Wesfarmers Limited
ABN 28 008 984 049

25 September 2009

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir,

**WESFARMERS LIMITED 2009 ANNUAL REPORT**

Attached is a copy of the Wesfarmers Limited 2009 Annual Report.

A copy of the Annual Report will be posted on 7 October 2009 to those shareholders who have elected to receive a copy.

A copy of the Annual Report will also be available on the company's website www.wesfarmers.com.au.

Yours faithfully,

L J KENYON
COMPANY SECRETARY

Enc.

Wesfarmers Limited, 11th Floor, "Wesfarmers House", 40 The Esplanade, Perth, Western Australia, 6000
GPO Box M978, Perth, Western Australia 6843. Telephone: (08) 9327 4211. Facsimile: (08) 9327 4216
www.wesfarmers.com.au

# Wesfarmers

## Annual Report 2009

# Our primary objective is to provide a satisfactory return to shareholders

We aim to achieve this by:

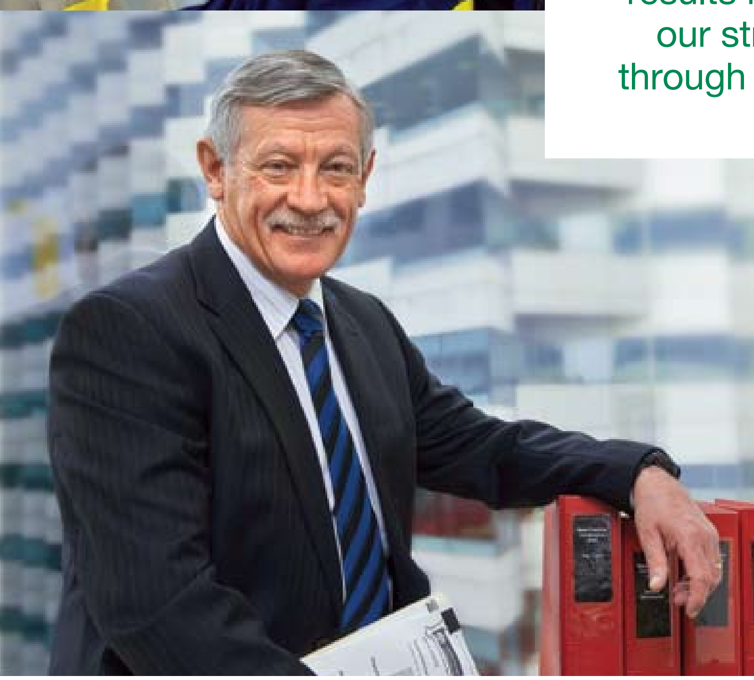
- satisfying the needs of customers through the provision of goods and services on a competitive and professional basis;
- providing a safe and fulfilling working environment for employees, rewarding good performance and providing opportunities for advancement;
- contributing to the growth and prosperity of the countries in which we operate by conducting existing operations in an efficient manner and by seeking out opportunities for expansion;
- responding to the attitudes and expectations of the communities in which we operate;
- placing a strong emphasis on protection of the environment; and
- acting with integrity and honesty in dealings both inside and outside the company.

(bottom left) – Keiran Farrell, Group Taxation Manager, Wesfarmers corporate office.
(top left) – Liz Ottaviano, People Development Adviser, CSBP.
(top right) – Vijay Mahesh, Coles Duty Manager.
(bottom right) – Scott Weatherall, Graduate Geologist, Curragh.

**WESFARMERS LIMITED**
ABN 28 008 984 049

**CONTENTS**

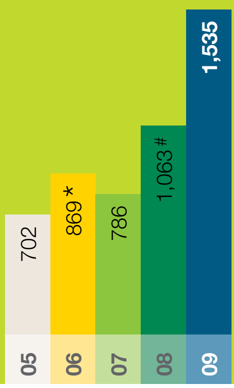

# Wesfarmers' 2009 results highlight our strength through diversity



# Highlights and summary

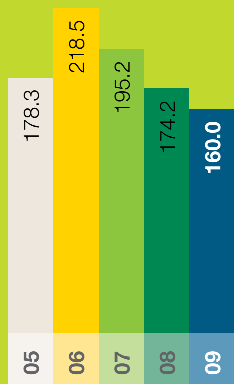
**NET PROFIT**
**($m)**
## $1,535m

* Excludes earnings from the sale of ARG.
\# Restated for finalisation of Coles acquisition accounting.




**EARNINGS PER SHARE***
**(cents)**
## 160 cents

* 2005 to 2008 earnings per share restated for the entitlement offers.




**DIVIDENDS PER SHARE**
**(cents)**
## 110 cents


# Strong performance and a positive outlook despite the challenging economic environment

## Financial highlights

- 52 per cent increase in revenue to $51.0 billion*
- 34 per cent increase in earnings before interest and tax (EBIT) to $2,977 million*
- 44 per cent increase in net profit after tax to $1,535 million*
- $1.60 earnings per share for the full-year compared with $1.74 for 2008
- 110 per cent increase in operating cash flow to $3,044 million*
- $0.60 fully-franked final dividend per share declared (above earlier guidance) with total full-year dividend of $1.10 per share
- Successfully completed $4.6 billion equity raising
- Balance sheet strengthened with net debt reduced by $4.8 billion
- Gearing (net debt to equity) significantly reduced to 18.3 per cent, with cash interest cover (cash basis) at a healthy 5.3 times
- Resources' EBIT up 116.3 per cent to $915 million
- Revenue for the Coles division was $28.8 billion with food and liquor comparable store sales growth of 4.6 per cent
- Bunnings' store-on-store cash sales growth of 10.1 per cent with trading EBIT up 13.9 per cent
- Comparable store sales growth at Target of 4.2 per cent

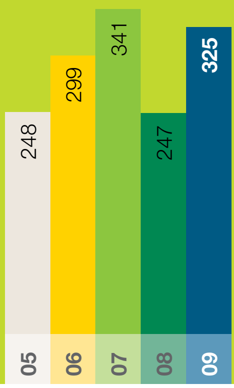
* Coles, Kmart, Officeworks and Target included for the period of 23 November 2007 to 30 June 2008.

## Operational highlights

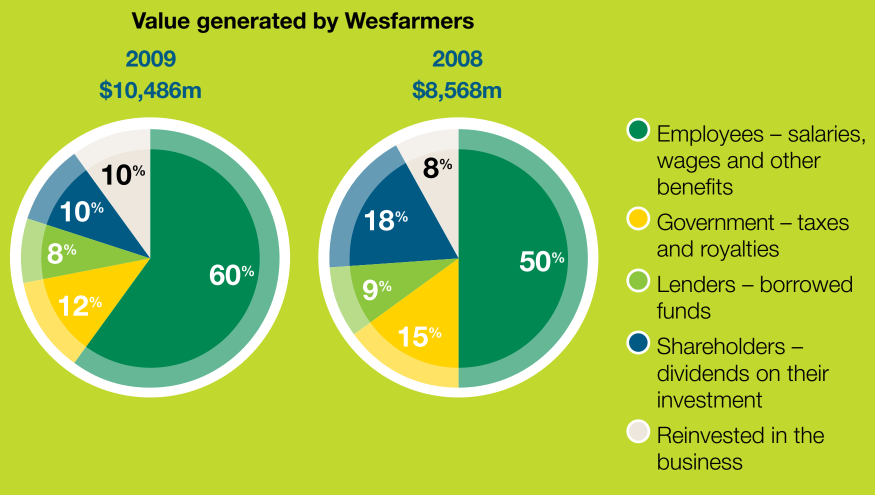
- 10,000 new jobs created across the Wesfarmers Group
- Record production and sales from the Curragh coal mine
- Curragh commenced the Blackwater Creek diversion project which will increase mine potential
- More than 120 new retail outlets were opened across the Group
- Coles turnaround continuing to meet internal expectations with 13 new format stores opened
- 10 new Bunnings warehouses and 10 trade centres opened with continued investment across the store network. Another 10 stores under construction with 20 more sites being developed
- 33 Target store refurbishments completed with new store design standards including layout, fixtures, flooring and signage
- Appointment of a new management team to lead Kmart
- Kmart and Officeworks business transformations underway
- Increased ammonium nitrate production at CSBP as a result of the commissioning of the new ammonium nitrate plant
- Commissioning of the 175 tonne-per-day liquefied natural gas plant at Kwinana
- Restructure of the Lumley Australia and New Zealand businesses progressed well and the move to a single underwriting licence in Australia was completed

## OPERATING CASH FLOW PER SHARE (cents)

**325 cents**




## VALUE GENERATED AND DISTRIBUTED




# Results summary

| | | 2009 | 2008* |
|---|---|---|---|
| **Key financial** | | | |
| Revenue | $m | **50,982** | 33,584 |
| Net profit before interest and tax | $m | **2,977** | 2,229 |
| Net profit after tax | $m | **1,535** | 1,063 |
| Dividends | $m | **1,102** | 1,533 |
| Total assets | $m | **39,295** | 37,178 |
| Net debt | $m | **4,435** | 9,276 |
| Shareholders' equity | $m | **24,252** | 19,598 |
| Capital expenditure on property, plant and equipment and intangibles | $m | **1,503** | 1,241 |
| Depreciation and amortisation | $m | **1,024** | 660 |
| **Key share data** | | | |
| Earnings per share | cents | **160.0** | 174.2** |
| Dividends per share | cents | **110.0** | 200.0 |
| Net tangible assets per share | $ | **3.14** | -1.36 |
| Operating cash flow per share | $ | **3.25** | 2.47 |
| **Key ratios** | | | |
| Return on average shareholders' equity | % | **7.4** | 8.6 |
| Gearing (net debt to equity) | % | **18.3** | 47.3 |
| Interest cover (cash basis) | times | **5.3** | 4.9 |

* Restated for finalisation of Coles acquisition accounting.
** Earnings per share restated for the entitlement offers.

Wesfarmers' major business groupings of retail, industrial and insurance reach a wide and diverse range of customers. They shop with us for groceries, clothes, home improvement products and petrol. They also insure with us and they buy coal, gas, chemicals and safety products.

(bottom left) – Coles supplier, Anthony Yewers from Berrysweet Strawberry Farm.
(top left) – Gordon Wilson, Bunnings team member, with a customer.
(top right) – Mark Graham, Western Australian farmer and CSBP customer.
(bottom right) – Luke Nullmeyers, Coles Express team member.

Wesfarmers 2009
providing value to
a diverse range
of customers

Wesfarmers' values of integrity, openness, accountability and boldness are integral to ensuring that we deliver on our core objective of providing a satisfactory return to shareholders. We also recognise the importance of good custodianship of the environment and the responsible conduct of our businesses in the communities in which we operate.

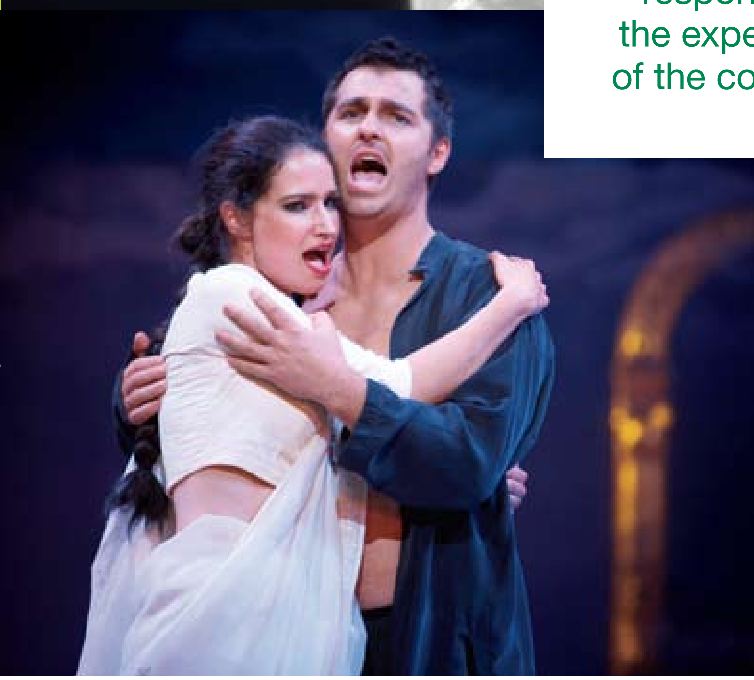
(bottom left) – Katya Webb and James Egglestone in West Australian Opera's 2009 production of Bizet's *The Pearlfishers*.

(top left) – Professor Peter Klinken (left) and Professor Peter Leedman from the Western Australian Institute for Medical Research.

(top right) – Members of Surf Life Saving Western Australia refine their jet rescue skills.

(bottom right) – A fire and rescue training exercise.

Wesfarmers 2009
responding to
the expectations
of the community



# Chairman's message

## Positive support from shareholders for the equity offer earlier this year, combined with strong free cash flow generation, added strength to the balance sheet and takes the Wesfarmers Group into 2010 in a solid position.

