exchange contracts (gross settled)										
- (inflow)	(1,123)	(970)	(915)	(490)	(1)	-	-	-	(3,499)	(88)
- outflow	1,094	944	890	479	1	-	-	-	3,408	-
Net forward exchange contracts	(29)	(26)	(25)	(11)	-	-	-	-	(91)	(88)
<b>Total derivatives</b>	<b>(31)</b>	<b>(22)</b>	<b>11</b>	<b>26</b>	<b>(125)</b>	<b>(359)</b>	<b>-</b>	<b>-</b>	<b>(500)</b>	<b>(486)</b>
<b>Year ended 30 June 2018</b>										
<b>Non-derivatives</b>										
Trade and other payables	6,455	46	39	1	10	-	-	-	6,551	6,551
Loans and borrowings before swaps	-	316	845	500	500	1,026	1,131	-	4,318	4,124
Expected future interest payments on loans and borrowings	19	13	37	75	51	43	31	-	269	-
<b>Total non-derivatives</b>	<b>6,474</b>	<b>375</b>	<b>921</b>	<b>576</b>	<b>561</b>	<b>1,069</b>	<b>1,162</b>	<b>-</b>	<b>11,138</b>	<b>10,675</b>
<b>Derivatives</b>										
Hedge interest rate swaps (net settled)	-	(1)	(1)	(2)	(1)	-	-	-	(5)	(5)
Hedged commodity swaps	(1)	(1)	(7)	(13)	(6)	-	-	-	(28)	(28)
Cross-currency interest rate swaps (gross settled)										
- (inflow)	(3)	(3)	-	(41)	(42)	(1,070)	(1,162)	-	(2,321)	(348)
- outflow	4	11	43	86	86	931	786	-	1,947	-
Net cross-currency interest rate swaps	1	8	43	45	44	(139)	(376)	-	(374)	(348)
Hedge forward exchange contracts (gross settled)										
- (inflow)	(1,142)	(959)	(959)	(448)	-	-	-	-	(3,508)	(120)
- outflow	1,110	927	932	424	-	-	-	-	3,393	-
Net forward exchange contracts	(32)	(32)	(27)	(24)	-	-	-	-	(115)	(120)
<b>Total derivatives</b>	<b>(32)</b>	<b>(26)</b>	<b>8</b>	<b>6</b>	<b>37</b>	<b>(139)</b>	<b>(376)</b>	<b>-</b>	<b>(522)</b>	<b>(501)</b>

# NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

## 15(c) Market risk (continued)

### 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 Euro through its borrowing facilities.

As a result of operations in New Zealand, the Group's balance sheet can also be affected by movements in the AUD/NZD exchange rate. The Group mitigates the effect of its translational currency exposure by borrowing in NZ dollars in New Zealand.

### Exposure

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

	USD A\$m	EUR A\$m
<b>Consolidated</b>		
<b>2019</b>		
<b>Financial assets</b>		
Cash and cash equivalents	18	3
Trade and other receivables	21	-
Cross-currency interest rate swap	-	377
Hedge foreign exchange derivative assets	88	-
Commodity derivative asset	14	-
<b>Financial liabilities</b>		
Trade and other payables	1,029	33
Interest-bearing loans and borrowings	-	2,029
<b>2018</b>		
<b>Financial assets</b>		
Cash and cash equivalents	15	1
Trade and other receivables	39	-
Cross-currency interest rate swap	-	348
Hedge foreign exchange derivative assets	120	-
Commodity derivative asset	28	-
<b>Financial liabilities</b>		
Trade and other payables	1,061	58
Interest-bearing loans and borrowings	35	1,969

### Foreign currency risk management

The hedging function of the Group to address foreign currency risk is managed centrally. The Group requires all divisions to hedge foreign exchange exposures for firm commitments relating to sales or purchases or when highly probable forecast transactions have been identified. Before hedging, the divisions are also required to take into account their competitive position. The hedging instrument must be in the same currency as the hedged item. Divisions are not permitted to speculate on future currency movements.

The objective of Wesfarmers' policy on foreign exchange hedging is to protect the Group from adverse currency fluctuations. Hedging is implemented for the following reasons:

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

The Group aims to hedge approximately 30 to 100 per cent of its non-capital expenditure-related foreign currency purchases for which firm commitments or highly probable forecast transactions exist, up to 24 months forward.

The Group currently hedges 100 per cent of capital expenditure-related foreign currency purchases to match expected payment dates and these may extend beyond 12 months. The current hedge contracts extend out to May 2021. The Group has also hedged 100 per cent of its Euro borrowing facilities.

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

### The Group's sensitivity to foreign exchange movements

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

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

	USD	EUR
<b>Actual 2019</b>	<b>0.70</b>	<b>0.62</b>
+10%	<b>0.77</b>	<b>0.68</b>
-10%	<b>0.63</b>	<b>0.56</b>
<b>Actual 2018</b>	0.73	0.63
+10%	0.80	0.69
-10%	0.66	0.57

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

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

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

At 30 June 2019, had the Australian dollar moved against the US dollar and Euro, as illustrated in the table above, with all other variables held constant, the Group's profit after tax and other equity would have been affected by the change in value of its financial assets and financial liabilities as shown in the table on the following page.

**NOTES TO THE FINANCIAL STATEMENTS: RISK**

For the year ended 30 June 2019

**15(c) Market risk (continued)**

	USD exposure A\$m	AUD/USD +10%		AUD/USD -10%		EUR exposure A\$m	AUD/EUR +10%		AUD/EUR -10%	
		Impact on profit A\$m	Impact on equity A\$m	Impact on profit A\$m	Impact on equity A\$m		Impact on profit A\$m	Impact on equity A\$m	Impact on profit A\$m	Impact on equity A\$m
<b>Consolidated</b>										
<b>Year ended 30 June 2019</b>										
<b>Financial assets</b>										
Cash and cash equivalents	18	(1)	-	1	-	3	-	-	-	-
Trade and other receivables	21	(1)	-	1	-	-	-	-	-	-
Cross-currency interest rate swap	-	-	-	-	-	377	-	(140)	-	171
Hedge foreign exchange derivative assets	88	(59)	(157)	72	192	-	-	-	-	1
Commodity derivatives	14	-	(4)	-	5	-	-	-	-	-
<b>Financial liabilities</b>										
Trade and other payables	1,029	72	-	(72)	-	33	2	-	(2)	-
Interest-bearing loans and borrowings	-	-	-	-	-	2,029	-	184	-	(225)
<b>Net impact</b>		<b>11</b>	<b>(161)</b>	<b>2</b>	<b>197</b>		<b>2</b>	<b>44</b>	<b>(2)</b>	<b>(53)</b>
<b>Year ended 30 June 2018</b>										
<b>Financial assets</b>										
Cash and cash equivalents	15	(1)	-	1	-	1	-	-	-	-
Trade and other receivables	39	(3)	-	3	-	-	-	-	-	-
Cross-currency interest rate swap	-	-	-	-	-	348	-	(137)	-	167
Hedge foreign exchange derivative assets	120	(51)	(145)	62	178	-	-	(2)	-	3
Commodity derivatives	28	-	(5)	-	6	-	-	-	-	-
<b>Financial liabilities</b>										
Trade and other payables	1,061	74	-	(74)	-	58	4	-	(4)	-
Interest-bearing loans and borrowings	35	2	-	(2)	-	1,969	-	179	-	(219)
<b>Net impact</b>		<b>21</b>	<b>(150)</b>	<b>(10)</b>	<b>184</b>		<b>4</b>	<b>40</b>	<b>(4)</b>	<b>(49)</b>

**Nature of interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations that have floating interest rates.

**Interest rate risk management**

The policy of the Group is to limit its exposure to adverse fluctuations in interest rates, which could erode the Group's profitability and adversely affect shareholder value. The policy requires that an interest rate risk management (IRRM) plan be developed based on cash flow forecasts. A committee comprising senior management meets periodically to review the IRRM plan and make interest rate hedging recommendations, which are provided to the Group's Chief Financial Officer for approval. The Group's interest rate hedging profile is regularly reported to the Wesfarmers Board and senior executives.

To manage the interest rate exposure, the Group generally enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge interest costs associated with underlying debt obligations.

At 30 June 2019, after taking into account the effect of interest rate swaps, economic hedging relationships and early repayment of a portion of core debt facilities, approximately 25 per cent of the Group's core borrowings are exposed to movements in variable rates (2018: approximately 35 per cent).

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

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

**Exposure**

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

# NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

## 15(c) Market risk (continued)

	2019		2018	
	Balance \$m	Weighted average interest rate %	Balance \$m	Weighted average interest rate %
<b>Financial assets</b>				
<b>Fixed rate</b>				
Finance advances and loans	3	-	71	3.94
<b>Floating rate</b>				
Cash assets	529	1.23	191	0.91
Total weighted average effective interest rate on financial assets at balance date		1.22		1.73
<b>Financial liabilities</b>				
<b>Fixed rate</b>				
Capital market debt	2,374	5.29	2,810	5.53
Weighted average effective interest rate on fixed rate liabilities		5.29		5.53
<b>Floating rate</b>				
Unsecured bank loans	148	3.40	810	2.44
Capital market debt	507	2.47	504	2.93
Weighted average effective interest rate on floating rate liabilities		2.68		2.63
Total weighted average effective interest rate on financial liabilities:				
at balance date		4.72		4.61
during the year		4.66		3.79
during the year, including bank and liquidity charges		5.10		4.18

### The Group's sensitivity to interest rate movements

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

The results of the sensitivity analysis are driven by three main factors, as outlined below:

- for unhedged floating rate financial instruments, any increase or decrease in interest rates will impact profit;
- to the extent that derivatives form part of an effective cash flow hedge relationship, there will be no impact on profit and any increase/(decrease) in the fair value of the underlying derivative instruments will be deferred in equity; and
- movements in the fair value of derivatives in an effective fair value hedge relationship will be recognised directly in profit. However, as a corresponding entry will be recognised for the hedged item, there will be no net impact on profit.

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

If interest rates had moved by +/-50bps (basis point/s) (2018: +/-100bps) and with all other variables held constant, profit after tax and equity would be affected as follows:

Consolidated	Impact on profit A\$m	Impact on equity A\$m
	<b>2019</b>	
Australian variable interest rate +50bps	-	16
Australian variable interest rate -50bps	-	(16)
<b>2018</b>		
Australian variable interest rate +100bps	(7)	42
Australian variable interest rate -100bps	7	(44)

### Commodity price risk

The Group's exposure to commodity price risk is purely operational and arises from the purchase of inventory with commodity price as a significant input, such as natural gas and Brent oil.

- the Group has entered into a Brent oil future contract to hedge the variability in cash flows arising from movements in the natural gas price applicable to forecast natural gas purchases over three years, ending in December 2020.
- the Group does not enter into any financial instruments that vary with movements in other commodity prices. Excluding the foreign exchange risk component, which is managed as part of the Group's overall foreign exchange risk management policies and procedures referred to previously, these exposures are not hedged.

No commodity price sensitivity analysis is provided, as:

- a reasonable change in the Brent oil futures would not have had a material impact to the Group this financial year; and
- the Group's other commodity 'own use contracts' are outside the scope of AASB 9 *Financial Instruments*.

## NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

### 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 primarily with recognised, creditworthy third parties. 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. Credit risk management practices also includes reviews of trade receivables aging by days past due, the timely follow-up of past due amounts and the use of credit securities such as credit insurance, retention of title and letters of credit.

From 1 July 2018, the Group applied the simplified approach in measuring expected credit losses, whereby an allowance for impairment is considered across all trade receivables, regardless of whether a credit event has occurred, based on the expected losses over the lifetime of the receivable. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit loss as disclosed in note 5. The expected credit loss rates are primarily based on days past due.

The Group's exposure to bad debts is not significant and default rates have historically been very low. Trade receivables are written off when there is no reasonable expectation of recovery, which may be indicated by the debtor failing to engage in a payment plan or the debtor failing to make timely contractual payments.

#### Exposure

The carrying amount of current receivables represents the maximum credit exposure and is shown, by division as a percentage of the Group, below:

	2019	2018
	%	%
Bunnings	30.1	20.0
Kmart Group	3.8	2.7
WesCEF	26.5	15.2
WIS	32.4	20.8
Officeworks	4.3	2.7
Corporate	2.9	2.0
Coles	-	34.7
Resources	-	1.9
	100.0	100.0

#### Credit risk management: financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with Board-approved policy. Investments of surplus funds are made only with approved counterparties or counterparties rated AA or higher by Standard & Poor's. Surplus funds are invested within credit limits assigned to each counterparty, unless appropriate approval is provided.

The carrying amount of financial assets represents the maximum credit exposure. There is also exposure to credit risk when the Group provides a guarantee to another party. Details of contingent liabilities are disclosed in note 21. There are no significant concentrations of credit risk within the Group.

### 15(e) Fair values

The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following:

Consolidated	2019	2018
	\$m	\$m
Capital market debt: carrying amount	2,881	3,314
Capital market debt: fair value	2,974	3,437

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 (capital market debt) held at fair value have been calculated by discounting the expected future cash flows at prevailing interest rates using market observable inputs. The fair values of loan notes and other financial assets have been calculated using market interest rates.