I am delighted to present the 2009 Annual Report to shareholders, my first as Chairman of this great company.

Few would disagree that last year was one of the most volatile and challenging in our history. Wesfarmers was not immune to the shocks felt by companies here and around the world flowing from the global financial crisis and this was reflected in the results we reported in August for the 2008/09 financial year. Our industrial businesses were particularly affected by the general economic downturn, as well as some localised factors such as the major gas outage in Western Australia, which restricted production from these businesses for much of the financial year.

The economic climate has also, clearly, had an impact on our share price. But at times like this it is more important than ever to avoid being distracted by the ups and downs of the market through any given period and to remain focused on what has always been our objective of delivering satisfactory returns to shareholders. Your Board continues to take a long-term view of the company's prospects and remains confident that we have the physical and human resources to achieve that goal.

**A clear focus in difficult times**

In these challenging and demanding times the Board, together with management, has been very focused on ensuring that the company is in a sound financial position so that we may both weather the storm and be well-placed to prosper when recovery occurs.

To this end, we successfully completed a $4.6 billion equity raising in February. Many of our shareholders participated in this raising and the Board appreciates the strong support you gave the Group at that time.

Another major decision aimed at bolstering the company's financial strength was the reduction in the dividend payment. As you know, the Board delivered a fully-franked dividend of 60 cents for the half-year ended 30 June 2009, bringing the full-year shareholder payment to $1.10. This decision was given long and careful consideration as we certainly understand the importance of a stable and preferably growing income stream from dividends for many of our shareholders. But we were strongly of the view that, in light of the extraordinary volatility and uncertainty of the credit crisis, it was prudent to ensure that our balance sheet was very strong.

During the year the Board also spent a lot of time on risk management issues. The size and speed of the changes in key financial parameters, such as interest and exchange rates and commodity prices, has been little short of staggering over the past year. The Board responded to this situation by refining its approach to risk management. We had to engage in extensive stress testing using a far wider range of inputs to make sure the company could withstand the global financial crisis.

As we look ahead as a company, and as a nation, we must remain alert to any developments or issues that, not handled properly, could have negative impacts. On the broad policy front, it is imperative that Australia ensures it does not take action with respect to carbon reduction strategies which would reduce industry competitiveness. We also encourage all parties to take a commonsense and cooperative approach in their dealings under the new workplace relations structure.

**Executive pay and performance**

You may recall that last year Wesfarmers received a majority 'no' vote from shareholders on our executive remuneration report. At the 2008 Annual General Meeting we undertook to give this matter serious consideration, as it is very important for shareholders to have confidence in the basis of calculation and the way in which Board members and senior management are paid. The whole basis of senior executive remuneration has since been thoroughly reviewed, including the plans that make up the at-risk components, and a number of changes have been made.

These include freezing base salaries for the Group's senior executive team until October 2010, and limiting annual incentive payments for the 2009 financial year to payments in relation to achievement of financial targets only. Board fees will also be frozen. Importantly, we are maintaining the company's financial performance hurdles related to remuneration that were set before the economic downturn and the substantial capital raising in early 2009.

Additionally, we have increased the transparency and disclosure of key elements of the company's remuneration structures and done what we can to make this year's remuneration report – which can be found on page 154 – easier to read and understand. In particular, we have tried to explain how the remuneration structures and practices for executives are strongly linked to their performance and that incentive payments are paid only if it can be clearly demonstrated that this contributes to long-term shareholder value.

That being said, our basic approach to remuneration remains unchanged. We continue to pay at the median level of major-listed companies, while providing a competitive mix of incentives to make sure we attract and retain the best executive talent.

**Business performance**

The acquisition of the Coles group has significantly changed the nature of Wesfarmers. But it's worth remembering that the company has regularly been transformed by acquiring new businesses. While scale may vary, the overriding principle remains as relevant today as when we became a public entity in 1984 – new assets are assessed on whether they will generate satisfactory returns for shareholders over the long-term. That was certainly the case with Coles.

The last financial year has clearly also, once again, demonstrated the benefit derived from having exposure to a number of sectors. Notwithstanding the gas crisis in Western Australia, our industrial businesses were benefiting from unprecedented global and domestic demand for commodities and energy. Now, with people gravitating to value-based retail purchasing, most of our retail businesses are performing very well and they contributed significantly to our full-year results.

It has been particularly pleasing to see the Coles, Kmart and Officeworks turnarounds gathering momentum. The opportunity for Coles is not simply to move to best practice Australian retailing but to transform the business so that it can match anything being achieved globally.

With teams of world-class retailers leading these businesses and a clear strategy based on performance and customer-focus, the signs are – as we approach the end of the second year of our five year turnaround timeframe – that we are on the way to creating significant, long-term value for our shareholders.

While retail is now obviously a major focus, the other parts of our business portfolio deserve and receive no less attention as they continue to make very important contributions.

**Beyond the short-term**

Wesfarmers' core business philosophies are really no different from when the company began 95 years ago as a cooperative servicing the Western Australian rural community and which were consolidated into the satisfactory shareholder return objective we enunciated at the time of listing 25 years ago.

These principles underlie the commonsense, practical systems that make sure all our businesses are managed in a solid, reliable and accountable way. They define our approach to investment and value which recognises that markets, like the weather, are subject to unforeseen and sometimes unprecedented events. While dealing with these as necessary – and this last year stands as stark an example as we've ever had – we never cease to look to the longer term.

I would like to take this opportunity to record the company's appreciation of the enormous contribution made to Wesfarmers by my predecessor, Trevor Eastwood AM. On a personal note, I thank Trevor very much for the guidance he provided in the transition to my role as Chairman. Another long-term and distinguished contributor, Gene Tilbrook, retired from the position of Finance Director in May. In wishing Gene every success for the future I welcome Terry Bowen to the Board and look forward to working closely with him in the years ahead.

In late August 2009, Diane Smith-Gander joined the Board and Archie Norman was appointed an adviser to the Board on retail issues. They will make a great contribution to our company.

Finally, I want to take this opportunity to thank my fellow Board members for their support and advice during this testing year. I also want to express my appreciation to Richard Goyder and his senior management team for maintaining their clear focus. They are not only managing the company effectively through the downturn but positioning it for long-term growth and value creation when better economic times inevitably return.

**Bob Every** Chairman

# Managing Director's review

## A 44 per cent profit increase was a good result in what was a challenging year in the context of the global and national economic downturn and localised factors affecting some of the Wesfarmers businesses.

Wesfarmers is in a strong position to capitalise on a return to more normal conditions after one of the most turbulent periods the world economy has ever seen.

Rarely have companies and their owners, here and abroad, had to face such severe challenges and unexpected shocks.

The scale and suddenness of developments towards the end of the 2008 calendar year, escalating through the first half of this year, were a severe test of the resilience of businesses.

As our Chairman has noted, Wesfarmers had to respond decisively to see the company through the turmoil and to position it for recovery.

In last year's Annual Report, published about the time the world's economy took its first big hits, I referred to our plans for the Coles group of companies aimed at ensuring that this acquisition would prove, over time, very beneficial to shareholders.

Twelve months on, and still obviously at an early stage in the five year turnaround process, my confidence in our ability to achieve that objective has been reinforced. The challenges of completing the required transformation remain but the performance to date has been very encouraging.

While our retail businesses benefited from consumer spending flowing from the government stimulus packages, the past year has confirmed that everyday necessity products remain in strong demand regardless of the economic cycle.

The overall Wesfarmers Group result for the full-year – a profit after tax of $1,535 million – was a good outcome in the circumstances and represented a 44 per cent increase on the previous year when we had owned the Coles group businesses for only seven months.

**Coles group progress**

The Coles turnaround continues to gather momentum with the benefits of the major restructuring, disciplined management and greater customer focus becoming apparent.

Store-on-store growth in the Coles food and liquor businesses grew to 7.3 per cent in the last quarter of the year and was 4.6 per cent for the full-year, compared with 2.8 per cent for the period of ownership in 2007/08. These results are in line with our expectations, reflecting fundamental improvements in areas such as supply chain and store format, product availability and freshness.

Kmart is also making progress although not as advanced as Coles. Over the past 12 months, we've put in place a new leadership team, there is a renewed customer focus and many of the structural changes needed to return the business to sustained growth have been implemented.

The Officeworks business, grouped now with Bunnings, is starting to show improved results at a time when there has been real pressure on its small-to-medium business customer base.

Target was performing well at the time of acquisition and continues to impress, emphasising the durability of its quality value offer.

**Bunnings**

Bunnings had another outstanding year with earnings before interest and tax up almost 12 per cent on the previous 12 months.

This result continues to demonstrate that Bunnings' price and service offering remains highly compelling despite general economic conditions thanks to its team's never-ceasing innovative thinking and energy. The business has never been in better shape.

**Industrial and Insurance**

The economic downturn created a challenging environment for our industrial divisions.

Lower coal prices in the second half of the year reflected the sharp economic slowdown of our major trading partners and deterioration in the value of the Australian dollar, and affected full-year earnings for our Resources division. These price falls underline the imperative to control costs but current prices are historically high and the long-term outlook for coal remains strong, particularly as China continues its rapid process of modernisation.

A great operational performance by Resources enabled the division to make the most of very high prices in the first half and produce a record full-year result.

A decline in global commodity prices, together with the ongoing impacts of Western Australian-related factors, including the Varanus Island gas supply disruption and seasonal factors that delayed local farm activity, had a negative impact on Chemicals and Fertilisers.

Varanus Island and a slowdown in demand from industrial gas customers also led to a decline in earnings in the Energy division. Industrial and Safety was adversely affected by slowing demand for product in mining, manufacturing and construction.

The Insurance division had a difficult year in a competitive environment where earnings declined due to a reduced return from investments as a result of lower interest rates and the adverse effect of severe weather events.

**Securing the future**

I join with the Chairman in thanking shareholders for the support given to our $4.6 billion capital raising in early 2009 which we structured so as to give everyone the opportunity to participate.

With constant speculation at that time about debt levels and our ability to make the Coles acquisition work, it was imperative that we restored confidence in the company's financial position. The very positive response significantly strengthened the balance sheet and investor perceptions of the company generally.

**Management changes**

I want to express my great appreciation of the outstanding service rendered to Wesfarmers by Gene Tilbrook who joined the company in 1985 and retired, as Finance Director, in May. In wishing Gene a long and happy retirement I have little doubt he will remain an active participant in Australian business. Gene's replacement, Terry Bowen, joins the Board after having held senior positions in a number of Wesfarmers' divisions, most recently as Finance Director of Coles. He has been a close and valued colleague for many years and I know he will continue to make a great contribution to the company's success.

I welcome also Guy Russo as Managing Director of the Kmart division. Guy is a former head of McDonald's Australia and Wesfarmers will benefit from his extensive experience in a leading retail organisation.

During the year Keith Kessell retired as Executive General Manager, Corporate Affairs. I want to thank Keith for his contribution which went well beyond what his role required and to wish him a happy and productive retirement.

**The challenge ahead**

After a year marked by extreme volatility and uncertainty I believe we can look forward to calmer and more predictable times, although few would be bold enough to rule out further surprises or to predict other than a gradual recovery.

A challenge we all face is to make sure the drama of recent times does not distract attention from longer-term, important objectives.

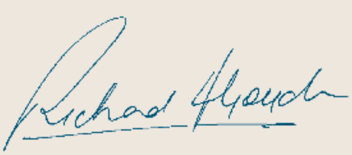
One of the fundamental principles guiding Wesfarmers through its 95 year history has been always to look to the future. We continue to apply that approach, both to business development and through our commitment to an improved sustainability performance.

Wesfarmers has long supported the introduction of market-based measures designed to reduce carbon emissions over time. But we strongly believe no action should be taken that would damage the competitive position of trade-exposed and energy-intensive Australian industries.

It is also very important that the events of the last 12 months or so do not lead to a fundamental change in our commitment to an economic system where the role of government is minimised and where the main creative drive comes from private enterprise. Certainly we've seen some terrible examples of failure in the private sector and the need for corrective action. But it would be highly detrimental to our long-term well-being if the pendulum were allowed to swing too far in the direction of increased regulation and government intervention.

As always, none of the company's progress and achievements would be possible without the dedicated support of its more than 200,000 employees, a number that has increased by more than 10,000 in the past 12 months when many businesses have been reducing their workforces. To all those who have strived so tirelessly, I extend my sincere thanks.

I particularly want to acknowledge the support I have received from Bob Every, our Chairman, his Board colleagues and my senior management colleagues.



**Richard Goyder** Managing Director

# Finance Director's review

## Cash flow from operations increased by 110 per cent to $3,044 million and was driven by earnings growth and good working capital management.

### Results overview

Net profit after tax for the Group increased 44 per cent in 2008/09 to $1,535 million as a result of significant revenue and earnings growth in the Resources, Coles, Bunnings and Target divisions. The result included, for the first time, a full year's contribution from Coles, Target, Kmart and Officeworks following their acquisition in November 2007, as well as a total of $106 million after-tax costs associated with non-trading and other significant items.

Earnings per share of $1.60 were down from $1.74 in the prior year due to the part-year impact of increased shares on issue following recent equity raisings. Similarly, average return on equity reduced to 7.4 per cent from 8.6 per cent in the previous year.

### Cash flow

Strong cash generation was a highlight in 2008/09. Free cash flow increased to $1,541 million for the year as compared to $210 million in 2007/08. Cash dividends paid increased to $1,066 million from $754 million in the previous year.

Cash flow from operations increased by 110 per cent to $3,044 million and was driven by earnings growth and good working capital management, particularly in our retail businesses.

Capital expenditure of $1,503 million was higher than the $1,241 million in the prior year and remained well ahead of depreciation, reflecting our ongoing commitment to grow each of our businesses. All divisions recorded capital expenditure above prior year levels, with the exception of Energy, and Chemicals and Fertilisers that both undertook large expansion projects in 2007/08. Capital expenditure for 2009/10 is expected to increase further, to between $1.7 billion and $1.9 billion, as renewal activity accelerates in Coles, retail store networks are further strengthened and the Blackwater Creek diversion project is completed at Curragh.

### Balance sheet

A major focus in the year was the recapitalisation of the Group's balance sheet following a significant deterioration in credit markets as part of the global financial crisis and the associated rapid downturn in economic conditions.

On 22 January 2009, we announced an equity raising, via a 3 for 7 accelerated pro-rata non-renounceable entitlement offer, at an offer price of $13.50, and a $900 million institutional placement. With strong support from investors, $4.6 billion was raised with proceeds used to repay $3.5 billion of maturing bank debt and revolving facilities. This raising, along with agreement from our lenders to extend maturity dates on remaining facilities, significantly strengthened the balance sheet.

As at 30 June 2009, total debt was $6,169 million, having been reduced from $9,517 million 12 months earlier, and the Group had available to it $1,734 million in cash at bank and on deposit as well as $1,422 million in undrawn facilities.

The value of property, plant and equipment increased over the year, from $6,561 million to $7,126 million as at 30 June 2009.

Strong execution of plans to improve working capital management resulted in capital employed in this area reducing over the year, predominately in Coles, Kmart and Target. Increased working capital in the Chemicals and Fertilisers division, due mainly to higher fertiliser inventory at year-end following a late Western Australian seasonal break, partially offset gains made in retail.

Final adjustments were made to the purchase price allocated to the Coles group of companies in accordance with *Australian Accounting Standard AASB 3 – Business Combinations*. Adjustments recognised increased the fair value of identifiable assets by $118 million, mainly relating to deferred tax assets, with a corresponding reduction in goodwill recognised on acquisition.

During the year we conducted detailed impairment testing of non-current assets, including goodwill and other intangible assets recognised on business acquisitions. KPMG was engaged to provide advice on discount rates and long-term growth rates used in the impairment testing. Non-cash impairment charges totalling $118 million were made in relation to the valuation of Coles' property and the carrying value of investments in associated Wesfarmers' companies. In all other cases, recoverable amounts determined for impairment testing exceeded the carrying values of non-current assets with no impairment charges required. Impairment testing of non-current assets will continue and results remain sensitive to changes in general trading conditions and outlook, as well as discount rates.

### Debt management

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

Due to large debt repayments during the year, net debt fell to $4,435 million at 30 June 2009, significantly improving gearing and liquidity. Net debt to equity at year-end reduced to 18.3 per cent from 47.3 per cent the previous year, while cash interest cover increased to 5.3 times over the year from 4.9 times.

### Equity management

At 30 June 2009, there were 1,157 million shares on issue, made up of 1,005 million ordinary shares and 152 million partially protected ordinary shares. During the year, shares on issue increased by 358 million of which 337 million related to the rights issue and institutional placement in early 2009.

We kept in place our dividend investment plan which has had a healthy participation since reinstatement in January 2007. A further 15 million shares were issued under the plan during the year.

### Dividend policy

In recognition of tighter credit conditions following the global financial crisis and continuing uncertainty, the Group announced a change to its dividend policy on 22 January 2009. While we seek to deliver stable and growing dividends, the declared amount will be based on the company's current and projected cash position, having regard to capital expenditure requirements, retained earnings, franking credits, debt levels and business and economic conditions generally.

Consistent with this policy, a fully-franked final dividend of 60 cents per share was declared which was higher than previous guidance after consideration of stronger cash flow generation and outlook. The dividend, to be paid on 1 October 2009, is not provided for in the accounts.

Given a preference by many shareholders to receive dividends in the form of shares, a decision was made to leave the dividend investment plan in place for the 2009 final dividend. No discount was applied to shares allocated under the plan. In recognition of our capital structure and strong balance sheet, all shares issued under the plan were acquired on-market by a broker and transferred to participants.

### Risk management

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

The main sources of foreign exchange risk include:

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

Businesses exposed to foreign exchange risk use forward contracts to minimise currency exposure. United States-denominated debt and associated interest costs are fully hedged at the time the debt is drawn down.

The Group uses interest rate and cross currency interest rate swaps to minimise interest rate risk. Following the equity raising and significant debt reduction this year, the level of interest rate hedges exceeded outstanding debt. As a result, ineffective hedges were closed out with losses before tax of $136 million recognised. Interest rate swaps covering $4.6 billion of debt are currently in place for 2009/10.

Our annual corporate planning process includes an established framework for assessing broad business risk as well as considering risk mitigation.

### Internal control and assurance

The Group maintains an internal audit function that is fully independent of business operations to monitor and provide assurance to the Board as to the effectiveness of risk management systems, internal controls and integrity of financial statements.

Annual internal audit plans are approved by the Board and ensure all businesses are assessed annually with a risk-based identification of key controls.

As part of the annual operating cycle, we also require each business to review and report on: legal liabilities; financial controls; information systems; environment, health and safety planning; and risk assessment and mitigation.

**Terry Bowen** Finance Director

# Wesfarmers leadership team

1

2

3

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

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

**Keith Gordon**
Director, Industrial Divisions
Since joining Wesfarmers in 1999, Keith has been the Managing Director of CSBP and the Wesfarmers Business Integration Director in which he oversaw the integration of the Coles group of businesses. In 2008, Keith was appointed Director, Industrial Divisions, responsible to the Wesfarmers Managing Director for the Resources, Industrial and Safety, Chemicals and Fertilisers, and Energy divisions.

**Guy Russo**
Managing Director, Kmart
Guy was appointed Managing Director, Kmart in 2008. Prior to that, he was Managing Director and Chief Executive Officer of McDonald's Australia between 1999 and 2005, having held all key operational posts since 1974. Guy also served as President, McDonald's Greater China until 2007.

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

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

From left to right:
1. Richard Goyder, Terry Bowen, Keith Gordon
2. Guy Russo, Ian McLeod, John Gillam
3. Launa Inman, Stewart Butel, Robert Scott
4. Olivier Chretien, Tim Bult, Ian Hansen
5. Ben Lawrence, Tom O'Leary

4

5

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

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

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

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

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

**Ian Hansen**
Managing Director, Chemicals and Fertilisers
Ian has worked within the Chemicals and Fertilisers division for more than 20 years, holding management roles in both operational and commercial areas, including General Manager of the chemicals business between 2002 and 2007. Ian was appointed Managing Director of CSBP in 2007.

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

**Tom O'Leary**
Managing Director, Wesfarmers Energy
Prior to joining Wesfarmers' business development team in 2000, Tom worked in finance law with Allen & Overy and investment banking and private equity with Japanese securities firms Nomura and Nikko. He was appointed Executive General Manager, Business Development in 2006 before his appointment as Managing Director, Wesfarmers Energy in July 2009.

# Review of operations

| | Coles | Home Improvement and Office Supplies |
|---|---|---|
| **Contribution to EBIT*** |  25% |  22% |
| **Activities** | – Coles is a full service supermarket retailer with 763 stores nationally<br>– National liquor retailer with 775 liquor outlets, as well as 95 hotels<br>– A national fuel and convenience operator managing 625 stores<br>– More than 15.8 million customer transactions each week<br>– Employing more than 113,000 team members | – Bunnings: Retailing home improvement and outdoor living products and servicing project builders, trades-people and the housing industry<br>– Officeworks: Retailing and direct supplying office products and solutions for home, business and education customers |
| **Year in brief** | – Total operating revenue of $28.8 billion with EBIT of $831 million<br>– Food and liquor sales growth of 6.2 per cent, with comparable store sales growth of 4.6 per cent<br>– Growth of store network, with the opening of 31 supermarkets, 30 liquor stores, nine Coles Express sites and two hotels<br>– Announced transfer of 45 supermarkets and eight Liquorland stores to FoodWorks<br>– Began supermarket renewal pilot programme opening 13 new format stores | – 13.9 per cent increase in Bunnings' trading EBIT<br>– 13.0 per cent increase in Bunnings' cash sales<br>– 10 new Bunnings Warehouse stores opened<br>– Three new Bunnings smaller format stores opened<br>– 10 new Bunnings trade centres opened<br>– 7.7 per cent increase in Officeworks retail store sales<br>– Growth in Officeworks normalised EBIT of 10.5 per cent in the second half<br>– Eight new Officeworks stores opened, seven refurbished<br>– Good progress in strategy re-set work within Officeworks and Harris Technology |
| **Future directions** | – Continue driving five year business turnaround programme<br>– Coles to focus on meeting customer demands for value, improving fresh quality, housebrand offer and service | – Bunnings: Merchandising and network expansion opportunities, enhancing service, lowering costs and improving operational effectiveness<br>– Officeworks: Reinvigorating the business through a range of strategic initiatives, enhancing the customer offer, lowering costs and removing operational complexity |
| **Businesses** | coles<br>coles express<br>coles.com.au<br>1st Choice Liquor Superstore<br>BI-LO<br>Liquorland<br>Vintage Cellars | Bunnings<br>Officeworks<br>Bunnings warehouse<br>harristechnology |

*Operating divisional EBIT

## Target

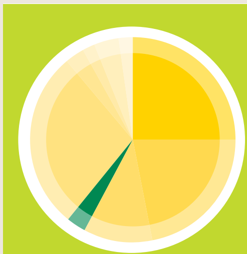
11%

- Target is a retailer of fashion clothing and homewares offering great quality and value
- Two store formats (Target and Target Country) cater to a wide cross-section of the Australian population, with an extensive network of 286 stores throughout metropolitan and regional Australia
- Customer destination for childrenswear and nursery, womenswear, intimate apparel and homewares
- Promotionally driven through weekly catalogues and major instore events

- $3.8 billion in operating revenue
- $357 million in EBIT, with EBIT margin of 9.4 per cent
- Comparable store sales increase of 4.2 per cent
- 16 stores opened (including five replacements)
- Two Target Country stores closed
- 33 stores upgraded or refurbished with store design improvements including layout, fixtures, flooring and signage
- Continued development of new and differentiated product ranges
- Improved efficiencies in supply chain and renegotiated supplier terms

- Opening of seven stores and 20 refurbishments planned
- Improve supply chain systems to increase speed to market from design to manufacture
- Further develop new and differentiated product ranges
- Explore alternative ways of communicating to customers

## Kmart



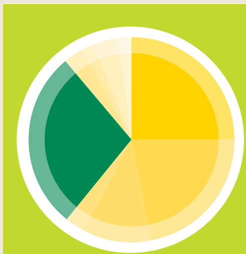
3%

- Kmart is a discount department store retailer of a wide variety of quality and great value general merchandise and apparel products through a network of 184 stores in Australia and New Zealand
- Kmart Tyre and Auto Service is Australia's largest retail automotive service, repair and tyre business with 255 stores and is Australia's largest employer of mechanics and apprentice mechanics

- Comparable store revenue growth of 0.2 per cent
- EBIT of $109 million
- Two Kmart stores and three Kmart Tyre and Auto Service centres opened (including three replacements)
- Appointed new Managing Director and management team
- A review of the business was undertaken
- Store and national office structures were realigned
- The business evaluated the distribution network and gained efficiencies through the reduction of storage costs

- Continue to improve the in-store experience and rebuild customer trust
- Build on-trend, profitable categories and focus on volume items
- Continue to communicate prices that customers trust and offer everyday value
- Build the brand and create events that excite customers
- Opening of two new stores planned

## Resources

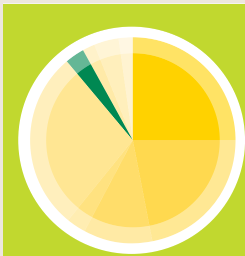
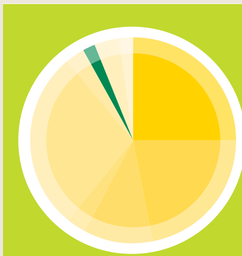