#### Derivatives

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts, interest rate swap contracts, cross-currency interest rate swaps and commodity future contracts are all valued using forward pricing techniques. This includes the use of market observable inputs, such as foreign exchange spot and forward rates, yield curves of the respective currencies, interest rate curves and forward rate curves of the underlying commodity. Accordingly, these derivatives are classified as Level 2 in the fair value measurement hierarchy.

#### Valuation of financial instruments

For all fair value measurements and disclosures, the Group uses the following to categorise the method used:

- Level 1: the fair value is calculated using quoted prices in active markets.
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

All of the Group's financial instruments were valued using market observable inputs (Level 2) with the exception of shares in unlisted companies at fair value (Level 3) that were valued at \$1 million (2018: less than \$2 million).

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1 and Level 2 during the year. There were no material Level 3 fair value movements during the year.

# NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

## 16. Hedging

### Types of hedging instruments

The Group is exposed to risk from movements in foreign exchange, interest rates and commodity prices. As part of the risk management strategy set out in note 15, the Group holds the following types of derivative instruments:

*Forward exchange contracts:* contracts denominated in US dollar to hedge highly probable sale and purchase transactions (cash flow hedges).

*Interest rate swaps:* to optimise the Group's exposure to fixed and floating interest rates arising from borrowings. These hedges incorporate cash flow hedges, which fix future interest payments, and fair value hedges, which reduce the Group's exposure to changes in the value of its assets and liabilities arising from interest rate movements.

*Cross-currency interest rate swaps:* to either reduce the Group's exposure to exchange rate variability in its interest repayments of foreign currency denominated debt (cash flow hedges) or to hedge against movements in the fair value of those liabilities due to exchange and interest rate movements (fair value hedges). The borrowing margin on Wesfarmers' cross-currency interest rate swaps has been treated as a 'cost of hedging' and deferred into equity. These costs are then amortised to the profit and loss as a finance cost over the remaining life of the borrowing.

*Brent oil future contract:* to reduce the Group's exposure to price variability in its forecast purchase of natural gas.

	2019				2018			
	Notional \$m	Weighted Average	Asset \$m	Liability \$m	Notional \$m	Weighted Average	Asset \$m	Liability \$m
<b>Foreign exchange contracts</b>								
Cash flow hedge - sales (AUD)	US\$30	Asset: 0.70 Liability: 0.71	-	-	US\$96	Asset: nil Liability: 0.75	-	(2)
Cash flow hedge - sales (GBP)	-	-	-	-	US\$39	Asset: nil Liability: 1.34	-	(1)
Cash flow hedge - purchases (AUD)	US\$2,274	Asset: 0.74 Liability: 0.70	93	(7)	US\$2,254	Asset: 0.77 Liability: 0.72	117	(5)
Cash flow hedge - purchases (GBP)	US\$6	Asset: 1.32 Liability: Nil	-	-	US\$41	Asset: 1.40 Liability: nil	3	-
Cash flow hedge - purchases (NZD)	US\$149	Asset: 0.69 Liability: 0.66	3	(1)	US\$137	Asset: 0.71 Liability: nil	8	-
<b>Interest rate swap contracts</b>								
Fair value hedge	A\$300	BBSW +0.82% floating	7	-	A\$300	BBSW +0.82% floating	5	-
<b>Cross-currency interest rate swaps</b>								
Cash flow hedge	€1,250	5.32% fixed	377	-	€1,250	5.32% fixed	348	-
<b>Brent oil contracts</b>								
Cash flow hedge	0.696m barrels	AU\$69.50 per barrel	14	-	0.877m barrels	AU\$64.88 per barrel	36	(8)
<b>Total derivative asset/(liability)</b>			<b>494</b>	<b>(8)</b>			<b>517</b>	<b>(16)</b>

### Recognition and measurement

#### Recognition

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value per note 15(e). The method of recognising any remeasurement gain or loss depends on the nature of the item being hedged. For hedging instruments, any hedge ineffectiveness is recognised directly in the income statement in the period in which it is incurred. This was immaterial in the current year.

#### Hedge accounting

At the start of a hedge relationship, the Group formally designates and documents the hedge relationship, including the risk management strategy for undertaking the hedge. This includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Hedge accounting is only applied where there is an economic relationship between the hedged item and the hedging instrument and the hedge ratio of the hedging relationship is the same as that resulting from actual quantities of the hedged item and hedging instrument used.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset, liability or firm commitment that could affect profit or loss; or
- cash flow hedges when they hedge a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions. A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

Wesfarmers will discontinue hedge accounting prospectively only when the hedging relationship, or part of the hedging relationship no longer qualifies for hedge accounting, which includes where there has been a change to the risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised. For these purposes, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective.

## NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

### 16. Hedging (continued)

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

#### Fair value hedges

The Group uses fair value hedges to mitigate the risk of changes in the fair value of foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period. Where these fair value hedges qualify for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains or losses in relation to the hedged item where those gains or losses relate to the risk intended to be hedged. The net amount recognised in the income statement in this financial year was less than \$1 million (2018: \$1 million).

The maturity profile of the fair value hedges is shown in note 15(b).

If the hedged item is a firm commitment (and therefore not recognised), the subsequent cumulative change in the fair value of the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The accumulated amount of fair value adjustments which are included in the carrying amount of interest bearing loans and borrowings in the balance sheet is as follows:

	2019		2018	
	Foreign bonds \$m	Domestic bonds \$m	Foreign bonds \$m	Domestic bonds \$m
Face value at inception	1,630	850	1,630	1,350
Change arising from revaluation to spot rates at 30 June	399	-	338	-
	2,029	850	1,968	1,350
Balance of unamortised discount/premium	(5)	(1)	(7)	(2)
Amortised cost	2,024	849	1,961	1,348
Accumulated amount of fair value hedge adjustment attributable to hedged risk	-	8	-	5
<b>Carrying amount</b>	<b>2,024</b>	<b>857</b>	<b>1,961</b>	<b>1,353</b>

There was no material ineffectiveness relating to financial instruments in designated fair value hedge relationships during the year (2018: 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 ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies. The Group also uses cash flow hedges to hedge variability in cash flows due to interest rate or natural gas price movements associated with some of our domestic borrowings or forecast natural gas purchases respectively.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity, while the ineffective portion is recognised in profit or loss. The maturity profile of these hedges is shown in note 15(b), with the recognition of the gain or loss expected to be consistent with this profile.

	2019				2018			
	Trade \$m	Foreign bonds \$m	Foreign debt \$m	Commodity hedge \$m	Trade \$m	Foreign bonds \$m	Foreign debt \$m	Commodity hedge \$m
Change in the fair value of the hedged item	(32)	28	-	(14)	294	108	1	28

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

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.



# NOTES TO THE FINANCIAL STATEMENTS: RISK

For the year ended 30 June 2019

## 17. Impairment of non-financial assets

### Testing for impairment

The Group tests property, plant and equipment, intangibles and goodwill for impairment:

- at least annually for indefinite life intangibles and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

If the asset does not generate independent cash inflows and its value in use cannot be estimated to be close to its fair value, the asset is tested for impairment as part of the cash generating unit (CGU) to which it belongs.

Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less costs of disposal (FVL COD) and value in use (VIU).

### Impairment calculations

In assessing VIU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining FVL COD, a discounted cash flow model is used based on a methodology consistent with that applied by the Group in determining the value of potential acquisition targets, maximising the use of market observed inputs. These calculations, classified as Level 3 on the fair value hierarchy, are compared to valuation multiples, or other fair value indicators where available, to ensure reasonableness.

### Inputs to impairment calculations

For VIU calculations, cash flow projections are based on Wesfarmers' corporate plans and business forecasts prepared by management and approved by the Board. The corporate plans are developed annually with a five-year outlook and, for these calculations, are adjusted to exclude the costs and benefits of expansion capital and on the understanding that actual outcomes may differ from the assumptions used.

In determining FVL COD, the valuation model incorporates the cash flows projected over the balance of the current corporate plan period. These projections are discounted using a risk-adjusted discount rate commensurate with a typical market participant's assessment of the risk associated with the projected cash flows.

For both the VIU and FVL COD models, cash flows beyond the five-year corporate plan period are extrapolated using estimated growth rates, which are based on Group estimates, taking into consideration historical performance as well as expected long-term operating conditions. Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates.

Discount rates used in both calculations are based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. Other assumptions are determined with reference to external sources of information and use consistent, conservative estimates for variables such as terminal cash flow multiples. Increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the recoverable amounts to fall below carrying values.

### Recognised impairment

There was no material impairment of non-financial assets recognised during the 2019 financial year.

### Previously recognised impairment

During the 2018 financial year, the carrying values of both the Target and BUKI CGU's exceeded their respective recoverable amounts and a pre-tax impairment of \$1,167 million (\$1,253 million post-tax) was recognised in 'impairment expenses' for Target and as part of discontinued operations for BUKI.

The decrease in the recoverable amount of the Target CGU largely reflected the difficult trading conditions in an increasingly competitive market and a moderated outlook for the business. The impairment was recognised in respect of Target's goodwill (\$47 million), brand name (\$238 million) and other fixed assets (\$21 million).

The decrease in the recoverable amount of the BUKI CGU was the result of a continued deterioration in the financial performance of the Homebase stores and a moderated long-term outlook for the broader business. The impairment was recognised in respect of BUKI's brand (\$18 million) and goodwill (\$777 million), both recognised as part of the discontinued operations, a \$92 million write-off of its deferred tax asset and \$66 million writedown of stock.

### Reversal of impairment

Where there is an indication that previously recognised impairment losses may no longer exist or have decreased, the asset is tested. If there has been a change to the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised, the carrying value of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying value that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying value, less any residual value, on a systematic basis over its remaining useful life. Impairments recognised against goodwill are not reversed.

There were no material reversals of impairment during the 2019 financial year.

**NOTES TO THE FINANCIAL STATEMENTS: RISK**

For the year ended 30 June 2019

**17. Impairment of non-financial assets (continued)****Key assumptions: Industrial and Safety CGU**

The key assumptions used for assessing the recoverable amount of the Industrial and Safety CGU is set out below. The recoverable value has been determined using the VIU methodology.

EBIT growth over the forecast period is supported by a transformation program, which is currently underway, to invest in a new enterprise wide resource planning system and data and digital systems to realise productivity improvements, improve customer experience, enhance supply chain efficiency, build merchandising capability and sales force effectiveness designed to increase market share.

The post-tax discount rates incorporate a risk-adjustment relative to the risks associated with the net post-tax cash flows being achieved, while the growth rates beyond FY2023 are based on market estimates of the long-term average industry growth rate. The reduction in the post-tax discount rate in 2019 reflects the tempered growth in post-tax cash flows over the corporate plan period relative to 2018.

	<b>Industrial and Safety</b>	
	<b>2019</b>	<b>2018</b>
Discount rate (post-tax)	<b>9.0%</b>	10.4%
Growth rate beyond corporate plan	<b>3.0%</b>	3.0%
Headroom as a percentage of the CGU's net carrying value	<b>4.4%</b>	20.5%
Terminal value as a percentage of the CGU's recoverable value	<b>83.8%</b>	86.1%

As the Industrial and Safety CGU's recoverable amount is marginally above its carrying value, any adverse movements in key assumptions may lead to an impairment. The forecast improvement in the CGU's financial performance is expected to occur in the medium term given the lead time in application of the transformation program.

The recoverable value of Industrial and Safety is sensitive to changes in its discount rate and its forecast long-term EBIT that drives terminal value. A 25 basis point increase in discount rate or a five per cent reduction in its forecast long-term EBIT eliminates the headroom in the recoverable value.

**Kmart Group CGU**

Kmart and Target have historically been considered separate CGUs for the purposes of impairment testing. The operations of Kmart and Target have become increasingly interrelated since the formation of the Kmart Group (formerly Department Stores) in 2016, including the establishment of the Kmart Group leadership team, management restructures and store optimisation strategies. As a result of the increased interrelations of operations and resulting cash inflows, Kmart Group is now one CGU for the purposes of allocating goodwill, and testing for impairment. The combination of the Kmart and Target CGUs had no impact on the impairment testing outcomes of the Group.

**Other CGUs**

Based on current economic conditions and CGU performances, no reasonably possible change in a key assumption used in the determination of the recoverable value of CGUs other than Industrial and Safety would result in a material impairment to the Group.

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2019

## 18. Associates and joint arrangements

	Consolidated	
	2019	2018
	\$m	\$m
Investment in associates	3,359	731
Interest in joint ventures	34	17
	3,393	748

### Movement in investment in associates

	2019	2018
Net carrying amount at the beginning of the year	731	686
Share of net profit from operations of associates	231	96
Dividends	(68)	(51)
Value of retained interest in Coles at date of demerger	2,571	-
Associates disposed of during the year	(106)	-
<b>Net carrying amount at the end of the year</b>	<b>3,359</b>	<b>731</b>

### From continuing operations

#### Total comprehensive income from associates and joint ventures

	2019	2018
Share of net profits from associates	227	69
Other comprehensive (loss)/income of associates	(1)	1
Share of profits from joint ventures	2	5
Other comprehensive income of joint ventures	-	1
<b>Total comprehensive income for the year</b>	<b>228</b>	<b>76</b>

## Recognition and measurement

### Investment in associates

The Group's investments in its associates, being entities in which the Group has significant influence and are neither subsidiaries nor jointly controlled assets, are accounted for using the equity method. Under this method, the investment in associate is carried in the balance sheet at cost plus any post-acquisition changes in the Group's share of the net assets of the associate.