28%

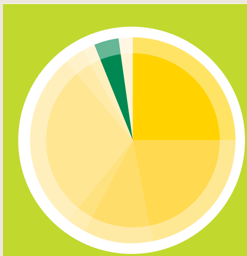
- Operating and developing coal mines in Queensland (Curragh) and Western Australia (Premier Coal); 40 per cent interest in New South Wales coal mine (Bengalla Joint Venture)
- Supplier of metallurgical coal to export markets and steaming coal to both domestic and export markets

- Record EBIT – up 116 per cent to $915 million
- Record full-year production and sales
- Strong coal sales volumes in challenging economic conditions
- Significant price reduction for metallurgical and steaming coal from April 2009

- Strong business sustainability commitment
- Strong export market fundamentals and customer demand
- Continued focus on export production and sales growth from Curragh
- Maximise exports, addressing infrastructure constraints
- Focused on future growth

| | Insurance | Chemicals and Fertilisers |
|---|---|---|
| Contribution to EBIT*<br><br>*Operating divisional EBIT |  3% |  2% |
| Activities | – Key brands: Lumley, WFI, OAMPS and Crombie Lockwood<br>– Provision of general insurance products<br>– Insurance broking, risk management and financial services distribution<br>– Operations in Australia, New Zealand and the United Kingdom | – Manufacture and marketing of chemicals for mining, minerals processing and industrial sectors<br>– Manufacture and marketing of broadacre and horticultural fertilisers<br>– Provider of soil and plant testing and agronomy advisory services |
| Year in brief | – 4.3 per cent increase in revenue to $1.7 billion<br>– Earnings before interest, tax and amortisation of $103 million was affected by higher than expected levels of claims in Australia<br>– Lumley New Zealand turnaround on track<br>– Successful consolidation of Australian underwriting licenses<br>– Restructuring and portfolio review in Lumley Australia<br>– Growth in broking earnings despite difficult economic conditions<br>– Five bolt-on acquisitions in insurance broking | – 16.6 per cent increase in revenue to $1.2 billion<br>– First full-year of production from the new ammonium nitrate facility at Kwinana, Western Australia contributed to increased sales volumes and earnings<br>– 58.1 per cent decrease in EBIT<br>– Chemicals earnings reduced due to the impact of the Varanus Island gas disruption impacting gas supplies since 3 June 2008<br>– Fertiliser volumes and earnings decreased<br>– Australian Vinyls sales tonnes and earnings decreased |
| Future directions | – Maintain business focus in selected market segments<br>– Strong focus on underwriting and claims discipline<br>– Business process and portfolio management improvements<br>– Further bolt-on acquisitions to enhance distribution platform<br>– Growth through the development of insurance and financial services products | – Capitalise on demand for chemicals from the resources sector<br>– Enhance fertiliser sales volumes through a market-focused customer offer<br>– Pursue market growth and product diversification opportunities<br>– Complete the expansion of the sodium cyanide facility at Kwinana and drive returns from existing capital invested |
| Businesses | wfi<br>OAMPS Lumley<br>CROMBIE LOCKWOOD New Zealand's Insurance Brokers | CSBP QNP<br>AGR Australian Vinyls |

## Industrial and Safety



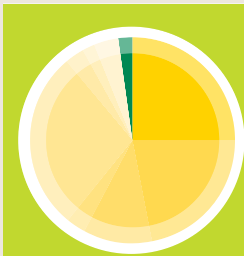
4%

- Supply of industrial and safety products and services through a portfolio of leading distributors in Australia and New Zealand
- Servicing industry and government through extensive branch networks and sales teams, as well as e-business, websites and telemarketing channels
- Portfolio of 10 businesses including Blackwoods, the leading industrial and safety supplier in Australia, with an extensive national network and breadth of product range

- 1.1 per cent decline in revenue to $1.3 billion, due to business activity slowdown in the second half
- 12.3 per cent decline in EBIT
- Strong performance from Bullivants and Western Australian activities (Blackwoods and Protector Alsafe)
- Further improvements in 'Delivery in Full On Time' through supply chain, systems and network upgrades
- Continuous capability building, with specific focus on sales force effectiveness
- Investments in the oil and gas, infrastructure and hospitality sectors

- Increase share of customers' spend through improved service, delivery performance and value proposition
- Improve metropolitan sales penetration
- Increase growth in selected industry sectors
- Improve competitiveness through supply chain and organisation effectiveness
- Develop and retain high performing employees

## Energy



2%

- Manufacture, marketing and distribution of industrial, medical and specialty gases
- Production, marketing and distribution of liquefied petroleum gas (LPG) and liquefied natural gas (LNG)
- Power generation for remote towns and mines

- 5.8 per cent increase in revenue to $598 million
- 16.7 per cent decrease in EBIT
- Reduced earnings largely due to a reduction in international LPG prices and the Varanus Island gas disruption
- Industrial gas EBIT growth despite weaker customer demand
- Western Australian LNG project commissioned in September 2008 with production steadily increasing as off-take customers increase demand

- Continue development of the LNG business
- Maximise growth of industrial gas volumes and improve operating efficiency
- Focus on customers and optimising costs in LPG distribution
- Optimise usage of Western Australian LPG facilities
- Pursue new and expansionary power generation opportunities

## Other activities

**Wespine** – 50 per cent interest in a plantation softwood sawmill at Dardanup, Western Australia

**Gresham** – 50 per cent interest in the investment bank, Gresham Partners; plus interests in Gresham's private equity funds

**Bunnings Warehouse Property Trust** – 22.7 per cent interest in the property trust which mainly owns Bunnings Warehouses tenanted by Bunnings Group Limited

**Wespine**
- Earnings down 20 per cent due to reduced Western Australian housing activity and higher energy costs
- Finalised extension of log supply contract with the Forest Products Commission to 2033

**Gresham**
- Share of profit amounted to $1 million while the Gresham Private Equity Funds generated a loss of $57 million
- Fund 1 generated a cash internal rate of return of 27 per cent per annum since inception

**Bunnings Warehouse Property Trust**
- A loss of $8 million from Wesfarmers' investment due to property revaluations

**Wespine**
- Earnings will continue to be constrained by depressed markets in the coming year

**Gresham**
- Continued focus on management of businesses and on identifying profitable equity opportunities for Fund 2
- Evaluate investment opportunities for Fund 3

**Bunnings Warehouse Property Trust**
- Improve portfolio through enhancements to existing properties and through selective acquisitions

# Coles

## The five year transformation journey continues with momentum as Coles moves through the first phase with an improved in-store offer, better on-shelf availability, and enhanced value, quality and service, resulting in stronger customer satisfaction.

### The business

Coles is a leading Australian food, liquor and convenience business, operating 2,258 outlets nationally through its Coles, BiLo, Vintage Cellars, 1st Choice, Liquorland and Coles Express brands, and its hotel portfolio.

The business employs more than 113,000 team members with customers transacting 15.8 million times every week.

### Strategy

Coles aims to give the people of Australia a shop they can trust, delivering quality, service and value. To meet this aim, Coles is progressing through a five year programme to transform the business and improve performance.

The business has developed a three phase strategy, building on last year's programme to improve range, undertake value initiatives, increase store investment and enhance the fresh food offer.

In phase one of the strategy, Coles has focused on building a strong leadership team, initiating a cultural change programme, improving product availability and store standards and embarking on a store renewal programme.

The next phase of the strategy will be to look to embed the new store-focused culture, drive further business efficiencies, improve in-store customer service, move to a scale roll-out of new store formats, and enhance Coles' fresh offering and in-store value.

### Results

Operating revenue for the Coles division (supermarkets, liquor, fuel and convenience) for the year totalled $28.8 billion, with earnings before interest and tax (EBIT) and non-trading items of $831 million.

Food and liquor store sales growth excluding property, was 6.2 per cent, with comparable store sales growth of 4.6 per cent.

The results were driven by strong customer response to an improved in-store offer, particularly on-shelf availability, in-store value, quality, and service. Targeted promotional activity, including Coles' '$10 meal deal' concepts, met with strong customer support, as did Coles' increased commitment to local products in stores and support for Australian-made or grown products.

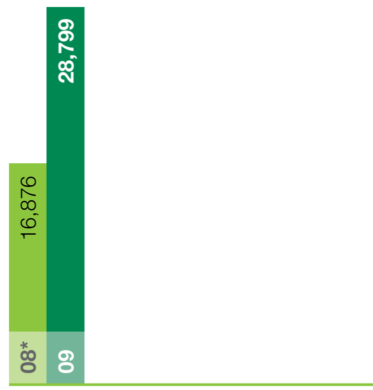
These initiatives have seen increasing customer numbers and basket growth.

Liquor sales also benefited from improved store service standards and significant reinvestment in lower prices.

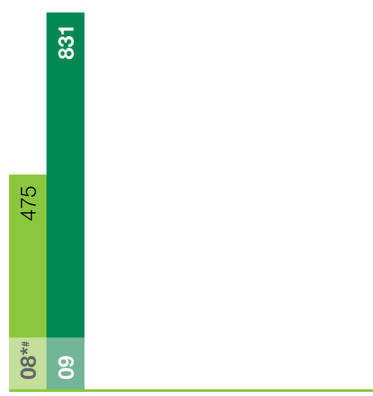
Coles Express delivered revenue of $6.3 billion and comparable shop sales growth of 6.4 per cent for the year. Performance was driven by an improving convenience store offer and roll-out of Coles Express own-brand products.

Fishmonger Carl Lagana at Coles supermarket in Chatswood, New South Wales, assists a customer with her selection from the fresh seafood range.

**REVENUE ($m)**
**$28,799m**




**EBIT ($m)**
**$831m**




### KEY FINANCIAL INDICATORS

For the year ended 30 June

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

* For the ownership period 23 November 2007 to 30 June 2008.
# Restated for finalisation of Coles acquisition accounting.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

# Delivering quality, service and value

## Growth strategies

**Range change**
Improve product availability and store standards based on customer feedback.

**Improved value platform**
Improve in-store value and build customer trust.

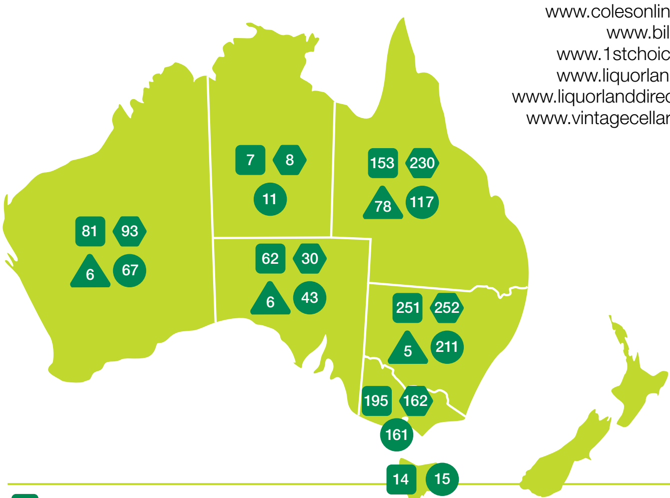
**Better customer service**
Develop team members and improve customer service through increased and specialised training.

**Fresh food focus**
Enhance fresh food offer by working with local suppliers.

**New store formats**
Initiate broader roll-out of the new store format guided by the store renewal pilot programme.


## BUSINESS WEBSITES

www.coles.com.au
www.colesonline.com.au
www.bilo.com.au
www.1stchoice.com.au
www.liquorland.com.au
www.liquorlanddirect.com.au
www.vintagecellars.com.au




| | |
|---|---|
| Supermarkets | 763 |
| Liquor stores | 775 |
| Hotels | 95 |
| Convenience stores | 625 |
| Number of employees | 113,000 |

**Year in brief**

Coles is continuing to build the foundations for its five year transformation.

Supporting the experienced leadership team, new appointments in both store operations and the support centre have brought new retailing talent into the business.

As part of driving a new store-focused culture, Coles launched its Retail Leaders programme to foster and develop promising store team members. The business also launched a graduate recruitment programme.

Coles continued to grow its store network, opening 31 supermarkets, 32 liquor stores, nine Coles Express sites and two hotels. The refurbishment programme also continued in all supermarkets, 80 Liquorland stores and 26 Coles Express sites.

At year-end, Coles had 763 supermarkets, 775 liquor stores, 625 Coles Express sites and 95 hotels. On 30 June, Coles announced the transfer of 45 Coles and BiLo stores and eight associated Liquorland stores to FoodWorks. This store transfer is expected to be completed by April 2010.

The new Coles supermarket in Chatswood includes a 'value alley' with special offers and savings on a range of grocery items.

Supermarkets commenced its store renewal pilot programme during the year, with 13 new store formats opening. Customer response has been positive. Coles is continuing to develop a new store format for the future based on what customers are saying they want.

**Business sustainability**

Coles continued to play an active role in the Australian community through local initiatives and national partnerships. Close to $20 million was invested in community programmes directly and indirectly through financial and food donations, customer and office fundraising, in-kind support, team member volunteering and workplace giving.

This included nearly $10 million contributed to the Victorian Bushfire Appeal, of which nearly $5 million was store profits donated from Coles' Bushfire Appeal Day.

Coles continued its partnership with Foodbank in 2009, donating over 1.6 million kilograms of food for distribution to charities across Australia.

Team member safety remained a focus, with the Lost Time Injury Frequency Rate declining by 17 per cent to 14.5.

Coles continued to reduce its environmental impact. In 2009, the business recycled more than 111,000 tonnes of cardboard and 2,900 tonnes of plastic. Coles introduced organic recycling for food waste in about 30 per cent of its supermarkets, with 10,000 tonnes of food waste being recycled.

More information on Coles' community and sustainability activities can be found at www.coles.com.au.

**Outlook**

The current uncertain economic conditions are expected to continue. Despite recent signs of improving consumer confidence, it remains subdued, affecting customer purchasing patterns, such as eating out less, cooking at home more and a strong focus on value. Coles intends to meet customer demand for value, to improve its fresh quality and housebrand ranges and improve service.

The five year business turnaround programme is still in its early stages and meaningful and sustainable change will take time. However, the Coles management team is focused on driving change at pace to ensure the turnaround is achieved.

Paul Neale, Coles State Trading Manager (WA) Fresh Produce (left) and Anthony Yewers, Berrysweet Strawberry Farm, inspect a strawberry crop.

# Home Improvement and Office Supplies

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

Bunnings team member, Andrew Gorecki, helps a customer in the nursery department at Bunnings Warehouse, Coburg, Victoria.

## Home Improvement

### The business

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

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

### Strategy

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

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

### Results

Operating revenue from the Bunnings home improvement business increased by 9.1 per cent to $5.8 billion for the full-year while earnings before interest and tax grew 11.9 per cent to $659 million. Trading earnings (net of property sale contributions) increased by 13.9 per cent.

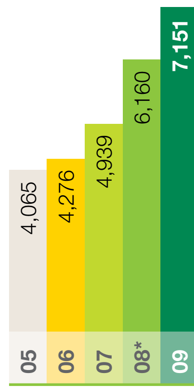
Cash sales growth in Bunnings of 13.0 per cent was achieved during the year, with underlying store-on-store cash sales increasing by 10.1 per cent, reflecting continued strong organic growth in the business. Pleasing results were achieved in all Australian states and across all product ranges driven by good execution of merchandising and operational strategies. New Zealand results continued to be affected by the tight economic conditions in that market although Bunnings performed well against its key competitors.

Trade sales were 2.8 per cent lower than last year, which was a satisfactory result given the significant weakness in the housing construction market in a number of parts of Australia and New Zealand. This performance reflects good progress in enhancing the trade offer from a customer perspective.

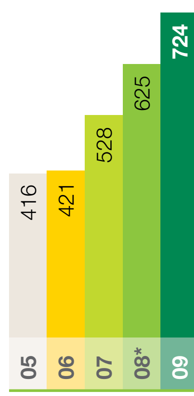
### Year in brief

During the year, 10 new warehouse stores, three smaller format stores and 10 trade centres were opened. At year-end there were 175 warehouses, 56 smaller format stores and 22 trade centres operating across Australia and New Zealand. Investment in bringing current merchandising standards into older parts of the network continued, together with extensive category specific upgrade work across the whole network.

**REVENUE ($m)**
**$7,151m**




**EBIT ($m)**
**$724m**




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

| | 05 | 06 | 07 | 08* | 09 |
|---|---|---|---|---|---|
| Revenue ($m) | 4,065 | 4,276 | 4,939 | 6,160 | **7,151** |
| Earnings before interest and tax ($m) | 416 | 421 | 528 | 625 | **724** |
| Capital employed – Home Improvement ($m) | 1,786 | 1,838 | 1,879 | 1,925 | **2,185** |
| Return on capital employed – Home Improvement (%) | 23.3 | 22.9 | 28.1 | 31.2 | **30.2** |
| Capital employed – Office Supplies ($m) | nm | nm | nm | 1,080# | **1,145** |
| Return on capital employed – Office Supplies (%) | nm | nm | nm | nm | **5.7** |
| Capital expenditure ($m) | 184 | 222 | 196 | 302 | **378** |

* Office Supplies' contribution is for the ownership period from 23 November 2007 to 30 June 2008.
# Restated for finalisation of Coles acquisition accounting.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.


Delivering a quality customer offer

## Home Improvement – strategic objectives

**Profitable sales growth**
Key growth drivers are: lifting customer service; expanding the network; and improving the merchandise offer.

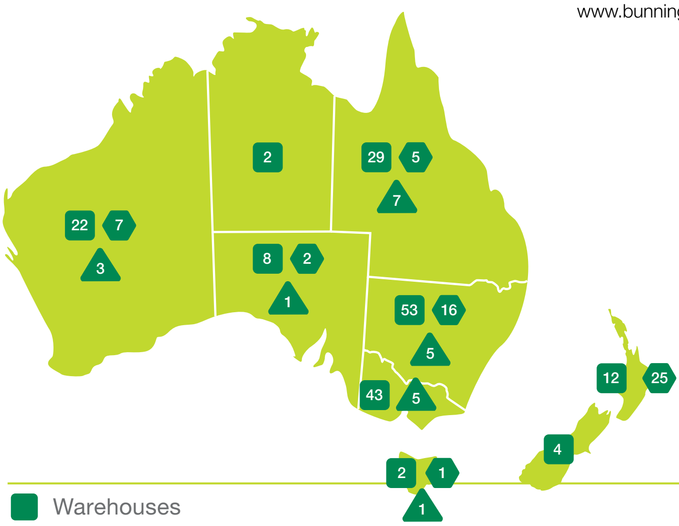
**Better stock flow**
Improving the end-to-end supply chain to lift in-stock levels and reduce costs.

**Engaging and developing a strong team**
More effective delivery of safety, training and other team development programmes.

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

**Sustainability**
Ongoing commitment to reducing water and energy consumption and wastage, plus improved affordability of sustainability projects for customers.

**BUSINESS WEBSITES**
www.bunnings.com.au
www.bunnings.co.nz




| | | |
|---|---|---|
| Warehouses | | 175 |
| Small format stores | | 56 |
| Trade centres | | 22 |
| Number of team members | | 28,400 |

## Business sustainability

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

A number of sustainability initiatives were progressed during the year to reduce energy usage in stores, increase recycling in the business, increase rainwater harvesting and reduce wastage.

In response to the Victorian bushfires, Bunnings stores and customers raised more than $1.6 million for the Australian Red Cross Victorian Bushfire Appeal Fund. Over the year, Bunnings supported more than 25,000 community activities through community group barbeques, do-it-yourself projects, local fundraising activities, fun days, blood drives and other activities. Support included direct cash and/or product donations as well as employee participation (paid and unpaid hours) in community projects. This involvement helped raise and contribute more than $15.5 million to local, regional and national charities and community organisations across Australia and New Zealand.

Safety continues to receive a very high profile in the business through the B.S.A.F.E. programme, with the rolling 12 month All Injuries Frequency Rate improving to 42.2 from 45.

## Outlook

The business is well positioned in the current trading environment with a continuing strong focus on merchandising and network expansion opportunities, enhancing service, lowering costs and improving the effectiveness of operations.

Continued retail sales growth on a normalised basis (adjusting for the impact of recent government stimulus actions) is expected in 2009/10. Trade sales are expected to improve as the economy recovers.

Nida Sajjadi, an Officeworks team member, reviews a customer's poster in the 'Print and Copy' section of the Coburg, Victoria, store.

# Office Supplies

## The business

Officeworks is Australia's leading retailer and supplier of office and stationery products for home, work and education needs.

Operating through an Australia-wide network of stores and fulfilment centres, Officeworks caters to a broad range of customers that include small-to-medium businesses, students and teachers, and everyday personal shoppers.

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

## Strategy

Officeworks aims to provide customers with the widest range, lowest prices and great service whilst being an employer of choice by providing a safe, rewarding and engaging place of work for all team members.

Officeworks continues to grow and improve its business by opening more stores, refurbishing existing stores, improving its customer offer, and enhancing its call centre operations and internet presence.

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

## Results

Operating revenue for the office supplies businesses was $1.3 billion for the full-year with earnings before interest and tax of $65 million. For the second half of 2008/09, operating revenue was 2.5 per cent above the prior comparative half while second half earnings were 10.5 per cent above normalised earnings.

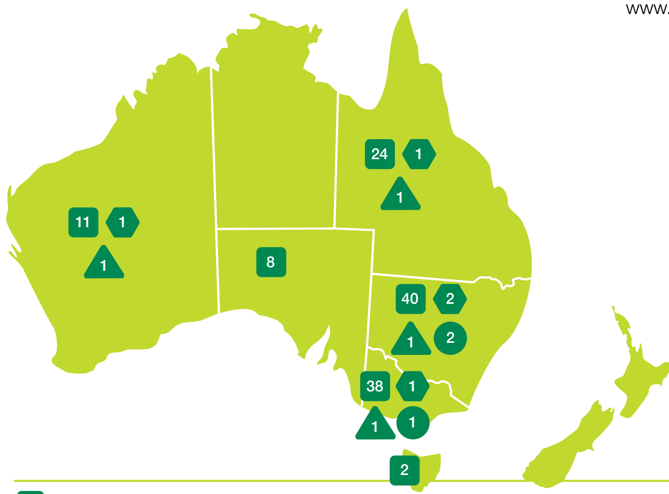
Headline sales growth across the Officeworks retail store network for the year was 7.7 per cent. Adverse sales trends were experienced in the Officeworks business and Harris Technology, which were both affected by a lack of confidence amongst their core customer base of small-to-medium sized businesses, as well as being disrupted by strategy re-set work.

## Year in brief

Good progress was made on the strategic agenda during the year. The expansion and alignment of the customer offer across the different channels of the business was particularly pleasing. Investment in a new website and the roll-out of a new photo, print and copy offer were highlights for the year. The focus on improving inventory management processes and systems produced positive results and brought further opportunities to light.


## BUSINESS WEBSITES

www.officeworks.com.au
www.ht.com.au




| | |
|---|---|
| Officeworks stores | 123 |
| Harris Technology stores | 5 |
| Customer fulfilment centres | 4 |
| Customer service centres | 3 |
| Number of team members | 3,428 |

During the year, eight new Officeworks stores were opened and seven Officeworks stores were totally upgraded. At year-end, there were 123 Officeworks stores and five Harris Technology business centres operating across the country. Six Harris Technology business centres were closed in line with a revised growth strategy.

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

### Business sustainability

Officeworks' commitment to supporting the communities in which it operates and towards environmental sustainability continued throughout the year.

The elimination of single-use plastic bags from all stores and Officeworks' participation in the e-waste recycling trial, Byteback, were two sustainability initiatives of note. Stores in Ballarat and Dandenong in Victoria facilitated the free-of-charge computer take-back scheme for the public. Officeworks hopes to be able to offer this service on a permanent national basis in the future.

Officeworks supported the community in a variety of ways through direct donations and sponsorships in excess of $490,000. With a primary focus on education, the beneficiaries included kindergartens, schools, and various other not-for-profit organisations.

The All Injury Frequency Rate for the period improved from 67.4 to 62.5. The introduction of the StaySafe programme in February 2009 ensures that safety will continue to receive a high level of attention throughout the business.

### Outlook

Moderate sales growth is expected in 2009/10 despite an economic environment that is expected to remain challenging. Ongoing improvements in the customer offer will underpin growth.

## Office Supplies – strategic objectives

**Improving the customer offer**
Enhance and expand the range; provide more useful customer information; and roll-out new special orders service.

**Improving customer service**
Enhance service intensity through better rostering; training and development; the roll-out of a new POS system; and investing process efficiencies back into service.

**Building a stronger team**
Continued focus on improving safety and delivering team programmes that support and enhance the business and culture.

**Reduce costs and complexity**
Reduce end-to-end supply chain costs; optimise inventory levels; continue working to remove costs, duplication and complexity.

**Drive sales and profitability**
Lift product range authority; expand the store network; invest in more full store upgrades and merchandising uplifts; and focus on direct supply opportunities.

# Target

## A leading destination for fashionable clothing and homewares, the Target range is complemented by national brands offering great value to city and country consumers alike.

The new collection of children's wear catches the eye of a customer and her daughter.

### The business

Target is a leading customer destination for fashionable clothing and homewares, with 286 stores and almost 25,000 team members across Australia.

Target is positioned between the high-end department stores and discount department stores, with a focus on offering better value than specialty stores in the mid-market sector.

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

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

The division's network can be found in metropolitan and regional areas in every state and territory, enabling a wide cross-section of Australian consumers convenient access to the product offer. The stores range in size from Target-branded selling floor areas of 2,200 – 8,800 square metre stores to Target Country branded selling floor areas of 400 –1,700 square metre stores.