Goodwill relating to associates is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's investment. The income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this in the statement of comprehensive income.

Where the reporting dates of the associates and the Group vary, management accounts of the associate for the period to the Group's balance date are used for equity accounting. The accounting policies of associates are consistent with those used by the Group for like transactions and events in similar circumstances.

Investment properties owned by associates are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss of the associate, in the year in which they arise. This is consistent with the Group's policy.

### Investment in associates



	\$m
● Coles Group Limited	2,699
● BWP Trust	448
● Other	212

The Group has a 15 per cent interest in Coles Group Limited. Coles is a listed entity on the Australian Stock Exchange. The Group's interest in Coles is accounted for using the equity method in the consolidated financial statements. The fair value of the Group's interest, determined by reference to the closing share price on 28 June 2019, was \$2,671 million. The following table illustrates the summarised financial information of the Group's investment in Coles:

	2019
	\$m
<b>Summarised balance sheet</b>	
Current assets	3,406
Non-current assets	10,683
Current liabilities	4,290
Non-current liabilities	2,129
<b>Net assets</b>	<b>7,670</b>
<b>Group's share of Coles' net assets</b>	<b>1,150</b>
Goodwill	1,549
<b>Carrying amount</b>	<b>2,699</b>
<b>Summarised income statement following demerger</b>	
Revenue	22,011
Expenses	(20,921)
<b>Profit before tax</b>	<b>1,090</b>
Income tax expense	(234)
<b>Profit for the period</b>	<b>856</b>
<b>Group's share of profit for the year</b>	<b>128</b>

The Group has a 24.8 per cent interest in BWP Trust. The Group's interest in BWP Trust is accounted for using the equity method in the consolidated financial statements. The fair value of the Group's interest, by reference to the closing share price of BWP Trust on 28 June 2019, was \$586 million. The following table illustrates the summarised financial information of the Group's investment in BWP Trust.

	2019	2018
	\$m	\$m
<b>Summarised balance sheet</b>		
Current assets	50	88
Non-current assets	2,265	2,213
Current liabilities	92	277
Non-current liabilities	416	259
<b>Net assets</b>	<b>1,807</b>	<b>1,765</b>
<b>Group's share of BWP Trust's net assets</b>	<b>448</b>	<b>438</b>
<b>Summarised income statement</b>		
Revenue	156	154
Expenses	(40)	(40)
Unrealised gains in fair value	53	69
<b>Profit attributable to the unit holders of BWP Trust</b>	<b>169</b>	<b>183</b>
<b>Group's share of profit for the period</b>	<b>42</b>	<b>45</b>

### Interests in joint arrangements

The Group recognises its share of the assets, liabilities, expenses and income from the use and output of its joint operations. The Group's investments in its joint ventures is accounted for using the equity method.

## NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2019

### 18. Associates and joint arrangements (continued)

#### Key judgement: control and significant influence

The Group has a number of management agreements with associates and joint arrangements it considers when determining whether it has control, joint control or significant influence. The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds to appoint or remove key management and the decision-making rights and scope of powers specified in the contract.

Where the Group has the unilateral power to direct the relevant activities of an investee, the Group then assesses whether the power it holds is for its own benefit (acting as principal) or for the benefit of others (acting as agent). This determination is based on a number of factors including an assessment of the magnitude and variability of the Group's exposure to variable returns associated with its involvement with the investee. In an agency capacity, the Group is considered to be acting on behalf of other parties and therefore does not control the investee when it exercises its decision-making powers.

Specifically in relation to Coles, the Group has determined it has significant influence due to its voting power, representation on the Coles board, its influence on the dividend policy and the existence of an ongoing relationship formalised through a relationship deed.

Interests in associates and joint arrangements				Ownership	
				2019	2018
Associate	Principal activity	Reporting date	Country of incorporation	%	%
Australian Energy Consortium Pty Ltd <sup>1,2</sup>	Oil and gas	31 December	Australia	-	27.4
Bengalla Coal Sales Company Pty Limited <sup>2</sup>	Sales agent	31 December	Australia	-	40.0
Bengalla Mining Company Pty Limited <sup>2</sup>	Management company	31 December	Australia	-	40.0
BWP Trust	Property investment	30 June	Australia	24.8	24.8
Coles Group Limited <sup>3</sup>	Food and staples retailing	30 June	Australia	15.0	(a)
Gresham Partners Group Limited	Investment banking	30 September	Australia	50.0	50.0
Gresham Private Equity Funds	Private equity fund	30 June	Australia	(b)	(b)
Queensland Nitrates Management Pty Ltd	Chemical manufacture	30 June	Australia	50.0	50.0
Queensland Nitrates Pty Ltd	Chemical manufacture	30 June	Australia	50.0	50.0
Wespine Industries Pty Ltd	Pine sawmillers	30 June	Australia	50.0	50.0
<b>Joint operations</b>					
Bengalla <sup>2</sup>	Coal mining	31 December	Australia	-	40.0
ISPT <sup>4</sup>	Property ownership	30 June	Australia	-	25.0
Sodium Cyanide	Sodium cyanide manufacture	30 June	Australia	75.0	75.0
<b>Joint ventures</b>					
BPI NO 1 Pty Ltd	Property management	30 June	Australia	(c)	(c)
Loyalty Pacific Pty Ltd <sup>5</sup>	Loyalty programs	30 June	Australia	50.0	(a)

<sup>1</sup> Australian Energy Consortium Pty Ltd (AEC) held a 50.0 per cent interest in Quadrant Energy.

<sup>2</sup> Wesfarmers disposed of its interest in Bengalla and its indirect interest in Quadrant Energy during the year. Refer to note 20 for further details.

<sup>3</sup> A wholly-owned subsidiary, Wesfarmers' Retail Holdings Pty Ltd has a 15.0 per cent interest in Coles. Refer to note 20 for further details.

<sup>4</sup> ISPT was disposed of as part of the Coles demerger.

<sup>5</sup> A wholly-owned subsidiary, Wesfarmers Loyalty Management Pty Ltd, has a 50.0 per cent interest in Loyalty Pacific Pty Ltd (flybuys).

(a) As at 30 June 2018, Coles Group Limited and Loyalty Pacific Pty Ltd were wholly-owned subsidiaries.

(b) Gresham Private Equity Funds: While the Group's interest in the unitholders' funds of Gresham Private Equity Fund No. 2 amounts to greater than 50.0 per cent, it is not a controlled entity as the Group does not have the practical ability to direct its relevant activities. Such control requires a unitholders' resolution of 75.0 per cent of votes pursuant to the Funds' trust deeds.

(c) BPI NO 1 Pty Ltd: While the Group owns the only equity share in BPI NO 1 Pty Ltd, the Group's effective interest approximates 50.0 per cent and joint control is effected through contractual arrangements with the joint venture partner.

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2019

## 19. Subsidiaries

The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table. Refer to page 150 for the respective legend.

Entity	2019 %	2018 %	Entity	2019 %	2018 %
A.C.N. 003 921 873 Pty Limited	100	100	Campbells Hardware & Timber Pty Limited	100	100
A.C.N. 004 191 646 Pty Ltd	100	100	CGNZ Finance Limited	■	100
A.C.N. 007 870 484 Pty Ltd	100	100	Chemical Holdings Kwinana Pty Ltd	+	100
A.C.N. 008 648 799 Pty Ltd	~	-	CMNZ Investments Pty Ltd		100
A.C.N. 008 734 567 Pty Ltd	100	100	ConsortiumCo Pty Ltd		100
A.C.N. 061 462 593 Pty Ltd (formerly Mycar Automotive Pty Ltd)	100	100	Coo-ee Investments Pty Limited		100
A.C.N. 082 931 486 Pty Ltd	~	-	Coregas NZ Limited	■	100
A.C.N. 092 194 904 Pty Ltd	100	100	Coregas Pty Ltd	+	100
A.C.N. 112 719 918 Pty Ltd	100	100	CSBP Ammonia Terminal Pty Ltd		100
AEC Environmental Pty Ltd	100	100	CSBP Limited	+	100
ANKO Global Holdings Pty Ltd (formerly KAS Global Holdings Pty Ltd)	+	100	CTE Pty Ltd		100
ANKO Retail Incorporated	➤	100	Cuming Smith and Company Limited	+	100
Australian Gold Reagents Pty Ltd	75	75	Dairy Properties Pty Ltd		100
Australian Graphics Pty Ltd	100	100	Ditchburn Property Investments (UK) Ltd	~ ▲	-
Australian International Insurance Limited	+	100	Dowd Corporation Pty Ltd		100
Australian Underwriting Holdings Limited	+	100	Eastfarmers Pty Ltd		100
Australian Underwriting Services Pty Ltd	100	100	ECC Pty Ltd		100
Australian Vinyls Corporation Pty Ltd	+	100	ENV.Australia Pty Ltd		100
AVC Holdings Pty Ltd	+	100	Environmental and Licensing Professionals Pty Ltd		100
AVC Trading Pty Ltd	+	100	FIF Investments Pty Limited		100
BBC Hardware Limited	+	100	Fosseys (Australia) Pty Ltd	+	100
BBC Hardware Properties (NSW) Pty Ltd	100	100	Geeks2U Holdings Pty Limited	@	100
BBC Hardware Properties (Vic) Pty Ltd	100	100	Geeks2U International Pty Limited	@	100
Blacksmith Jacks Pty Ltd	100	100	Geeks2U IP Pty Limited	@	100
Blackwoods 4PL Pty Ltd	100	100	Geeks2U NZ Limited	■ @	100
Blackwoods Training Pty Ltd	100	100	Geeks2U Pty Limited	@	100
Blackwoods Xpress Pty Ltd	100	100	Geeks2U UK Limited	▲ @	100
BPI Management Pty Ltd	100	100	GPML Pty Ltd		100
BUKI (Australia) Pty Ltd	+	100	Greencap Holdings Limited		100
Bullivants International Pty Ltd	100	100	Greencap Pty Ltd		100
Bullivants Pty Limited	+	100	HouseWorks Co Pty Ltd		100
Bunnings (NZ) Limited	■	100	Howard Smith Limited	+	100
Bunnings Group Limited	+	100	Hunter Property Investments	~ ▽	-
Bunnings Joondalup Pty Ltd	100	100	Incorporatewear Limited	# ▲	100
Bunnings Limited	# ■	100	Incorporatewear, Unipessoal LDA (formerly Richardson & Richardson, Unipessoal LDA)	< ✦	100
Bunnings Management Services Pty Ltd	* +	100	J Blackwood & Son Pty Ltd	+	100
Bunnings Manufacturing Pty Ltd	100	100	James Patrick & Co Pty Ltd (in liquidation)		100
Bunnings Properties Pty Ltd	* +	100	KAS Direct Sourcing Private Limited	# ●	100
Bunnings Pulp Mill Pty Ltd	~	-	KAS Global Trading Pty Limited	◆	100
BWP Management Limited	<	100	KAS International Sourcing Bangladesh Pvt Ltd	▾	100
C S Holdings Pty Limited	+	100			

**NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE**

For the year ended 30 June 2019

**19. Subsidiaries (continued)**

Entity	2019	2018	Entity	2019	2018	
	%	%		%	%	
KAS International Trading (Shanghai) Company Limited	▶	100	100	Sotico Pty Ltd		100
KAS Pty Limited	◆	100	100	Target Australia Pty Ltd	+	100
KAS Services India Private Limited	●	100	100	Target Australia Sourcing (Shanghai) Co Ltd	# ▶	100
Kleenheat Pty Ltd		100	100	Target Australia Sourcing Limited	# ◆	100
Kmart Australia Limited	+	100	100	Target Holdings Pty Ltd	* +	100
Kmart Group Asia Pty Ltd (formerly Coles Group Asia Pty Ltd)		100	100	The Builders Warehouse Group Pty Limited		100
Kmart Holdings Pty Ltd	* +	100	100	The Franked Income Fund		100
Kmart NZ Holdings Limited (formerly Coles Group New Zealand Holdings Limited)	■	100	100	The Westralian Farmers Limited	+	100
Kwinana Nitrogen Company Proprietary Limited		100	100	The Workwear Group HK Limited	# ◆	100
Lawvale Pty Ltd		100	100	The Workwear Group Holding Pty Ltd	+	100
Liftco Pty Limited	+	100	100	The Workwear Group Pty Ltd	+	100
Loggia Pty Ltd	+	100	100	Trimevac Pty Ltd		100
Loyalty Pacific Pty Ltd	(a)	100	100	Tyre and Auto Pty Ltd	~	-
Manacol Pty Limited	+	100	100	Tyremaster (Wholesale) Pty Ltd		100
Masters Hardware Limited	~ ■	-	100	Ucone Pty Ltd	+	100
Masters Home Improvement Limited	~ ■	-	100	Validus Group Pty Ltd		100
MC2 Pacific Pty Ltd		100	100	Valley Investments Pty Ltd	+	100
Meredith Distribution (NSW) Pty Ltd		100	100	Viking Direct Pty Limited		100
Meredith Distribution Pty Ltd		100	100	W4K.World 4 Kids Pty Ltd		100
Millars (WA) Pty Ltd		100	100	Wesfarmers Agribusiness Limited	+	100
Modwood Technologies Pty Ltd		100	100	Wesfarmers Bengalla Limited	+	100
Neat N' Trim Uniforms Pty Ltd		100	100	Wesfarmers Bengalla Management Pty Ltd		100
NZ Finance Holdings Pty Limited	■	100	100	Wesfarmers Bunnings Limited	+	100
Officeworks Businessdirect Pty Ltd		100	100	Wesfarmers Chemical US Holdings Corp	➤	100
Officeworks Holdings Pty Ltd	* +	100	100	Wesfarmers Chemicals, Energy & Fertilisers Limited	+	100
Officeworks Ltd	+	100	100	Wesfarmers Coal Resources Pty Ltd	+	100
Officeworks NZ Limited	■	100	100	Wesfarmers Department Stores Holdings Pty Ltd	* +	100
Officeworks Property Pty Ltd		100	100	Wesfarmers Emerging Ventures Pty Ltd		100
Pailou Pty Ltd	+	100	100	Wesfarmers Energy (Gas Sales) Limited	+	100
Patrick Operations Pty Ltd		100	100	Wesfarmers Energy (Industrial Gas) Pty Ltd		100
Petersen Bros Pty Ltd		100	100	Wesfarmers Fertilizers Pty Ltd	+	100
Premier Power Sales Pty Ltd		100	100	Wesfarmers Gas Limited	+	100
Protector Alsafe Pty Ltd		100	100	Wesfarmers Holdings Pty Ltd		100
Protex Healthcare (Aus) Pty Ltd		100	100	Wesfarmers Industrial & Safety Holdings NZ Limited	# ■	100
PT Blackwoods Indonesia	○	100	100	Wesfarmers Industrial & Safety NZ Limited	■	100
R & N Palmer Pty Ltd		100	100	Wesfarmers Industrial and Safety Pty Ltd	+	100
Rapid Evacuation Training Services Pty Ltd		100	100	Wesfarmers Insurance Investments Pty Ltd	+	100
Relationship Services Pty Limited		100	100	Wesfarmers International Holdings Pty Ltd (formerly Coles Group International Pty Ltd)		100
Retail Australia Consortium Pty Ltd		100	100	Wesfarmers Investments Pty Ltd		100
Retail Investments Pty Ltd		100	100			
SBS Rural IAMA Pty Limited		100	100			
Scones Jam n Cream Pty Ltd		100	100			
Sellers (SA) Pty Ltd		100	100			
Share Nominees Limited		100	100			

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2019

## 19. Subsidiaries (continued)

Entity		2019	2018	Control of the following entities was lost on the demerger of Coles Group Limited:	Entity	2019	2018
		%	%			%	%
Wesfarmers Kleenheat Gas Pty Ltd	+	100	100		Andearp Pty Ltd	-	100
Wesfarmers Lithium Pty Ltd	@	100	-		Australian Liquor Group Ltd	-	100
Wesfarmers LNG Pty Ltd	+	100	100		Bi-Lo Pty Limited	-	100
Wesfarmers Loyalty Management Pty Ltd	+	100	100		Brian Pty Ltd	-	100
Wesfarmers LPG Pty Ltd	+	100	100		Charlie Carter (Norwest) Pty Ltd	-	100
Wesfarmers New Energy Holdings Pty Ltd	@	100	-		Chef Fresh Pty Ltd	-	100
Wesfarmers Oil & Gas Pty Ltd		100	100		CMFL Services Ltd	-	100
Wesfarmers Online Retail Holdings Pty Ltd	@	100	-		CMPQ (CML) Pty Ltd	-	100
Wesfarmers Private Equity Pty Ltd		100	100		Coles Ansett Travel Pty Ltd	-	97.5
Wesfarmers Provident Fund Pty Ltd		100	100		Coles Financial Services Pty Ltd	-	100
Wesfarmers Railroad Holdings Pty Ltd	~	-	100		Coles FS Holding Company Pty Ltd (formerly Wesfarmers Finance Holding Company Pty Ltd)	-	100
Wesfarmers Resources Limited	+	100	100		Coles Group Deposit Services Pty Ltd	-	100
Wesfarmers Retail Holdings Pty Ltd	+	100	100		Coles Group Finance (USA) Pty Ltd	-	100
Wesfarmers Retail Pty Ltd	+	100	100		Coles Group Finance Limited	-	100
Wesfarmers Risk Management (Singapore) Pte Ltd	⌘	100	100		Coles Group Limited	(a)	100
Wesfarmers Risk Management Limited	# ◀	100	100		Coles Group Properties Holdings Ltd	-	100
Wesfarmers Securities Management Pty Ltd		100	100		Coles Group Property Developments Ltd	-	100
Wesfarmers Sugar Company Pty Ltd	~	-	100		Coles Group Superannuation Fund Pty Ltd	-	100
Wesfarmers Superannuation Pty Ltd		100	100		Coles Group Supply Chain Pty Ltd	-	100
Wesfarmers Transport Limited	+	100	100		Coles Group Treasury Pty Ltd (formerly Coles Group Payments Pty Ltd)	-	100
Weskem Pty Ltd		100	100		Coles Melbourne Ltd	-	100
Westralian Farmers Superphosphates Limited	+	100	100		Coles Online Pty Ltd	-	100
WEV Capital Investments Pty Ltd		100	100		Coles Properties WA Ltd	-	100
WFCL Investments Pty Ltd		100	100		Coles Property Management Pty Ltd	-	100
WIS International Pty Ltd		100	100		Coles Retail Services Pty Ltd	-	100
WIS Solutions Pty Ltd		100	100		Coles Supermarkets Australia Pty Ltd	-	100
WIS Supply Chain Management (Shanghai) Co Ltd	▶	100	100		Coles WFS Pty Ltd (formerly Wesfarmers Finance Pty Ltd)	-	100
WPP Holdings Pty Ltd		100	100		CSA Retail (Finance) Pty Ltd	-	100
WWG Middle East Apparel Trading LLC	▼	49	49		e.colesgroup Pty Ltd	-	100
XCC (Retail) Pty Ltd		100	100		e.tailing (Coles Group) Pty Ltd	-	100
Yakka Pty Limited		100	100		Eureka Operations Pty Ltd	-	100
					FBP Awards Fund Pty Ltd	-	100
					Fitzgibbons Hotel Pty Ltd	-	100
					Fitzinn Pty Ltd	-	100
					GBPL Pty Ltd	-	100
					Grocery Holdings Pty Ltd	-	100
					Hotel Wickham Investments Pty Ltd	-	100
					Katies Fashions (Aust) Pty Limited	-	100
					LHG Pty Ltd	-	100
					LHG2 Pty Ltd	-	100
					LHG3 Pty Ltd	-	100
					Liquorland (Australia) Pty Ltd	-	100

**NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE**

For the year ended 30 June 2019

**19. Subsidiaries (continued)**

Entity	2019 %	2018 %	
Liquorland (Qld) Pty Ltd	-	100	As at 30 June 2019, Coles Group Limited and Loyalty Pacific Pty Ltd (flybuys) are an associate and joint venture, respectively. Refer to note 18 for further details. (a)
Newmart Pty Ltd	-	100	Entity acquired/incorporated during the year. @
now.com.au Pty Ltd	-	100	Entity dissolved/deregistered during the year. ~
Procurement Online Pty Ltd	-	100	Audited by firms of Ernst & Young International. #
Retail Ready Operations Australia Pty Ltd	-	100	Audited by other firms of accountants. <
Richmond Plaza Shopping Centre Pty Ltd	-	100	An ASIC-approved Deed of Cross Guarantee has been entered into by Wesfarmers Limited and these entities. +
The Grape Management Pty Ltd	-	100	Entities added to the Closed Group by way of an Assumption Deed during the period. Refer to note 24 for further details. *
Tickoth Pty Ltd	-	100	All subsidiaries are incorporated in Australia unless identified with one of the following symbols:
Toorong Holdings Pty Ltd	-	100	Bangladesh ▾
Tyremaster Pty Ltd	-	100	Bermuda ◀
Waratah Cove Pty Ltd	-	100	Cayman Islands ▾
WFPL Funding Co Pty Ltd	-	100	China ▶
WFPL No 2 Pty Ltd	-	100	Hong Kong ◆
WFPL Security SPV Pty Ltd	-	100	India ●
WFPL SPV Pty Ltd	-	100	Indonesia ○
			New Zealand ■
			Portugal ✦
			Singapore ⌘
			United Arab Emirates ▼
			United Kingdom ▲
			United States of America ▽
			All entities utilise the functional currency of the country of incorporation with the exception of Wesfarmers Risk Management Limited and Target Australia Sourcing (Shanghai) Co Ltd, which utilise the Australian dollar and KAS International Trading (Shanghai) Company Limited, PT Blackwoods Indonesia and Wesfarmers Oil & Gas Pty Ltd, which utilise the US dollar.



# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2019

## 20. Discontinued operations

The businesses demerged or disposed of during the year, being Coles, Bengalla, KTAS and Quadrant Energy, were not considered discontinued operations or classified as held-for-sale as at 30 June 2018 and therefore the comparative consolidated income statement, the statement of comprehensive income and certain applicable notes have been restated to show discontinued operations separately from continuing operations. Where applicable, the amounts disclosed below have been updated from those reported at 31 December 2018 as a result of the finalisation of costs and other items.

### Demerger of Coles

On 16 March 2018, Wesfarmers announced its intention to demerge Coles and its subsidiaries. The demerger was completed on 28 November 2018. Coles was previously treated as a separate reportable segment. Wesfarmers has retained a 15 per cent minority ownership in Coles, which is classified as an investment in associate and accounted for using the equity method. The remaining 85 per cent interest in Coles reflects a demerger distribution.

The fair value of Coles at the date of settlement, being \$17,136 million, was calculated using the volume weighted average price (VWAP) of Coles' shares as traded on the ASX over the first five trading days after the demerger date (\$12.8459) multiplied by the number of Coles' shares on initial listing (1,333,929,696 ordinary shares). The 15 per cent investment retained by Wesfarmers was initially valued at \$2,571 million applying the same methodology.

The demerger distribution is accounted for as a reduction in equity, split between share capital of \$6,441 million and demerger reserve of \$8,124 million. The amount treated as a reduction in share capital has been calculated by reference to the market value of Coles' shares and the market value of Wesfarmers' shares post demerger. The difference between the fair value of the distribution and the capital reduction amount is the demerger dividend.

Coles	Consolidated	
	2019	2018
	\$m	\$m
<b>Results of discontinued operation</b>		
Revenue	16,453	39,388
Expenses	(16,121)	(37,888)
<b>Profit before tax<sup>1</sup></b>	<b>332</b>	<b>1,500</b>
Income tax expense	(113)	(463)
Gain on demerger after income tax	2,264	-
<b>Profit after tax from discontinued operation</b>	<b>2,483</b>	<b>1,037</b>
<b>Assets and liabilities of controlled entities at date of demerger</b>		
<b>Assets</b>		
Cash and cash equivalents	322	
Trade and other receivables	829	
Inventories	2,313	
Property, plant and equipment	4,387	
Intangibles and goodwill	13,700	
Other assets	629	
<b>Total assets demerged</b>	<b>22,180</b>	
<b>Liabilities</b>		
Trade payables	3,633	
Interest bearing loans and borrowings	2,000	
Other liabilities	1,803	
Total liabilities demerged	7,436	
<b>Net assets demerged</b>	<b>14,744</b>	
<b>Cash flows of discontinued operation</b>		
Net cash from operating activities	690	1,814
Net cash used in investing activities	(450)	(503)
Net cash from/(used in) financing activities	2,000	-
<b>Net cash flows for the year</b>	<b>2,240</b>	<b>1,311</b>
<b>Allocation of deemed fair value of Coles at demerger</b>		
Capital distribution	6,441	
Demerger dividend	8,124	
Fair value of Wesfarmers' retained investment in Coles	2,571	
<b>Fair value at date of distribution</b>	<b>17,136</b>	
<b>Gain on demerger</b>		
Fair value of Coles demerger	17,136	
Carrying amount of net assets	(14,744)	
Transaction costs <sup>2</sup>	(73)	
<b>Net profit on demerger before income tax</b>	<b>2,319</b>	
Income tax expense <sup>3</sup>	(55)	
<b>Gain on demerger after income tax</b>	<b>2,264</b>	
<b>Earnings per share - discontinued operation</b>		
Basic earnings per share	219.5	91.7
Diluted earnings per share	219.3	91.5

<sup>1</sup> Includes \$146 million pre-tax (\$102 million post-tax) provision for supply chain automation.

<sup>2</sup> Excludes \$59 million pre-tax (\$41 million post-tax) of transaction costs recognised directly in equity.

<sup>3</sup> Represents tax benefit on transaction costs and deferred tax liability on investment in associate.

## NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the year ended 30 June 2019

### 20. Discontinued operations (continued)

#### Sale of indirect interest in Quadrant Energy

On 22 August 2018, Wesfarmers announced that it had agreed to sell its interest in AEC, which holds a 13.2 per cent interest in Quadrant Energy, to Santos Limited for US\$170 million (A\$232 million). The transaction was completed on 27 November 2018 with Wesfarmers recognising a pre-tax gain on sale of \$138 million (post-tax \$120 million). Wesfarmers' share of profits from its indirect interest in Quadrant Energy recognised for the period was \$4 million (2018: \$23 million).

#### Sale of Bengalla

On 7 August 2018, Wesfarmers announced that it had entered into an agreement with New Hope Corporation to sell its 40 per cent interest in Bengalla for \$860 million subject to certain conditions including regulatory approval. The transaction was completed on 3 December 2018. Bengalla was previously reported in the Resources segment.