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

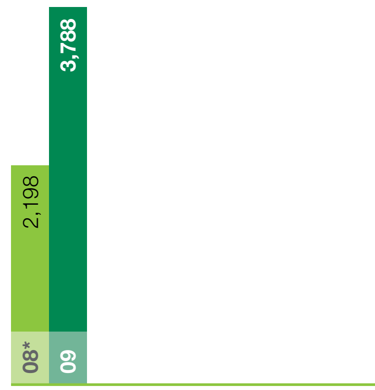
### Strategy

Target intends to strengthen its position as a leading destination for fashionable clothing and homewares through further development of new and differentiated product, particularly in high margin categories.

Target will enhance customer convenience by increasing the store footprint and refurbishing the existing network to provide a better shopping experience. The business will also explore alternative ways of communicating to customers with increased consumer use of digital technology.

Continued improvements in supply chain will result in savings to the business, better stock flow and increased speed to market particularly for fashion items.

**REVENUE ($m)**
**$3,788m**




**EBIT ($m)**
**$357m**


### KEY FINANCIAL INDICATORS

For the year ended 30 June

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

* For the ownership period 23 November 2007 to 30 June 2008.
# Restated for finalisation of Coles acquisition accounting.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.


## Growth strategies

**Profitable sales growth**
Continued investment in the store portfolio and targeted mix of volumes over a range of key price points.

**Product leader**
Continued focus on core categories, supported by new and differentiated product development and improved speed to market.

**Sustainability**
Continued focus on building sustainability into the business from new store design principles, to supply chain initiatives and product choices.


A Target customer at the Mt Ommaney store in Queensland is assisted by team member Tanya Sedler.

## Results

Target's operating revenue for the year was $3.8 billion, with comparable store sales growth of 4.2 per cent. Earnings before interest and tax were $357 million, with an EBIT margin of 9.4 per cent.

Target's EBIT margin was maintained by tight management of expenses and a strong focus on the merchandise mix and inventory volumes ensuring they met customer demand.

## Year in brief

Although operating in a challenging and competitive environment, Target did benefit from lower interest rates and petrol prices, as well as the Australian Government's stimulus packages.

All merchandise departments recorded growth during the financial year, with particularly strong results in technology-based products, toys and baby-related merchandise.

Inventory levels in comparable stores at year-end were below last year allowing a clean move into new ranges for the 2009/10 year.

During the year, 16 stores were opened (including five replacement stores) and two Target Country stores closed. At year-end there were 170 full line Target stores and 116 Target Country stores.

Continued investment in the existing store network resulted in 33 store refurbishments with new store design standards including layout, fixtures, flooring and signage.

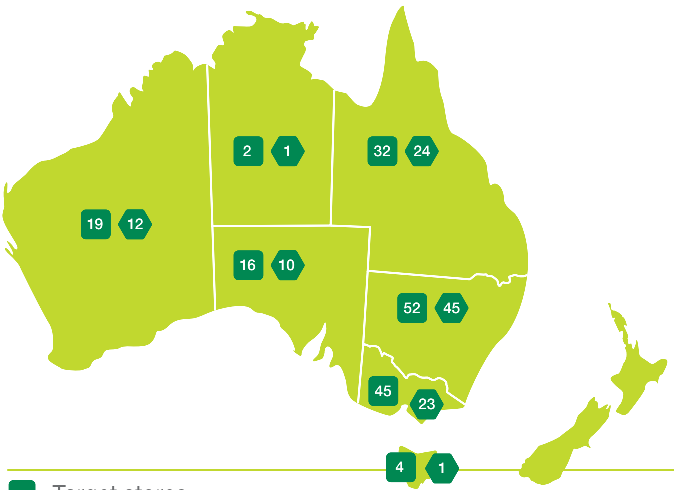
## Business sustainability

One of the main sustainability challenges facing Target continues to be the safety of team members, and the safe operation of stores and distribution centres. In dealing with this challenge, attention was focused on the manual handling of stock. Following the distribution of eight new safe manual handling guides and a new manual handling DVD, the number of lost time claims related to manual handling reduced from 124 to 112.

A broader focus on education and development continued. 'Future Leaders', a new learning and development programme, was introduced for team members in store management positions with 407 enrolments.

**BUSINESS WEBSITE**

www.target.com.au




| | |
|---|---|
| Target stores | 170 |
| Target Country stores | 116 |
| Number of employees | 24,981 |

The main environmental areas focused on during the year were the development of an environmental policy for Target; the elimination of plastic carry bags from all stores; the undertaking of a series of detailed energy audits; and new initiatives to actively reduce waste to landfill.

A new community strategy was developed for Target with an emphasis on the company's position of 'We stand for happy, safe families'. As a result, two new key partnerships were entered into: The Alannah and Madeline Foundation, which receives all profits from the sale of Target's red reusable bags; and St. John Ambulance Australia, which is providing free first aid training to Target's customers.

**Outlook**

Target is cautious about the outlook for 2010 with the global and national economies remaining difficult to predict, coupled with no further stimulus packages expected for 2009/10.

Continued investment in the network is planned with seven new stores and 20 refurbishments in 2009/10.

Expense control and cash flow management will remain priorities with strong inventory control allowing the business to maximise merchandise opportunities as they arise.


Team member, Cleo George, prepares a display promoting the new Spring ladies' wear collection at the Target store in Mt Ommaney, Queensland.

# Kmart

## Following the appointment of a new leadership team, revised strategies to turn around the business have been developed and are currently being implemented.

Rania Fayad, team member at the Victoria Gardens Shopping Centre in Richmond, Victoria, puts the finishing touches to a display in the homewares section.

### The business

Kmart is one of Australia's largest discount department store retailers with 184 stores throughout Australia and New Zealand, product sourcing offices in Hong Kong, Shanghai and Delhi and more than 26,000 team members.

Key categories for Kmart include toys, leisure, entertainment, home, menswear, womenswear, childrenswear, footwear, underwear, health and beauty and consumables.

Kmart also offers customers a mix of its own brands such as Now, Girl Xpress, Alpha, Jackeroo and Homemaker as well as national brands such as Apple, Lego, Bonds and Tontine.

Kmart Tyre and Auto Service is Australia's largest retail automotive service, repair and tyre business with 255 stores and is Australia's largest employer of mechanics and apprentice mechanics with a team of more than 1,200 people.

### Strategy

Kmart is a discount department store focused on serving customers quality products at low prices, in an easy shopping environment.

There are seven key areas of focus to renew the business:

- An improved customer experience led by engaged team members in clean, tidy and uncluttered stores where it is easy to shop.
- On-trend products that customers want and quality they trust.
- Prices that customers can rely on and that demonstrate outstanding value.
- Promotions that excite the customer and that are easily understood.
- Sites that are a success and new sites in great locations.
- The best people – team members who are in the right roles, help build a customer-focused culture and operate safely.
- Increased profit resulting from the renewed and major focus on customer, products, price, promotion, place and people.

### Results

Kmart's operating revenue for the year was $4.0 billion with underlying earnings before interest and tax of $109 million.

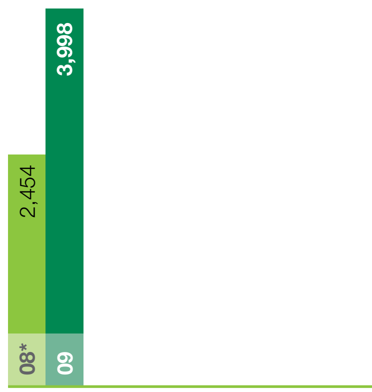
Comparable store sales growth for the year was 0.2 per cent. Retail trading was challenging but recovered slightly following the release of the Australian Government's stimulus packages.

The main areas of growth were achieved in the apparel departments, whilst the hard goods area saw a decline as a number of unprofitable categories were exited.

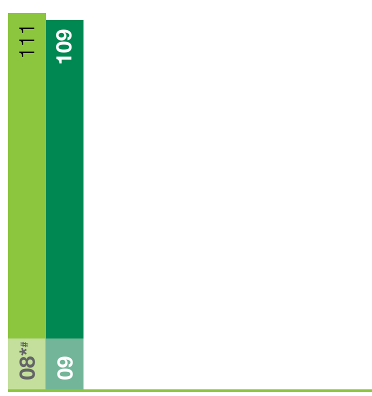
Overall discounting activity was reduced, enabling margins to be maintained despite the challenging trading environment.

Kmart Tyre and Auto Service experienced sales growth across all categories, in particular tyres.

**REVENUE ($m)**
**$3,998m**




**EBIT ($m)**
**$109m**

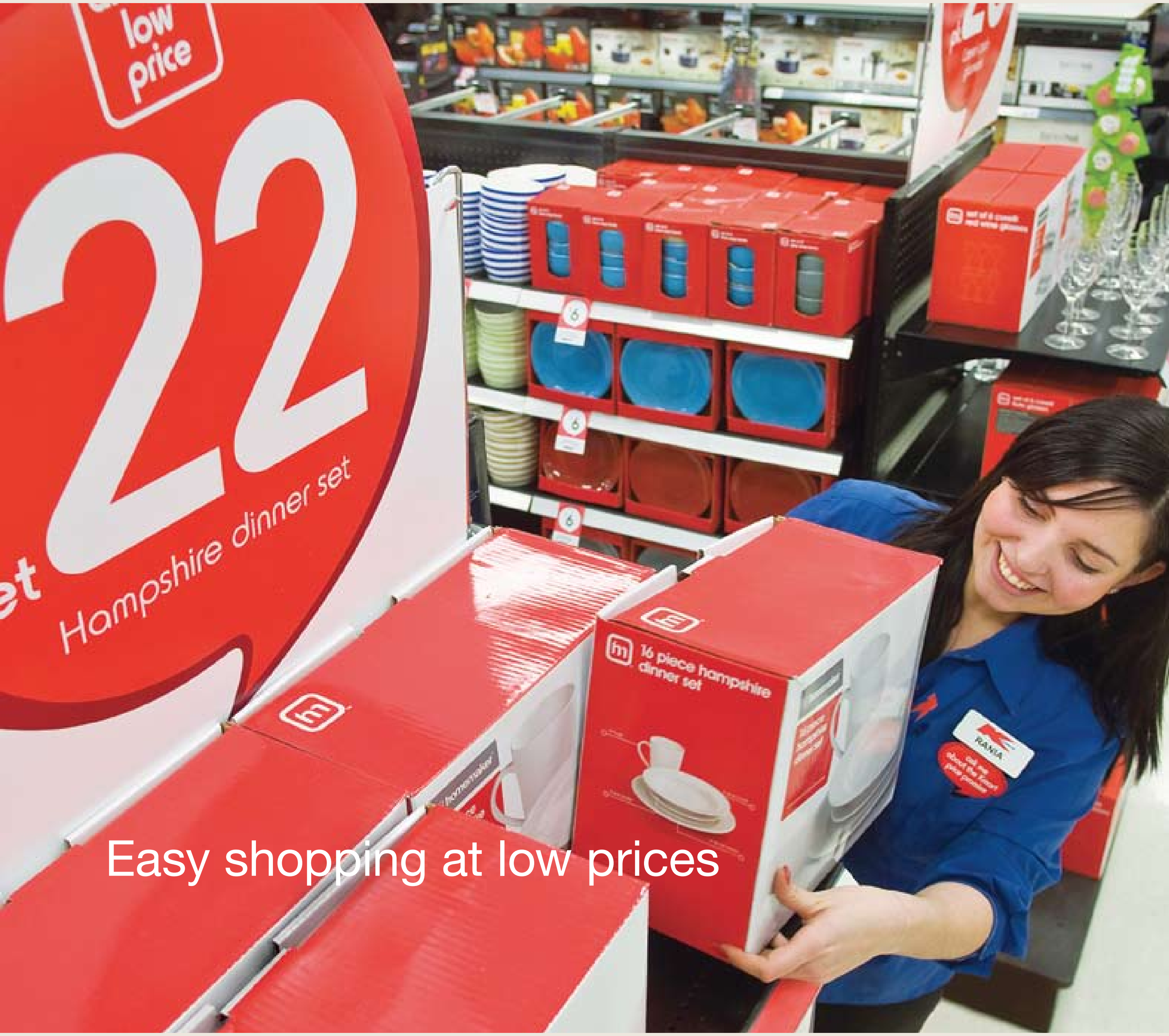



### KEY FINANCIAL INDICATORS

For the year ended 30 June

| | 08* | 09 |
|---|---|---|
| Revenue ($m) | 2,454 | **3,998** |
| Earnings before interest and tax ($m) | 111# | **109** |
| Capital employed ($m) | 996# | **1,038** |
| Return on capital employed (%) | nm | **10.5** |
| Capital expenditure ($m) | 41 | **63** |

* For the ownership period 23 November 2007 to 30 June 2008.
# Restated for finalisation of Coles acquisition accounting.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.