Bengalla	Consolidated	
	2019 \$m	2018 \$m
<i>Results of discontinued operation</i>		
Revenue	197	401
Expenses	(104)	(230)
<b>Profit before tax</b>	<b>93</b>	171
Income tax expense	(28)	(52)
Gain on disposal after income tax	645	-
<b>Profit after tax from discontinued operations</b>	<b>710</b>	119
<i>Assets and liabilities of controlled entities at date of disposal</i>		
<b>Assets</b>		
Cash and cash equivalents	5	
Trade and other receivables	19	
Inventories	14	
Property, plant and equipment	216	
Other assets	13	
Total assets disposed	267	
<b>Liabilities</b>		
Trade payables	18	
Other liabilities	77	
Total liabilities disposed	95	
<b>Net assets disposed</b>	<b>172</b>	
<i>Cash flows of discontinued operation</i>		
Net cash from operating activities	61	158
Net cash used in investing activities	(14)	(14)
Net cash from financing activities	-	-
<b>Net cash flows for the year</b>	<b>47</b>	144
<i>Gain on disposal</i>		
Total consideration received	860	
Carrying amount of net assets disposed	(172)	
Transaction costs and other items	(9)	
<b>Gain on disposal before income tax</b>	<b>679</b>	
Income tax expense	(34)	
<b>Gain on disposal after income tax</b>	<b>645</b>	
<i>Earnings per share - discontinued operation</i>		
Basic earnings per share	62.8	10.6
Diluted earnings per share	62.7	10.6

#### Sale of KTAS

On 13 August 2018, Wesfarmers announced that it had entered into an agreement with Continental A.G. to sell its KTAS business for \$350 million. The transaction was completed on 1 November 2018.

KTAS	Consolidated	
	2019 \$m	2018 \$m
<i>Results of discontinued operation</i>		
Revenue	115	333
Expenses	(103)	(299)
<b>Profit before tax</b>	<b>12</b>	34
Income tax expense	(3)	(9)
Gain on disposal after income tax	244	-
<b>Profit after tax from discontinued operation</b>	<b>253</b>	25
<i>Assets and liabilities of controlled entities at date of disposal</i>		
<b>Assets</b>		
Cash and cash equivalents	1	
Trade and other receivables	15	
Inventories	10	
Property, plant and equipment	35	
Goodwill and intangibles	60	
Other assets	13	
Total assets disposed	134	
<b>Liabilities</b>		
Trade payables	33	
Other liabilities	16	
Total liabilities disposed	49	
<b>Net assets disposed</b>	<b>85</b>	
<i>Cash flows of discontinued operation</i>		
Net cash (used in)/ from operating activities	(8)	28
Net cash used in investing activities	(2)	(7)
Net cash from financing activities	-	-
<b>Net cash flows for the year</b>	<b>(10)</b>	21
<i>Gain on disposal</i>		
Total consideration received	350	
Carrying amount of net assets disposed	(85)	
Transaction costs and other items	2	
<b>Gain on disposal before income tax</b>	<b>267</b>	
Income tax expense	(23)	
<b>Gain on disposal after income tax</b>	<b>244</b>	
<i>Earnings per share - discontinued operation</i>		
Basic earnings per share	22.3	2.2
Diluted earnings per share	22.3	2.2

# NOTES TO THE FINANCIAL STATEMENTS: UNRECOGNISED ITEMS

For the year ended 30 June 2019

## 21. Commitments and contingencies

	2019 \$m	2018 \$m
<b>Operating lease commitments</b>		
<b>Group as lessee (i)</b>		
Within one year	1,209	2,323
Greater than one year but not more than five years	3,869	7,618
More than five years	3,463	8,432
	8,541	18,373
<b>Group as lessor (ii)</b>		
Within one year	25	14
Greater than one year but not more than five years	61	27
More than five years	32	4
	118	45
<b>Capital commitments (iii)</b>		
Within one year	278	349
Commitments arising from agreements to invest in Gresham Private Equity Funds	2	2
	280	351
<b>Other expenditure commitments (iv)</b>		
Within one year	112	108
Greater than one year but not more than five years	181	245
More than five years	161	187
	454	540
<b>Contingencies (v)</b>		
Trading guarantees	196	678

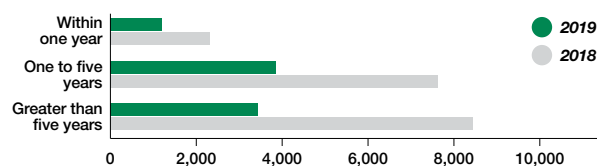
- The Group has entered into commercial leases on office, retail and distribution properties, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the lease of buildings, the lease terms range from one year to 40 years and have various renewal or purchase options, escalation clauses, termination rights and residual liability clauses. Operating lease commitments refer to future undiscounted minimum rentals payable under non-cancellable operating leases not included within this financial report. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to earnings on a straight-line basis over the lease term. Fixed rate increases to lease payments, excluding contingent or index-based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised on a straight-line basis over the lease term.
- Contracted non-cancellable future minimum lease payments expected to be received in relation to non-cancellable sub-leases are not included in this financial report.
- Commitments arising from contracts for capital expenditure contracted for at balance date are not included in this financial report.
- Contracted other expenditure commitments are not included in this financial report.
- Contingent liabilities at balance date are not included in this financial report.

### Key judgements: leases

The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in relation to the asset's life, the present value of future lease payments in relation to the asset's fair value and the nature of the asset.

The reported lease commitments of the Group excludes rent that was considered contingent at lease inception. The effect of this exclusion on the reported lease commitments is not material.

### Group operating lease commitments as lessee (\$m)



### Guarantees

The Group has issued a number of bank guarantees to third parties for various operational and legal purposes. It is not expected that these guarantees will be called on.

In FY2018, the Group entered into warranties and a guarantee on disposal of BUKI, the fair value of which were provided for at 30 June 2018. The maximum exposure thereunder is not considered material to the Group.

### Other

Certain companies within the Group are party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal action would not have a material effect on the Group's financial performance.

## 22. Events after the reporting period

### Dividends

A fully-franked final ordinary dividend of 78 cents per share resulting in a dividend of \$884 million was declared for a payment date of 9 October 2019. The dividend has not been provided for in the 30 June 2019 full-year financial statements.

### Acquisition of Kidman Resources Limited

On 23 May 2019, Wesfarmers announced that it had entered into a Scheme Implementation Deed with Kidman Resources Limited (Kidman) under which it is proposed that Wesfarmers will acquire 100 per cent of the outstanding shares in Kidman for \$1.90 per share by way of Scheme of Arrangement. The transaction was completed on 23 September 2019.

### Acquisition of Catch Group Holdings Limited

On 12 June 2019, Wesfarmers announced that it had entered into an agreement to acquire Catch Group Holdings Limited (Catch) for cash consideration of \$230 million. The transaction was completed on 12 August 2019.

Due to the timing of the completion of the acquisition and the restriction on access to the books and records of Catch until after completion, the accounting for the business combination has not yet been determined. Further information in relation to this acquisition is unable to be provided due to the limited time between completion and the release of this report.

**NOTES TO THE FINANCIAL STATEMENTS: OTHER**

For the year ended 30 June 2019

**23. Parent disclosures**

	Parent	
	2019 \$m	2018 \$m
<b>Assets</b>		
Current assets	10,659	6,687
Non-current assets	6,088	22,780
<b>Total assets</b>	<b>16,747</b>	<b>29,467</b>
<b>Liabilities</b>		
Current liabilities	974	1,945
Non-current liabilities	2,640	3,362
<b>Total liabilities</b>	<b>3,614</b>	<b>5,307</b>
<b>Net assets</b>	<b>13,133</b>	<b>24,160</b>
<b>Equity</b>		
Equity attributable to equity holders of the parent		
Issued capital	15,724	22,231
Employee reserved shares	2	1
Retained earnings	723	100
Dividends reserve	292	1,653
Restructure tax reserve	150	150
Hedging reserve	(41)	(19)
Share-based payments reserve	47	44
Demerger reserve	(3,764)	-
<b>Total equity</b>	<b>13,133</b>	<b>24,160</b>
Profit attributable to members of the parent	7,251	2,103
Total comprehensive income for the year, net of tax, attributable to members of the parent	7,229	2,102
<b>Contingencies</b>		
Contingent liabilities at balance date, not included in this financial report, were as follows:		
Trading guarantees	196	593

Wesfarmers is party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal action would not have a material adverse effect on the Group's financial report.

**Dividends reserve**

The dividends reserve was created by the parent entity for the purposes of segregating profits from which dividends to shareholders can be paid.

**Guarantees**

Wesfarmers Limited and certain Australian controlled entities are parties to a Deed of Cross Guarantee (the Deed) as disclosed in note 24.

**Parent entity financial information**

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

**Investments in subsidiaries, associates and joint venture entities**

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

**24. Deed of Cross Guarantee**

The subsidiaries identified with a '+' in note 19 are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly-owned companies) Instrument 2016/785.

These subsidiaries and Wesfarmers Limited together referred to as the 'Closed Group', either originally entered into the Deed on 27 June 2008, or have subsequently joined the Deed by way of an Assumption Deed. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group.

Entities which joined the Group by way of an Assumption Deed throughout the period are identified with a '\*' in note 19.

Tyre and Auto Pty Ltd left the Closed Group by way of disposal during the period.

The consolidated income statement and retained earnings of the entities that are members of the Closed Group is as follows:

	Deed 2019 \$m	Deed 2018 \$m
<b>Consolidated income statement and retained earnings</b>		
Profit from continuing operations before income tax	2,981	1,424
Profit from discontinued operations before income tax	5,270	384
Income tax expense	(833)	(1,197)
<b>Net profit for the year</b>	<b>7,418</b>	<b>611</b>
Retained earnings at beginning of year	172	3,790
Remeasurement gain on defined benefit plan, net of tax	(1)	(1)
Adjustment for companies transferred out of the Closed Group	(101)	(1,698)
Transfer of gain on demerger	(4,164)	-
Total available for appropriation	3,324	2,702
Dividends provided for or paid	(3,628)	(2,529)
<b>Retained earnings at end of year</b>	<b>(304)</b>	<b>173</b>
<b>Consolidated statement of comprehensive income</b>		
Profit for the year	7,418	611
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss:</i>		
<b>Foreign currency translation reserve</b>		
Exchange differences on translation of foreign operations	(2)	-
<b>Cash flow hedge reserve</b>		
Unrealised gains on cash flow hedges	151	96
Realised (gains)/losses transferred to non-financial assets/net profit	(201)	143
Transfer of hedges to Coles on demerger	(22)	-
Share of associates and joint venture reserves	(2)	(7)
Tax effect	25	(74)
<i>Items that will not be reclassified to profit or loss:</i>		
<b>Retained earnings</b>		
Remeasurement loss on defined benefit plan	(1)	(1)
Other comprehensive (loss)/income for the year, net of tax	(52)	157
<b>Total comprehensive income/(loss) for the year, net of tax</b>		
Continuing operations	2,202	848
Discontinued operations	5,164	(80)
	<b>7,366</b>	<b>768</b>

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2019

## 24. Deed of Cross Guarantee (continued)

The consolidated balance sheet of the entities that are members of the Closed Group is as follows:

	Deed 2019 \$m	Deed 2018 \$m
<b>Consolidated balance sheet</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	621	2,720
Receivables - Trade and other	842	897
Inventories	3,870	3,575
Derivatives	101	127
Other	146	174
Total current assets	5,580	7,493
<b>Non-current assets</b>		
Receivables	134	484
Investment in controlled entities	3,570	16,450
Investment in associates and joint ventures	2,899	290
Deferred tax assets	310	370
Property	705	494
Plant and equipment	2,914	3,051
Goodwill	3,023	3,302
Intangible assets	949	966
Derivatives	393	391
Other	7	1
Total non-current assets	14,904	25,799
<b>Total assets</b>	<b>20,484</b>	<b>33,292</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	3,222	3,027
Interest-bearing loans and borrowings	350	993
Income tax payable	205	390
Provisions	814	1,007
Derivatives	7	16
Other	140	178
Total current liabilities	4,738	5,611
<b>Non-current liabilities</b>		
Payables	1,041	1,088
Interest-bearing loans and borrowings	2,523	2,965
Provisions	370	631
Derivatives	1	-
Other	89	90
Total non-current liabilities	4,024	4,774
<b>Total liabilities</b>	<b>8,762</b>	<b>10,385</b>
<b>Net assets</b>	<b>11,722</b>	<b>22,907</b>
<b>Equity</b>		
Issued capital	15,809	22,275
Reserved shares	(81)	(42)
Retained earnings	(304)	173
Reserves	(3,702)	501
<b>Total equity</b>	<b>11,722</b>	<b>22,907</b>

## 25. Auditors' remuneration

	Consolidated	
	2019 \$'000	2018 \$'000
<b>Fees of the auditors of the company for:</b>		
<b>Audit services</b>		
<b>Audit and review of financial reports</b>		
Ernst & Young (Australia)	4,280	5,761
Ernst & Young (overseas network firms)	311	812
<b>Assurance related services</b>		
Ernst & Young (Australian and overseas network firms)	2,826	942
	7,417	7,515
<b>Non-assurance related services</b>		
Ernst & Young (Australian and overseas network firms):		
- tax compliance	1,067	683
- other	102	343
	1,169	1,026
<b>Total paid to auditors</b>	<b>8,586</b>	<b>8,541</b>

During the year, Ernst & Young provided services to the Group in relation to the Coles demerger. Excluding these engagements, the total assurance related and non-assurance related fees would represent 25.7 per cent (2018: 23.0 per cent) of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2019.

## 26. Related party transactions

	Consolidated	
	2019 \$'000	2018 \$'000
<b>Associates</b>		
Operating lease rent paid	147,094	141,660
Operating lease rent received	15,411	-
Financial advisory fees paid	14,569	5,597
Management fees received	13,457	12,817
Other related party transactions	32,730	1,021
Amounts receivable from associates	23,625	13,957
Amounts owing to associates	5,845	39
<b>Joint arrangements</b>		
Operating lease rent paid	26,226	38,705
Payments for loyalty program	16,337	-
Receipts from loyalty program redemption	26,022	-
Other related party transactions	1,274	1,881
Amounts receivable from joint ventures	6,013	6,293
Amounts owing to joint ventures	164,964	66

Rent for retail stores and warehouses has been paid by the Group to an associated entity, BWP Trust, and to the BPI No. 1 Pty Ltd and ISPT joint arrangements. Rent has been received from an associate for the sublease of rental space.

Management fees have been received from an associated entity, BWP Trust, on normal commercial terms and conditions for staff and other services provided to associates.

Amounts have been paid to and received from Loyalty Pacific Pty Ltd for the operation of the flybuys loyalty program.

## NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2019

### 26. Related party transactions (continued)

Partly-owned subsidiaries of an associate of the Group, Gresham Partners Group Limited, have provided office accommodation and advisory services to Wesfarmers and were paid fees of \$14,568,706 in 2019 (2018: \$5,596,377), including \$8,876,162 for services provided in relation to the Coles demerger.

J P Graham, who was a director of Wesfarmers until he retired on 23 July 2018, 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. For the period in 2019 in which Mr Graham was a director of Wesfarmers, fees of \$138,974 (2018: \$5,596,377) were paid to Gresham Partners Group Limited for the provision of office accommodation and advisory services.

Other related party transactions include sales and purchases to associates and joint arrangements on normal commercial terms and conditions.

### 27. Other accounting policies

#### (a) New and amended accounting standards and interpretations adopted from 1 July 2018

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2018 to the Group have been adopted and include:

#### AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* (AASB 15) establishes new principles for reporting information to users of financial statements about the nature, timing, amount and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue when control of the goods or services is transferred to the customer for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has adopted AASB 15 from 1 July 2018 using the modified retrospective approach, which has resulted in changes in accounting policies. The accounting policies applicable from 1 July 2018 are set out in note 1. The Group applied AASB 15 to only those contracts that were not completed contracts as at the date of initial application. No material adjustment to opening retained earnings was recognised as the amendments to the Group's accounting policies did not result in any significant changes to the timing or amount of revenue previously recognised. As the modified retrospective approach has been adopted, comparative information continues to be accounted for under AASB 118 *Revenue* (AASB 118) and has not been restated. The accounting policies applied prior to 1 July 2018 are outlined below:

#### 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.

### 27. Other accounting policies (continued)

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.

#### AASB 9 Financial Instruments

The Group had previously early adopted the hedge accounting and classification and measurement phases of AASB 9 *Financial Instruments (December 2010)* (AASB 9). The Group has adopted the impairment phase of AASB 9 (2014) from 1 July 2018. There were no retrospective adjustments to comparative information as a result of adopting the standard.

AASB 9 replaces the incurred loss approach under AASB 139 *Financial Instruments: Recognition and Measurement*, whereby impairment was recognised when there was objective evidence that the Group was not able to collect the debt, with a forward-looking ECL approach. Under the ECL approach, an allowance for impairment is considered across all trade receivables, regardless of whether a credit event has occurred, based on the expected losses over the lifetime of the receivable.

The adoption of the impairment phase of AASB 9 has resulted in a change in accounting policy. The accounting policies applicable from 1 July 2018 are set out in note 5. For trade receivables and other debtors, the Group has adopted a matrix method that is based on historical default rates, adjusted for forward looking factors. Given the ageing profile of trade receivables and the historical customer default rates, the adoption of AASB 9 has not had a material impact on the Group. The accounting policies applied prior to 1 July 2018 are outlined below:

#### Impairment of trade receivables

Collectability and impairment are assessed on an ongoing basis at a divisional level. Impairment is recognised in the income statement when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. Debts that are known to be uncollectable are written off when identified. If an impairment allowance has been recognised for a debt that then becomes uncollectable, the debt is written off against the allowance account. If an amount is subsequently recovered, it is credited against profit or loss.

#### Other new and amended accounting standards and interpretations

The following standards and interpretations have also been adopted as at 1 July 2019 and have not had a material impact to the Group:

- AASB 2016-5 *Amendments to Australian Accounting Standards Classification and Measurement of Share-based Payment Transactions*;
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*; and
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments*.

# NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2019

## 27. Other accounting policies (continued)

### (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.

#### AASB 16 Leases

AASB 16 *Leases* (AASB 16) introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Wesfarmers, as a lessee, will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. Wesfarmers will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Wesfarmers will also be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Wesfarmers will recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from the accounting under AASB 117 *Leases* (AASB 117). The Group, as a lessor, will not be materially impacted by the adoption of AASB 16.

#### Transition impact assessment

Wesfarmers will be applying AASB 16 from 1 July 2019, using the modified retrospective transition method whereby there is an option on a lease-by-lease basis to calculate the right-of-use asset as either:

- its carrying amount as if AASB 16 had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.

Under this method, there is no requirement to restate comparatives.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Group can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. Wesfarmers expects to apply a number of the practical expedients including:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- utilising previous assessments of onerous leases; and
- the use of hindsight in determining the lease term.

Wesfarmers will not elect to apply the practical expedient to combine lease and non-lease components for its property leases. As such, the calculated lease liability will exclude an estimate of the gross lease payments allocated to non-lease components.

Wesfarmers has performed an impact assessment of the adoption of AASB 16 as at 1 July 2019. In summary, the estimated impact of the adoption of AASB 16 on the balance sheet as at 1 July 2019, includes an increase in assets (right-of-use asset) of approximately \$6.7 billion and an increase in liabilities (lease liability) of approximately \$7.5 billion. The net impact of initially applying AASB 16 will be recognised as an adjustment to equity.

Had AASB 16 been adopted from 1 July 2018, and had the Group's lease portfolio and associated key assumptions at that date and throughout the year been the same as those existing at 1 July 2019, the estimated impact on profit from continuing operations for the year ended 30 June 2019 would have been an increase in depreciation expense of approximately \$1.0 billion, an increase in finance costs of approximately \$0.2 billion and a decrease in operating lease expenses of approximately \$1.2 billion.

A key assumption in determining these estimates is the lease term. Wesfarmers considers an option to extend a lease to be reasonably certain when the extension date is within twelve months and no decision has been made to terminate, when a decision has been made to exercise the option or when there is a clear economic incentive for extension, such as:

- favourable contractual terms and conditions in the option period compared to market rates;
- leasehold improvements have recently been undertaken and are likely to have significant residual value at the end of the current lease period;
- significant termination costs exist; or
- the underlying asset is important to the Group's operations.

After lease commencement, the lease term is reassessed upon the occurrence of a significant event or change in circumstance.

Other key assumptions and estimates include discount rates (the rates applied on the estimate above were between 1.6 and 3.1 per cent) and the determination of the stand-alone prices of the lease and non-lease components.

These estimates are based on our current interpretation of the new standard. We understand that certain aspects of the standard remain subject to global debate. In respect to the methodology for determining and applying discount rates, there is potentially divergence in practice across companies and a consensus view is yet to be achieved. To the extent that the Group applied a discount rate range 100 basis points higher, the lease liability and right-of-use asset would reduce by approximately \$0.3 billion at transition.

As accounting positions are clarified and confirmed, the final transition adjustments may differ from these estimates.

The following is a reconciliation of the Group's operating lease commitments under AASB 117 to the lease liability that will be recognised at 1 July 2019 on transition to AASB 16. Refer to note 21 for further details.

Reconciliation of operating lease commitments to lease liability under AASB 16	\$b
Operating lease commitments at 30 June 2019	8.5
Less: short-term leases	(0.1)
Less: non-lease components	(0.6)
Add: impact of reasonably certain lease extensions	0.4
Add: other	0.1
Less: impact of discounting	(0.8)
Lease liabilities recognised at 1 July 2019	7.5

## NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2019

### 27. Other accounting policies (continued)

#### (b) New and amended standards and interpretations issued but not yet effective (continued)

The effects of the following Standards are not expected to be material:

Reference	Description
AASB Interpretation 23 – <i>Uncertainty over Income Tax Treatments</i>	The application of this Interpretation is effective from 1 January 2019 and will be adopted by the Group on 1 July 2019. This Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 <i>Income Taxes</i> when there is uncertainty over income tax treatments. The Interpretation addresses whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit or loss, tax bases, unused tax losses or tax credits and tax rates and how an entity considers changes in facts and circumstances.
AASB 2018-1 <i>Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle</i>	The application of this Standard is effective from 1 January 2019 and will be adopted by the Group on 1 July 2019. This Standard makes the following amendments: <ul style="list-style-type: none"> <li>– AASB 3 <i>Business Combinations</i> - clarifies the requirement to remeasure a previously held interest in a joint operation when an entity obtains control of a business;</li> <li>– AASB 11 <i>Joint Arrangements</i> - clarifies that there is no requirement to remeasure a previously held interest in a joint operation when an entity obtains joint control of a business;</li> <li>– AASB 112 <i>Income Taxes</i> - clarifies the requirement for income tax consequences of dividend payments to be accounted for in accordance with the nature of past profits from which the dividends were derived; and</li> <li>– AASB 123 <i>Borrowing Costs</i> - clarifies the treatment of borrowings originally obtained to develop a qualifying asset.</li> </ul>
AASB 2018-7 <i>Amendments to AASB 101 Presentation of Financial Statements and AASB 108 Accounting policies, changes in accounting estimates and errors</i>	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. This Standard makes amendments to the definition of 'material' to reference the effect of obscuring information to be similar to omitting or misstating information and states that an entity assesses materiality in the context of the financial statements as a whole. Additionally, the meaning of 'primary users of general purpose financial statements' has been defined as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.
AASB 2019-1 <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i>	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. The Standard makes amendments to a number of Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the <i>Conceptual Framework for Financial Reporting (Conceptual Framework)</i> . The application of the Conceptual Framework includes for-profit private sector entities that have public accountability. The Standard prohibits entities to continue using the <i>Framework for the Preparation of Financial Statements</i> and the <i>Definition of the Reporting Entity</i> in determining whether they are a reporting entity that needs to prepare general purpose financial statements.
AASB 2018-6 <i>Amendments to Australian Accounting Standards – Definition of a Business</i>	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. This Standard amends AASB 3 <i>Business Combinations</i> definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributes to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present.
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	The application of this amendment is effective from 1 January 2022 and will be adopted by the Group on 1 July 2022. The amendments require: <ul style="list-style-type: none"> <li>– a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and</li> <li>– partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</li> </ul> <p>AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.</p>

#### (c) Tax consolidation

Wesfarmers and its 100 per cent-owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002. Wesfarmers is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly-owned subsidiaries on a stand-alone basis. The tax sharing arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The possibility of such a default is considered remote at the date of this report.

Members of the tax consolidated group have entered into a tax funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The tax funding agreement provides for each member of the tax consolidated group to pay a tax equivalent amount to or from the parent in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after lodgement of the consolidated return and payment of the tax liability.



# NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2019

## 28. Share-based payments

The Group provides benefits to employees (including the executive director) of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance in part through shares or rights over shares. The expense arising from these transactions is shown in note 2. The total number of ordinary Wesfarmers shares acquired on market during the financial year to satisfy employee incentive schemes was 3,572,448 (2018: 3,364,037) at an average price of \$32.27 (2018: \$42.77) per share.

### Recognition and measurement

Share-based payments can either be equity-settled or cash-settled. If the employee is provided a choice of settlement options then the scheme is considered to be cash-settled.

### Equity-settled transactions

The cost of equity-settled transactions with employees is measured using their fair value at the date at which they are granted. In determining the fair value, only performance conditions linked to the price of the shares of Wesfarmers Limited (market conditions) are taken into account.

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 non-market 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 performance condition not being met.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above.

### Cash-settled transactions

The ultimate expense recognised in relation to cash-settled transactions will be equal to the actual cash paid to the employees, which will be the fair value at settlement date. The expected cash payment is estimated at each reporting date and a liability recognised to the extent that the vesting period has expired and in proportion to the amount of the awards that are expected to ultimately vest.

### Equity-settled awards outstanding

Weighted average share price in 2019 was \$39.16 (2018: \$42.93). The following table includes shares subject to trading restrictions.

	WESP (options)	WLTIP (shares)	KEEPP (rights)	KEEPP (shares)	WESAP (shares)
Outstanding at the beginning of the year	226,863	295,326	915,821	674,886	7,704,334
Granted during the year	-	27,682	96,284	1,500,504	2,878,716
Exercised during the year	(21,064)	(123,916)	-	-	(2,652,277)
Lapsed during the year	-	-	(343,425)	(674,886)	(369,953)
Other adjustments	-	-	-	-	(96,074)
Outstanding at the end of the year	205,799	199,092	668,680	1,500,504	7,464,746
Exercisable at the end of the year	1,053,106	548,440	-	-	4,430,030

## Additional information on award schemes

### Wesfarmers Employee Share Plan (WESP)

The last issue under the WESP was made in December 2004. Under the plan, employees were invited to apply for ordinary shares in the company, funded by an interest-free loan from the Group. The employees' obligation for repayment of the loans is limited to the dividends declared and capital returns by the company and, in the event the employee ceases employment, the market price achieved on the sale of the shares.