# Easy shopping at low prices

## Growth strategies

**Customer**
Continue to improve the in-store experience and rebuild customer trust.

**Product**
Build on-trend, profitable categories and focus on volume items.

**Price**
Continue to communicate prices that customers trust and offer everyday value.

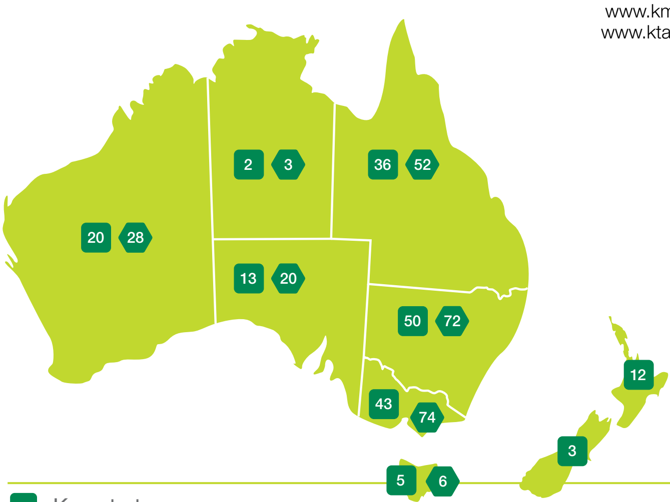
**Promotion**
Build the brand and create events that excite customers.

**Place**
More sites in good locations.

**People**
Customer-focused and engaged team members.

## BUSINESS WEBSITES

www.kmart.com.au
www.kmart.co.nz
www.ktas.com.au




| | |
|---|---|
| Kmart stores | 184 |
| Kmart Tyre and Auto Service centres | 255 |
| Number of employees | 26,000 |

### Year in brief

In October 2008, Wesfarmers appointed former McDonald's Australia Managing Director, Guy Russo, as the Managing Director of Kmart and a major review was commenced covering all aspects of store operations, supply chain, merchandising and marketing. Following the appointment of a new leadership team, revised business strategies to turn around the business have been developed and are currently being implemented.

As part of early restructuring, more than 150 non-store roles were removed and a more aligned store and customer-focused structure implemented.

Work immediately commenced on restructuring of the supply chain network to better service stores and gain efficiencies through the reduction of storage costs. This has resulted in the closure of 62 storage off-sites and the reduction in inventory.

Product ranges are being reviewed to offer customers quality products at low prices, and there is a focus on making promotions simpler and easier for customers to understand.

Restructuring costs not included in underlying earnings in the current year totalled $70 million before tax. Further work and costs to complete supply chain restructuring are expected over the next year.

The business focused on improving customer service and lifting store presentation standards. Two new stores were opened during the year. At year-end there were 184 Kmart and 255 Kmart Tyre and Auto Service stores.

### Business sustainability

The business aims to provide a safe environment for team members, customers, contractors and visitors. Kmart's Lost Time Injury Frequency Rate increased from 10.7 to 11.6 and a business priority is improving safety performance through the development of a 100-day health and safety plan, with the aim of reducing the number of workplace injuries that occur.

Kmart has expanded its community reach through a number of programmes. Once again the Kmart Wishing Tree Appeal was strongly supported by Australian and New Zealand communities. This year the appeal collected more than 400,000 gifts and $90,000 in cash contributions during the Christmas period.

A Kmart customer shopping at the Victoria Gardens Shopping Centre in Richmond, Victoria.

Kmart also introduced a new programme that enables store teams to support local community groups by either donating goods from stores or making gift card donations. Kindergartens, Rotary clubs, schools and emergency service volunteers were just some of those that received support.

In February, devastating bushfires affected many communities throughout Victoria. Supported by customers and employees all over Australia and New Zealand the business donated more than $500,000 and provided immediate financial support to many affected families along with goods for the Salvation Army relief centres.

Kmart has developed a long-term strategy to reduce its environmental impact, with a focus on reducing water usage, reducing energy consumption, increasing waste recycling, and introducing sustainable products for customers to purchase.

In response to legislation in South Australia, Kmart removed all single-use plastic checkout bags. The removal of plastic bags throughout this state is expected to reduce the number of bags distributed by 18 million per annum. Kmart is reviewing its policy nationally.

Kmart also engaged Entech USB to manage national environmental data. This enables accurate and robust data to be captured for key environmental indicators, including energy use, waste and recycling. This partnership has already allowed the business to better report on greenhouse gas emissions, develop a sound baseline and identify opportunities for improvement.

Kmart's training and development team has realigned the training programme to support the Kmart renewal plan. New team members start their training by undertaking the 'Kmart Essentials' suite of online programmes that give an overview of the business. Team members are then supported throughout their career with access to 36 courses covering various topics. This year has seen the introduction of specific training for selected roles within stores.

**Outlook**

The Kmart turnaround faces a number of challenges. With the new management team appointed, a strong focus will be placed on rebuilding a solid foundation for the business and a platform for sustainable growth.

Trading conditions are likely to remain somewhat volatile given the turnaround underway and the likely absence of any further government stimulus packages. Kmart will continue to improve the in-store experience for customers and rebuild trust by offering quality products at great prices every day.

An additional two new stores are planned to be opened in the forthcoming year.

Team member, Chris Tzaicos, re-stocks towels at the Victoria Gardens Shopping Centre in Richmond, Victoria.

# Resources

## Record earnings were generated through record sales volumes which enabled the business to capture the value of higher export coal prices during the first three quarters of the year.

The Blackwater Creek diversion project is part of Curragh's ongoing mine development.

### The business

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

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

### Strategy

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

### Results

Revenue increased to $2.4 billion, 83.9 per cent above last year. Earnings before interest and tax (EBIT) of $915 million were 116.3 per cent higher than last year's $423 million. Higher export coal prices during the first three quarters were the major factor in the improved 2008/09 result.

Total coal sales volumes for the year from Curragh of 9.8 million tonnes (6.5 million metallurgical and 3.3 million steaming) were 9.1 per cent above those achieved in 2007/08. Premier Coal's steaming coal sales volumes of 3.4 million tonnes in 2008/09 were 19.8 per cent higher than last year.

Joint venture steaming coal sales volumes from Bengalla of 5.2 million tonnes (4.6 million export and 0.6 million domestic) were 7.3 per cent lower than last year.

### Year in brief

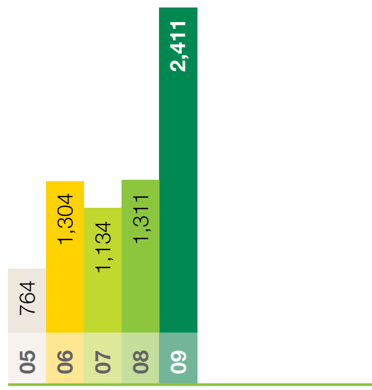
**Curragh:** Record EBIT and strong metallurgical coal sales volumes were achieved, with metallurgical coal production of 6.7 million tonnes for the year despite major structural damage to a dragline's boom in December, which necessitated increased truck and shovel activity over the second half. The dragline returned to service during May 2009, ahead of expectations.

Factors affecting costs included: record government royalties; a record Stanwell expense ($170 million); foreign exchange hedge close-outs; plus the cost of discretionary incremental truck and shovel and other initiatives to optimise production in line with record export prices.

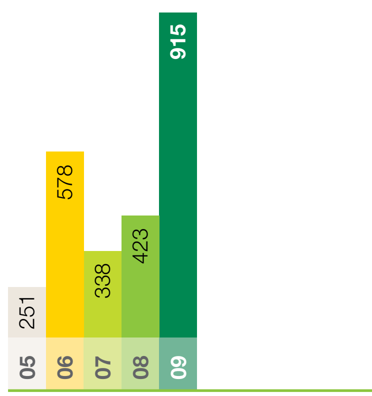
Annual price negotiations were concluded in April 2009, and long-term contracts to supply world-leading steelmakers in Asia, Europe and South America were set.

A feasibility study continues into the expansion of Curragh to achieve annual export tonnages of between 8.0 and 8.5 million tonnes of metallurgical coal.

**REVENUE ($m)**
**$2,411m**




**EBIT ($m)**
**$915m**




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

| | 05 | 06 | 07 | 08 | 09 |
|---|---|---|---|---|---|
| Revenue ($m) | 764 | 1,304 | 1,134 | 1,311 | **2,411** |
| Earnings before interest and tax ($m) | 251 | 578 | 338 | 423 | **915** |
| Capital employed ($m) | 523 | 738 | 870 | 984 | **1,072** |
| Return on capital employed (%) | 48.1 | 78.3 | 38.8 | 43.0 | **85.4** |
| Capital expenditure ($m) | 189 | 237 | 178 | 146 | **252** |

# Increasing mine potential

## Growth strategies

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

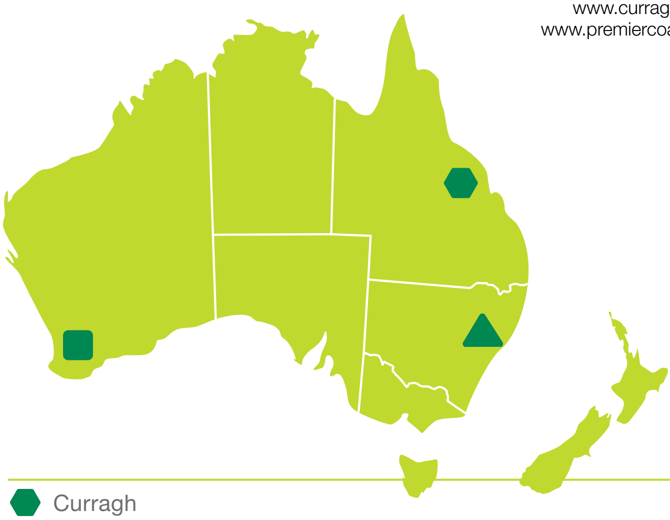
**Increase export sales**
Maximise metallurgical coal export sales from the Curragh mine through efficiencies and market growth.

**Mine expansion**
Ongoing feasibility studies for the potential expansions of the Curragh and Bengalla mines.

**Portfolio growth**
Evaluation of acquisitions and other 'step-out' opportunities.


**BUSINESS WEBSITES**

www.wesresources.com.au
www.curragh.com.au
www.premiercoal.com.au



- Curragh
- Premier Coal
- Bengalla (40%)

| | |
|---|---|
| Number of employees | 788 |

**Premier Coal:** Increased coal sales volumes of 19.8 per cent were achieved due to increased demand from Verve Energy during the Western Australian gas shortage caused by the Varanus Island gas disruption. EBIT was lower than last year, due to the shutdown and write-off of the pilot char plant.

Growth within the Premier Power Sales business was promising.

**Bengalla:** Record EBIT and steaming coal prices were achieved. A feasibility study to determine the viability of increasing the annual run of mine capacity from 8.7 million tonnes to 10.7 million tonnes continues.

### Business sustainability

The safety of the operations' workforces remains the highest priority. The business achieved a significant improvement in safety performance as a result of better management systems, workplace behaviours and operating procedures. This year the Lost Time Injury Frequency Rate improved from 7.2 to 2.5 and Lost Time Injuries decreased from 19 to 9. The business continues to seek improvements in safety systems to ensure a safe and injury-free workplace is provided.

During the year, Curragh's dragline 302 underwent a major upgrade.

Wesfarmers Resources is continuing to look for more opportunities to reduce greenhouse gas emissions, achieve environmental best practice and continuous improvement in its operations.

This year a climate change strategy and action plan was developed to ensure compliance and to optimise and integrate our various activities in regard to energy efficiency and greenhouse gas reduction. This plan has resulted in an increased focus on energy and greenhouse efficiency and reporting for the new National Greenhouse and Energy Reporting System as well as data collection for the first Wesfarmers Energy Efficiency Opportunities public report.

Reuse and recycling has improved significantly during the year with the mines recycling in total more than one million litres of engine oil for reuse which, combined with the introduction of a waste transfer station at Premier Coal and scrap metal recycling at Curragh, has allowed company sites to reduce their overall environmental impact. Recent enhancements to the business' water management systems on site have contributed to improved water efficiency with a further reduction of 16 per cent this year.

In regard to supporting local communities a further commitment to the Ngalang Boodja aquaculture project in Collie, Western Australia by Premier Coal and a new national partnership with Life Education Australia have been the highlights. These partnerships have enhanced the business' already strong support for the local indigenous population and young people.

During the year Curragh and Premier Coal contributed to numerous community organisations including community groups, cultural and sporting associations, clubs, festivals and educational facilities in the Blackwater and Collie regions.

**Outlook**

Earnings will decrease significantly in 2009/10 due to a substantial reduction in export coal prices together with lower export demand. Two non-operational issues affecting Curragh, the timing of Stanwell rebate obligations and locked-in foreign exchange rate hedge losses, will also affect earnings.

Lower mine cash costs are expected to be achieved as the division implements aggressive cost reduction programmes.

The $130 million Blackwater Creek diversion project, which will increase Curragh's mine potential, is on budget and scheduled for completion in December 2010.