The plan is accounted for as an in-substance equity-settled award, with the contractual life of each option equivalent to the estimated loan life and no maximum term.

### Wesfarmers Long Term Incentive Plan (WLTIP)

#### Long-term incentive

Under the WLTIP, eligible executives were invited to receive performance rights in the company, subject to testing at the end of the applicable four-year performance period. Prior to the demerger of Coles, the last issue under these terms was made in November 2016. WLTIP performance rights did not carry a right to participate in the demerger and participants did not receive Coles shares in respect of them. Additional performance rights were granted to eligible executives in December 2018, following the demerger of Coles from the Group, to preserve the overall value of the award and ensure they were not unfairly disadvantaged by the demerger. Further details on the WLTIP and additional grant of performance rights are provided in the remuneration report.

#### Annual incentive

In August 2018, eligible executives received a restricted (mandatory deferred) share award under the WLTIP. If an executive resigns or is terminated for cause within one year of the share allocation, the Board may decide to cancel that share allocation. The fair value of the award at grant date is expensed over the forfeiture period.

### Key Executive Equity Performance Plan (KEEPP)

KEEPP was introduced in September 2016, and was the only variable remuneration plan the current executive KMP were invited to participate in during the 2019 financial year.

Under the 2018 KEEPP, eligible executives were invited to receive performance shares and restricted shares in the company.

### Performance shares - 2018 KEEPP

For the Group Managing Director (Group MD) and the Group Chief Financial Officer (Group CFO), the performance hurdles are Wesfarmers' TSR relative to the TSR of the ASX 100 (60 per cent weighting), portfolio management and investment outcomes (20 per cent weighting) and strategic measures (20 per cent weighting). For the divisional managing directors, the performance hurdles are cumulative EBIT and ROC performance against the divisional corporate plan (80 per cent weighting) and Wesfarmers' TSR relative to the TSR of the ASX 100 (20 per cent weighting).

## NOTES TO THE FINANCIAL STATEMENTS: OTHER

For the year ended 30 June 2019

### 28. Share-based payments (continued)

#### Key Executive Equity Performance Plan (KEEP) (continued)

##### Performance shares - 2018 KEEP (continued)

The fair value of the performance shares with a TSR hurdle is determined using an option pricing model with the following inputs:

	Group MD	Group CFO and Divisional MDs
	15 Nov 2018	6 Dec 2018
Grant date	15 Nov 2018	6 Dec 2018
Grant date share price (\$)	32.62	31.73
Volatility (%)	17.19	17.34
Risk-free rate (%)	2.26	2.03
Fair value (\$)	20.78	20.02

##### Restricted shares - 2018 KEEP

Eligible executives also received a restricted shares award under the KEEP. If an executive resigns or is terminated for cause within a year, the Board may decide to cancel that share allocation. The fair value of the award at grant date is expensed over the one-year forfeiture period. The grant date share price is the fair value of both the restricted share and the performance share with EBIT and ROC hurdles.

Further details of the KEEP and of the terms of the grants during the year are provided in the remuneration report.

#### Wesfarmers Employee Share Acquisition Plan (WESAP)

The WESAP was introduced in October 2009. Under the plan, all eligible employees are invited to acquire fully-paid ordinary shares in the company. The shares are either acquired under a salary sacrifice arrangement or are granted as an award, subject to the Group achieving a net profit after tax performance hurdle. Eligibility for an award of shares is dependent upon an in-service period with a participating division and being a permanent employee.

The plan qualifies as a non-discriminatory employee share scheme complying with the requirements of Division 83A of the *Income Tax Assessment Act 1997* (as amended) for Australian resident employees. The average fair value of the equity instruments granted was: \$39.91 (2018 average: \$42.89) and was determined with reference to the share price on the date of grant.

#### Wesfarmers Employee Share Acquisition Plan (WESAP) - Executives

In November 2016, WESAP was introduced to eligible executives. Under this offer, eligible executives are invited to receive an award of Wesfarmers' fully-paid ordinary shares subject to a three-year restriction.

If an executive resigns or is terminated for cause within three years, the Board may decide whether to cancel the share allocation or cash payment. The average fair value of the equity instruments granted was: \$32.46 (2018 average: \$43.06) and was determined with reference to the share price on the date of grant.

### 29. Director and executive disclosures

#### Compensation of key management personnel

The remuneration disclosures are provided in sections one to eight of the remuneration report on pages 85 to 110 of this annual report designated as audited and forming part of the directors' report.

	Consolidated	
	2019	2018
	\$'000	\$'000
Short-term benefits	14,037	19,334
Long-term benefits	150	199
Post-employment benefits	280	283
Termination benefits	-	1,919
Share-based payments	10,987	11,808
	25,454	33,543

#### Other transactions with key management personnel

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 Group employees or customers and are trivial or domestic in nature.

### 30. Tax transparency disclosures

In February 2016, the Board of Taxation provided its final report to the Australian Government on a voluntary tax transparency code. The report contained recommendations for additional disclosure of tax information by companies split between Part A and Part B disclosures. The Part B disclosures are publishable in a separate Taxes Paid report. The Part A disclosures are:

- a reconciliation of accounting profit to tax expense and to income tax paid or income tax payable;
- the identification of material temporary and non-temporary differences; and
- the effective company tax rates for Australian and global operations.

A reconciliation of Wesfarmers' accounting profit to its tax expense and material temporary and non-temporary differences are disclosed in note 3. A reconciliation of accounting profit to income tax paid or payable and the effective company tax rates for the Group's Australian and global operations are tabled below.

	Consolidated	
	2019	2018
	\$m	\$m
<b>Tax paid or payable reconciliation</b>		
Accounting profit	2,799	2,134
Income tax at the statutory tax rate of 30%	840	640
Non-deductible items	12	99
Temporary differences: deferred tax	(39)	19
Associates and other	(3)	(6)
<b>Current year tax paid or payable</b>	<b>810</b>	<b>752</b>
<b>Effective tax rate</b>		
<b>Effective tax rate for Australian operations</b>	<b>30.2%</b>	<b>34.4%</b>
Effective tax rate for Australian operations (excluding Target impairment <sup>1</sup> )	30.2%	29.7%
Effective tax rate for global operations	30.7%	34.0%
Effective tax rate for global operations (excluding Target impairment <sup>1</sup> )	30.7%	29.7%

<sup>1</sup> The \$306 million impairment of Target's goodwill and non-current assets recognised during FY2018 was a non-deductible item.

# DIRECTORS' DECLARATION

## Wesfarmers Limited and its controlled entities

In accordance with a resolution of the directors of Wesfarmers Limited, we state that:

1. In the opinion of the directors:
  - 1.1 the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the consolidated entity for the full-year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:
    - (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
    - (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
  - 1.2 the financial statements and notes comply with International Financial Reporting Standards as disclosed in the notes to the financial statements on page 117 of the 2019 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 2019.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group comprising the company and the controlled entities marked '+' as identified in note 19 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee referred to in note 24.

On behalf of the Board:



M A Chaney AO  
Chairman



R G Scott  
Managing Director

Perth

25 September 2019

# INDEPENDENT AUDITOR'S REPORT

To the Members of Wesfarmers Limited



**Building a better  
working world**

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

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

## Independent auditor's report to the Members of Wesfarmers Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Wesfarmers Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes to the financial statements and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

# INDEPENDENT AUDITOR'S REPORT

To the Members of Wesfarmers Limited

## 1. Accounting for the demerger of Coles

### Why significant

Coles Group Limited ("Coles") was demerged from the Group on 28 November 2018, with the Group retaining a 15% interest.

As disclosed in Note 20 *Discontinued operations* to the financial statements, Wesfarmers has recognised a \$2,264 million post-tax gain on the demerger distribution.

We determined this to be a key audit matter due to the financial impact of the transaction on the Group and the judgement required when determining whether the Group maintains significant influence over Coles.

As disclosed in Note 18 *Associates and joint arrangements* to the financial statements, the Group has assessed that it asserts significant influence over Coles. Accordingly, the Group has accounted for the retained ownership interest as an investment in an associate, resulting in an equity accounted carrying value at 30 June 2019 of \$2,699 million.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- We obtained and read the key documents associated with the demerger to identify the terms relevant to the calculation of the gain on demerger and the Group's assessment that significant influence existed at 30 June 2019
- We evaluated the key inputs to the post-tax gain on demerger calculation, being the distribution value, the fair value of the retained investment at demerger date, the carrying value of the Coles net assets at demerger date, and the transaction costs incurred
- We assessed whether the Group accurately determined the value of assets and liabilities derecognised as at the demerger date and whether the operating result to the point of demerger was correctly recorded
- Our tax specialists considered the tax impacts of the demerger, including consideration of external advice and private tax rulings obtained by the Group
- We assessed the calculation of the equity-accounted carrying value of the Coles investment at 30 June 2019, including agreeing the share of Coles' profit and reserves recognised during the post-demerger period to Coles' audited financial statements
- We assessed the carrying value of the Coles investment at 30 June 2019 for impairment with reference to the market value of the Group's interest in Coles and the Group's accounting policies relating to impairment of associates
- We assessed the financial report disclosures in accordance with the requirements of Australian Accounting Standards.

# INDEPENDENT AUDITOR'S REPORT

To the Members of Wesfarmers Limited

## 2. Impairment of non-current assets

### Why significant

The determination of the recoverable amounts of property, plant and equipment ("PPE"), goodwill and other intangible assets required significant judgement by the Group.

As required by Australian Accounting Standards, the Group assesses at the end of each reporting period whether there are any triggers indicating that an asset may be impaired. Goodwill and indefinite life intangibles are assessed for impairment at least annually.

Impairment assessments are typically complex and judgemental, as they include the modelling of a range of assumptions and estimates that will be impacted by future performance and market conditions.

During the financial year, there were no material impairment charges or reversals of previously recognised impairment, as disclosed in Note 17 *Impairment of non-financial assets*.

Key assumptions, judgements and estimates applied in the Group's impairment assessment for the Industrial and Safety cash generating unit ("CGU") are set out in Note 17.

### How our audit addressed the key audit matter

Our audit procedures included an evaluation of the assumptions and methodologies utilised in the assessments, with emphasis on those relating to the determination of CGUs, forecast cash flows, growth rates, discount rates, comparative industry valuation multiples and other market evidence.

We involved our valuation specialists to evaluate the appropriateness of key inputs, where relevant to the impairment tests, including:

- Discount rates
- Terminal growth rates
- Market evidence of industry earnings valuation multiples
- Long-term inflation and growth rate assumptions
- Forecast exchange rate assumptions.

We also considered the adequacy of the financial report disclosures regarding the impairment testing approach, key assumptions and sensitivity analysis.

## 3. Supplier rebates

### Why significant

Rebates are received by the Group from suppliers associated with its retail operations.

We determined this to be a key audit matter due to the value of supplier rebates recognised during the year and the judgement required in relation to a number of factors, including:

- The commercial terms of each individual rebate
- The appropriate timing of recognition
- Consideration of the nature of the rebate and whether the amount should be applied against the carrying value of inventory or recognised in the income statement
- The accurate recognition and measurement of rebates in accordance with Australian Accounting Standards and the Group's related processes and controls.

Disclosures relating to the measurement and recognition of supplier rebates can be found in Note 6 *Inventories*.

### How our audit addressed the key audit matter

Our audit procedures in respect of supplier rebates included the following:

- We gained an understanding of the nature of each material type of supplier rebate including assessing the significant agreements in place
- We assessed the effectiveness of relevant controls in place relating to the recognition and measurement of rebate amounts
- We performed comparisons of the various rebate arrangements against the prior year and budget, including analysis of aging profiles and where material variances were identified, obtained supporting evidence
- We selected a sample of supplier rebates and tested whether documentation existed supporting the recognition and measurement of the rebates in the 30 June 2019 financial statements
- We inspected a sample of material new contracts entered into before and after the balance date and assessed whether the treatment adopted by the Group was appropriate
- We inquired of legal counsel as to the existence of other rebate contracts or contracts with unusual terms and conditions
- We inquired of business representatives including product category merchandisers, supply chain managers and procurement staff as to the existence of any non-standard agreements or side arrangements.

# INDEPENDENT AUDITOR'S REPORT

To the Members of Wesfarmers Limited

## 4. AASB 16 Leases

### Why significant

The new accounting standard AASB 16 *Leases* ("AASB 16") is effective for the Group from 1 July 2019.

The adoption of the new standard is expected to have a significant impact on the Group's financial position and performance, as disclosed in Note 27 *Other accounting policies* to the financial statements.

The Group's determination of the impact of adopting AASB 16 involved a number of key judgements and estimates, which are described in Note 27. In particular:

- The application of available practical expedients
- The estimation of lease terms for contracts where extension options exist
- The incremental borrowing rates applied
- The estimation of standalone prices for non-lease components.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- We assessed the Group's process for determining the expected impact of the standard
- We evaluated the Group's calculations and judgements supporting the AASB 16 disclosures and assessed whether Wesfarmers' accounting principles comply with the new accounting standard including practical expedients applied
- We tested a sample of lease contracts to assess whether the associated right-of-use asset and lease liability had been calculated materially in accordance with contract terms and the requirements of the accounting standard, including the identification of fixed and variable components of lease consideration
- We assessed the completeness of the Group's material identified lease arrangements
- We held discussions with representatives from divisional property management teams to understand the basis for estimated lease terms and non-lease component rates
- We agreed data used in estimating the standalone prices of non-lease components to an external benchmark report released by an independent party
- We involved our capital and debt advisory specialists and actuarial specialists to evaluate the appropriateness of the Group's methodology and calculations used to determine the incremental borrowing rates applied to discount future lease payments to present value
- We considered the adequacy of the financial report disclosures.

# INDEPENDENT AUDITOR'S REPORT

To the Members of Wesfarmers Limited

## Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



# INDEPENDENT AUDITOR'S REPORT

To the Members of Wesfarmers Limited

## Report on the audit of the Remuneration Report

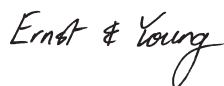
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Wesfarmers Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



D S Lewsen  
Partner  
Perth  
25 September 2019



J K Newton  
Partner  
Perth  
25 September 2019

## SHAREHOLDER INFORMATION

### Substantial shareholders

As at the date of this report, the following shareholders are substantial shareholders for the purposes of Part 6C.1 of the *Corporations Act 2001*:

- BlackRock Group (BlackRock Inc. and subsidiaries) holding 6.04 per cent; and
- The Vanguard Group, Inc. holding 5.00 per cent.

### Voting rights

Wesfarmers fully-paid ordinary shares carry voting rights of one vote per share.

### Distribution of members and their holdings

Size of holdings	Number of shareholdings
1 – 1,000	375,596
1,001 – 5,000	89,409
5,001 – 10,000	9,994
10,001 – 100,000	5,079
100,001 and over	164

There were 12,866 shareholders that held less than a marketable parcel of Wesfarmers ordinary shares.

There were 1.05 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 25 September 2019 were:

Name	Number of shares	% of issued capital
HSBC Custody Nominees (Australia) Limited	259,230,418	22.86
J P Morgan Nominees Australia Pty Limited	165,763,879	14.62
Citicorp Nominees Pty Limited	65,763,144	5.80
National Nominees Limited	29,691,368	2.62
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	21,340,303	1.88
HSBC Custody Nominees (Australia) Limited (Nt-Comnwith Super Corp A/C)	9,079,512	0.80
BNP Paribas Noms Pty Ltd (DRP)	8,767,571	0.77
Australian Foundation Investment Company Limited	6,847,500	0.60
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	6,120,067	0.54
CPU Share Plans Pty Limited (WESAP DFE Control A/C)	5,530,493	0.49
Argo Investments Limited	5,040,027	0.44
HSBC Custody Nominees (Australia) Limited - GSCO ECA	3,348,075	0.30
CPU Share Plans Pty Limited (WES Exu Control A/C)	3,246,423	0.29
AMP Life Limited	3,101,425	0.27
Milton Corporation Limited	2,877,375	0.25
HSBC Custody Nominees (Australia) Limited	2,368,203	0.21
Netwealth Investments Limited (Wrap Services A/C)	2,291,311	0.20
Australian Executor Trustees Limited (IPS Super A/C)	2,102,264	0.19
Goldman Sachs Australia + Nominee Holdings Pty Ltd (WES Ltd Div Inv Plan A/C)	1,862,369	0.16
Navigator Australia Ltd (MLC Investment Sett A/C)	1,604,089	0.14

The percentage holding of the 20 largest shareholders of Wesfarmers ordinary shares was 53.44.

# INVESTOR INFORMATION

## Managing your shareholding

The company's share registry is managed by Computershare Investor Services Pty Limited (Computershare).

The Investor Centre website is the fastest, easiest and most convenient way to view and manage your shareholding. Investor Centre enables a shareholder to:

- view the company share price;
- change your banking details;
- change your address (for non-CHESS sponsored holdings);
- update your dividend instructions;
- update your Tax File Number (TFN), Australian Business Number (ABN) or exemption;
- select your email and communication preferences;
- view your transaction and dividend history; and
- generate a holding balance letter.

Visit [www.wesdirect.com.au](http://www.wesdirect.com.au) and click on 'Create Login' for portfolio membership or click on 'Access a Single Holding' for holding information.

When communicating with Computershare or accessing your holding online you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also contact Computershare by:

**Post** GPO Box 2975 Melbourne, Victoria 3001 Australia

**Telephone Australia** 1300 558 062

**Telephone International** (+61 3) 9415 4631

**Website** [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

## Tax File Numbers

While it is not compulsory to provide a TFN, if shareholders have not provided a TFN and Wesfarmers pays an unfranked or partly-franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate plus the Medicare Levy. Shareholders can go online to update their TFN by visiting [www.wesdirect.com.au](http://www.wesdirect.com.au)

## Change of name or consolidation of holdings

Name changes or consolidation of multiple holdings into one single holding must be made in writing by using the required forms, which can be downloaded from [www.wesdirect.com.au](http://www.wesdirect.com.au) and clicking on 'Need a Printable Form?'

Uncertificated Share Register: The Wesfarmers share register is uncertificated. Two forms of uncertificated holdings are available to shareholders:

- *Issuer sponsored holdings* – these holdings are sponsored by Wesfarmers and there is no need for shareholders to be sponsored by a stockbroker; and
- *Broker sponsored holdings* – shareholders may arrange to be sponsored by a stockbroker who will require a signed sponsorship agreement.

Holding statements are issued to shareholders within five business days after the end of any month in which transactions occur that alter the balance of their holding. Shareholders can also access details of their shareholdings and dividends paid on their holdings by visiting [www.wesdirect.com.au](http://www.wesdirect.com.au)

## Information on Wesfarmers

### Wesfarmers website

Up-to-date information on the company can be obtained from the company's website [www.wesfarmers.com.au](http://www.wesfarmers.com.au)

### Securities Exchange listing

Wesfarmers shares are listed on the Australian Securities Exchange under the code WES.

Share prices can be accessed from major Australian newspapers, on the Wesfarmers website or at [www.asx.com.au](http://www.asx.com.au)

### Dividend investment plan

The company's dividend investment plan was reinstated with effect from 27 February 2007. Details of the plan can be obtained from the share registry or the Wesfarmers website.

### Privacy

A copy of the Wesfarmers Privacy Policy is available on the Wesfarmers website.

### Wesfarmers Corporate Affairs department

Further information and publications about the company's operations are available from the Corporate Affairs department on (08) 9327 4428 (within Australia) or (+61 8) 9327 4428 (International) or from the Wesfarmers website.

## FIVE-YEAR FINANCIAL HISTORY

All figures in \$m unless shown otherwise <sup>1</sup>	2019 <sup>2</sup>	2018 <sup>3</sup>	2017	2016 <sup>4</sup>	2015
<b>Summarised income statement</b>					
Sales revenue	44,485	69,595	68,099	65,643	62,129
Other operating revenue	199	283	345	338	318
Operating revenue	44,684	69,878	68,444	65,981	62,447
Operating profit before depreciation and amortisation, finance costs and income tax	7,627	4,079	5,668	2,642	4,978
Depreciation and amortisation	(809)	(1,283)	(1,266)	(1,296)	(1,219)
EBIT	6,818	2,796	4,402	1,346	3,759
Finance costs	(175)	(221)	(264)	(308)	(315)
Income tax expense	(1,133)	(1,378)	(1,265)	(631)	(1,004)
Profit after tax from discontinued operations	3,570	(1,407)	-	-	-
Operating profit after income tax attributable to members of Wesfarmers Limited	5,510	1,197	2,873	407	2,440
<b>Capital and dividends</b>					
Ordinary shares on issue (number) 000's as at 30 June	1,133,840	1,133,840	1,133,840	1,126,131	1,123,753
Paid up ordinary capital as at 30 June	15,809	22,277	22,268	21,937	21,844
Fully-franked dividend per ordinary share declared (cents)	178	223	223	186	200
Special dividend	100	-	-	-	-
Capital management: capital return and fully-franked dividend components	-	-	-	-	100
<b>Financial performance</b>					
Earnings per share (weighted average) (cents)	487.2	105.8	254.7	36.2	216.1
Earnings per share growth	360.5%	(58.5)%	603.6%	(83.2)%	(7.9)%
Return on average ordinary shareholders' equity (R12) (excluding significant items <sup>4</sup> )	19.2%	11.7%	12.4%	9.6%	9.8%
Fixed charges cover (R12, times) (excluding significant items <sup>5</sup> )	3.2	3.0	3.1	2.7	3.0
Interest cover (cash basis) (R12, times) (excluding significant items <sup>5</sup> )	30.6	30.4	25.0	16.8	20.5
<b>Financial position as at 30 June</b>					
Total assets	18,333	36,933	40,115	40,783	40,402
Total liabilities	8,362	14,179	16,174	17,834	15,621
Net assets	9,971	22,754	23,941	22,949	24,781
Net tangible asset backing per ordinary share	\$5.21	\$4.33	\$4.44	\$3.45	\$4.85
Net debt to equity	25.1%	17.3%	20.1%	31.0%	25.1%
Total liabilities/total assets	45.6%	38.4%	40.3%	43.7%	38.7%
<b>Stock market capitalisation as at 30 June</b>					
	41,000	55,966	45,490	45,158	43,860

<sup>1</sup> All figures are presented as last reported, including discontinued operations.

<sup>2</sup> The summarised income statement for 2019 includes significant items relating to the following pre-tax (post-tax) items: \$2,319 million (\$2,264 million) gain on demerger of Coles, the \$679 million (\$645 million) gain on disposal of Bengalla, the \$267 million (\$244 million) gain on disposal of KTAS, the \$138 million (\$120 million) gain on disposal of Quadrant Energy and \$146 million (\$102 million) provision for Coles supply chain automation.

<sup>3</sup> The summarised income statement for 2018 includes significant items relating to the following pre-tax (post-tax) items: \$306 million (\$300 million) non-cash impairment of Target, BUKI's writedown and store closure provision of \$931 million (\$1,023 million), \$375 million (\$375 million) loss on disposal relating to BUKI, partially offset by \$120 million (\$123 million) gain of the Curragh Coal Mine.

<sup>4</sup> The summarised income statement for 2016 includes significant items relation to the following pre-tax (post-tax) items: \$1,266 million (\$1,249 million) non-cash impairment of Target; \$850 million (\$595 million) non-cash impairment of Curragh; and \$145 million (\$102 million) of restructuring costs and provisions to reset Target.

<sup>5</sup> The 2016-2019 ratios exclude the significant items outlined in footnotes 2-4 above.

# CORPORATE DIRECTORY

Wesfarmers Limited ABN 28 008 984 049

## Registered office

Level 14, Brookfield Place Tower 2  
123 St Georges Terrace  
Perth, Western Australia 6000

**Telephone** (+61 8) 9327 4211

**Facsimile** (+61 8) 9327 4216

**Website** [www.wesfarmers.com.au](http://www.wesfarmers.com.au)

**Email** [info@wesfarmers.com.au](mailto:info@wesfarmers.com.au)

## Executive director

Rob Scott  
Group Managing Director and Chief Executive Officer

## Non-executive directors

Michael Chaney AO  
Chairman  
The Right Honourable Sir Bill English KNZM  
Tony Howarth AO  
Wayne Osborn  
Mike Roche  
Diane Smith-Gander AO  
Vanessa Wallace  
Sharon Warburton  
Jennifer Westacott AO

## Chief Financial Officer

Anthony Gianotti

## Company Secretary

Linda Kenyon (to 30 June 2019)  
Aleksandra Spaseska (from 1 July 2019)

## Share registry

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford, Victoria 3067

**Telephone Australia** 1300 558 062

**Telephone International** (+61 3) 9415 4631

**Facsimile Australia** (03) 9473 2500

**Facsimile International** (+61 3) 9473 2500

**Website** [www.investorcentre.com/wes](http://www.investorcentre.com/wes)

## Financial calendar\*

Record date for final dividend	2 September 2019
Final dividend paid	9 October 2019
Annual general meeting	14 November 2019
Half-year end	31 December 2019
Half-year profit announcement	February 2020
Record date for interim dividend	February 2020
Interim dividend payable	April 2020
Year-end	30 June 2020

\* Timing of events is subject to change.

## Annual general meeting

The 38th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia on Thursday 14 November 2019 at 1:00pm (Perth time).

## Website

To view the 2019 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](http://www.wesfarmers.com.au)



## WESFARMERS COMPANIES

### BUNNINGS



### KMART GROUP



### INDUSTRIALS



### OFFICEWORKS



### OTHER INTERESTS





The cover and pages 1 to 84 are printed on Monza. Monza Recycled is Certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Protocol and ISO 14040 framework. Monza Recycled contains 55% recycled fibre (25% post-consumer and 30% pre-consumer) and is FSC® Mix Certified, which ensures that all virgin pulp is derived from responsible sources. It is manufactured by an ISO 14001 certified mill.

The paper used from pages 85 to 172 is printed on white offset laser. This is an environmentally responsible paper manufactured under the environmental management system ISO 14001 using Elemental Chlorine-Free (ECF) pulp derived from responsible sources. This paper is FSC® Mixed Sources Chain of Custody (CoC) certified.

Designed by Clarity Communications