Metallurgical coal sales from the Curragh mine are expected to be in the range of 6.2 to 6.7 million tonnes for the full-year subject to mine operating performance and infrastructure constraints.

The RG Tanna Coal Terminal, Port of Gladstone, Queensland.

Photo courtesy of Gladstone Ports Corporation Limited.

# Insurance

## Wesfarmers Insurance provides insurance and risk management solutions to commercial, small business, not-for-profit and personal clients across Australia, New Zealand and the United Kingdom.

WFI, Lumley and OAMPS assisted clients to rebuild following the Victorian bushfires in February 2009.

### The business

Wesfarmers Insurance provides insurance broking, insurance underwriting and related financial services in Australia, New Zealand and the United Kingdom. The insurance underwriting operations include Wesfarmers Federation Insurance (WFI), Lumley Australia and Lumley New Zealand. The insurance broking operations are OAMPS Australia, OAMPS UK and Crombie Lockwood in New Zealand.

### Strategy

In Australia, the underwriting operations serve both direct and intermediary distribution channels. WFI distributes its insurance products and services directly to clients in rural and regional Australia, whilst the Lumley operations focus on sales through brokers and other intermediaries with specialisation in the fleet and commercial motor, property and liability, engineering and marine sectors.

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

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

### Results

Wesfarmers Insurance achieved 4.3 per cent growth in operating revenue to $1.7 billion with solid support from targeted market sectors. Underlying earnings before interest, tax and amortisation (EBITA) was $103 million compared with $135 million for the previous year. The combined operating ratio (COR) for underwriting was 103.2 per cent and the EBITA margin for our broking businesses was 27.9 per cent.

Earnings before interest and tax for the year were $91 million. This included amortisation of intangibles of $12 million associated with the OAMPS and Crombie Lockwood acquisitions.

Lumley Australia's results were substantially affected by higher than expected claims resulting from adverse weather conditions and the Victorian bushfires.

Lumley New Zealand produced a substantial turnaround in earnings this year and WFI generated growth in premium income but also experienced higher than normal claims.

The broking operations delivered growth in earnings over the prior year through organic sales growth and greater operational efficiency.

**REVENUE ($m)**
**$1,720m**


**EBITA ($m)**
**$103m**


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

| | 05 | 06 | 07 | 08 | 09 |
|---|---|---|---|---|---|
| Revenue ($m) | 1,126 | 1,117 | 1,410 | 1,649 | **1,720** |
| Earnings before interest, tax and amortisation ($m) | 135 | 125 | 130 | 135 | **103** |
| Capital employed ($m) | 431 | 404 | 764 | 1,146 | **1,337** |
| Return on capital employed (%) | 31.3 | 30.9 | 15.8 | 11.5 | **6.8** |
| Capital expenditure ($m) | 14 | 21 | 15 | 18 | **26** |

# Covering your future – financial protection for today

## Growth strategies

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

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

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

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

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


WFI Western Operations Manager, John Snowball, and Area Manager, Joanne Endersby, at a residential strata property in Cottesloe, Western Australia, insured by WFI.

## Year in brief

During the year a substantial change programme was undertaken at Lumley Australia. A new CEO and management team were appointed and a new organisational structure was put in place. Following a detailed portfolio review, several unprofitable classes of business were exited.

Pleasingly, Lumley New Zealand's results improved substantially over last year following restructuring in this business and a strong focus on underwriting and claims disciplines. Revenue remained strong and profitability improved by $32 million over the previous year.

WFI generated growth in premium income which was offset by higher than normal claims. Continued investment in the sales force and customer service helped improve client retention rates. Fifteen declared natural disasters, including the worst crop losses since 1992, contributed to a decline in insurance margin.

The two Australian underwriting licences were consolidated during the year, which will result in capital efficiencies in the order of $25 million and operational efficiencies arising from the development of shared services.

Revenue and earnings growth was achieved in the broking businesses despite the economic downturn in Australia, New Zealand and the United Kingdom.

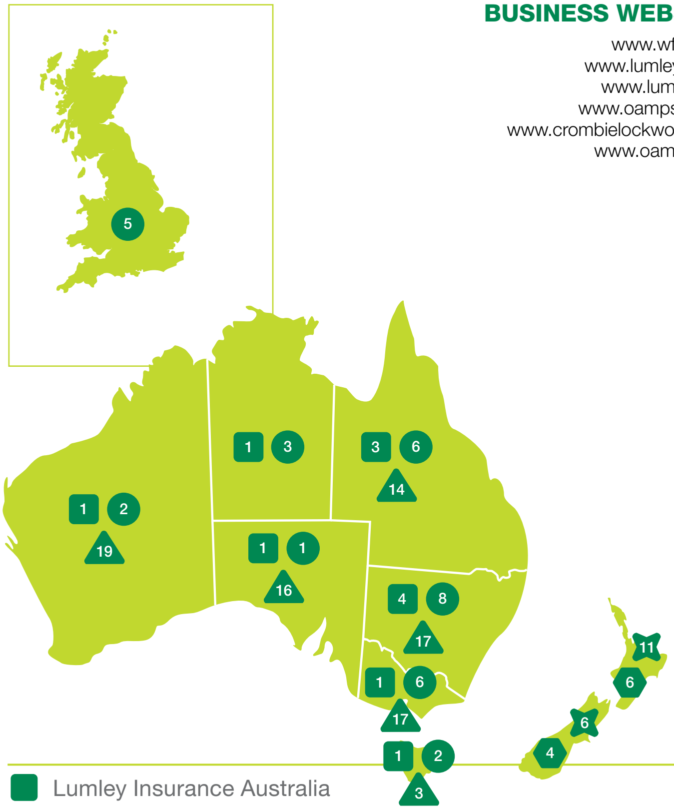
A focus on delivering value and security to clients enabled all broking businesses to grow earnings in the difficult economic circumstances.

OAMPS Australia introduced a new sales management system through the year and also reduced operating expenses. OAMPS UK delivered earnings growth in its London market operations and in environmental consulting.

Crombie Lockwood consolidated its position as the second largest broker in New Zealand with strong client retention rates and the completion of two bolt-on acquisitions.

## BUSINESS WEBSITES

www.wfi.com.au
www.lumley.com.au
www.lumley.co.nz
www.oamps.com.au
www.crombielockwood.co.nz
www.oamps.co.uk




| | |
|---|---|
| Lumley Insurance Australia | 12 |
| Lumley General New Zealand | 10 |
| WFI | 86 |
| OAMPS | 33 |
| Crombie Lockwood | 17 |
| Number of employees | 3,092 |

**Business sustainability**

Several important steps have been taken towards becoming carbon neutral. During the year a full carbon lifecycle analysis was completed for all the Insurance businesses. This allowed the division to determine its carbon footprint and identify the key areas where energy is used directly and indirectly. By purchasing carbon offsets the business achieved carbon neutral status for its Australian operations from 1 July 2009.

The business' major safety initiative 'ISAFE' focused on managing key safety risks and reducing workplace accidents. An occupational health and safety specialist was engaged to oversee programme implementation.

The commitment to supporting the community continued during the year. The business' employees were involved in relief efforts following the Victorian bushfires by providing on the ground support for claims management. In addition the division provided emergency cash relief to its customers and a donation to the Red Cross Victorian Bushfire Appeal 2009.

**Outlook**

Subject to more normal weather conditions in Australia, earnings are expected to improve in 2009/10 as a result of the business improvement and growth initiatives implemented over the past two years.

The underwriting businesses will focus on underwriting and claims disciplines whilst building capability in key market segments. Lumley New Zealand will build on the momentum developed over the past year and the new management team in Lumley Australia will follow a similar strategy to improve profitability in the intermediated market. WFI's earnings are expected to improve on the basis of more normal weather and crop conditions. The effect of these strategies will be realised across the 2009/10 and 2010/11 periods.

The broking businesses are expected to continue their earnings improvement through a combination of organic growth, targeted acquisition and business process enhancement.

Director of OAMPS Gault Armstrong, Ric Clarke (left), provides specialist marine insurance advice to Chairman of Austal Ltd, John Rothwell.

# Chemicals and Fertilisers

## Manufacturing chemicals and fertilisers to meet existing and new markets in a safe and sustainable way underpins the business.

CSBP Process Technician, Gary Mulholland, inspecting the head tank at the top of the new ammonium nitrate tower.

### The business

The Chemicals and Fertilisers division incorporates CSBP, Australian Vinyls (AV), ModWood, the 50 per cent-owned Queensland Nitrates (QNP) and the 75 per cent-owned Australian Gold Reagents (AGR).

The division is one of Australia's leading suppliers of chemicals, fertilisers and related services to the mining, minerals processing, industrial and agricultural sectors.

The division manufactures a range of chemical products including ammonia, ammonium nitrate, sodium cyanide, polyvinyl chloride resin and wood-plastic composite products.

It also manufactures, imports and markets fertilisers, primarily servicing the Western Australian broadacre cropping, livestock, horticulture and dairy sectors.

### Strategy

The division's strategy is to profitably build on its existing chemicals businesses by ensuring it meets demand growth in its existing markets as well as seeking new opportunities in different geographic markets.

In fertilisers, the business strives to provide Western Australian farmers with a wide range of quality fertilisers at competitive prices, supported by leading technical skills and high customer service standards.

### Results

Chemicals and Fertilisers' operating revenue of $1.2 billion was 16.6 per cent higher than last year as a result of higher ammonium nitrate sales volumes and fertiliser prices. Earnings before interest and tax of $52 million were 58.1 per cent lower than the previous year's $124 million due to reduced earnings from fertilisers and all chemical businesses, except for ammonium nitrate.

The ammonia business recorded a loss for the year due to an incident at the Varanus Island gas facilities in Western Australia, affecting production and costs throughout the year.

Total fertiliser sales volumes declined by 30.1 per cent due to a late seasonal break, reduced farmers' terms of trade in the pasture market and lower application rates reflecting tighter credit and liquidity conditions.

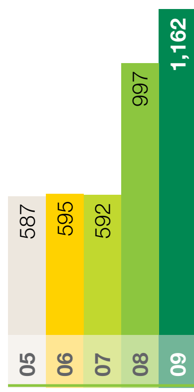
### Year in brief

**Chemicals**

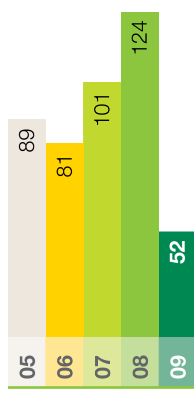
Increased ammonium nitrate production was supplied into the local resource sector and export markets, resulting in a 52.1 per cent rise in volumes and a lift in earnings from the previous year.

The ammonia business recorded lower production and sales compared to last year, due to operations being suspended and then restricted following the disruption of gas supplies related to the incident at Varanus Island. This required the importing of ammonia at a higher cost in order to meet demand from external customers and as a feedstock for the manufacture of ammonium nitrate.

**REVENUE ($m)**
**$1,162m**




**EBIT ($m)**
**$52m**




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

| | 05 | 06 | 07 | 08 | 09 |
|---|---|---|---|---|---|
| Revenue ($m) | 587 | 595 | 592 | 997 | **1,162** |
| Earnings before interest and tax ($m) | 89 | 81 | 101 | 124 | **52** |
| Capital employed ($m) | 494 | 540 | 604 | 946 | **1,214** |
| Return on capital employed (%) | 18.1 | 15.1 | 16.7 | 13.1 | **4.3** |
| Capital expenditure ($m) | 31 | 73 | 199 | 252 | **44** |


## Growth strategies

**Ammonia/ ammonium nitrate**
Identify capacity expansion opportunities, pursue new markets and allocate product to highest margin markets.

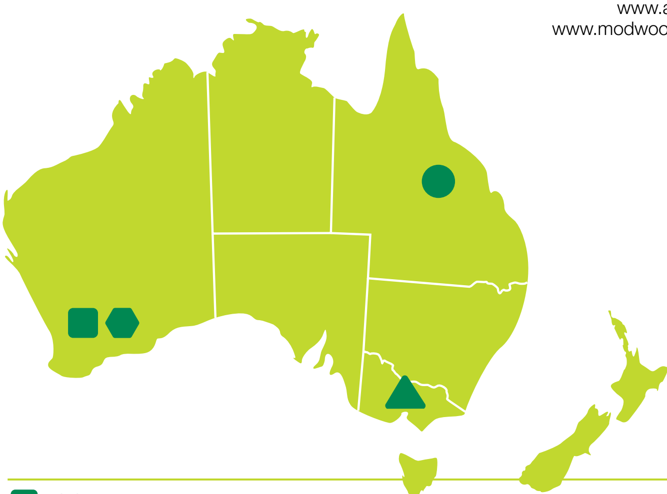
**Sodium cyanide**
Meet growing local demand while improving solid manufacturing capacity for growing export markets.

**Polyvinyl chloride**
Optimise cost base and capital usage to maintain competitive position.

**Fertiliser**
Continue to develop products tailored to market requirements and meet the continued growing demand for liquid fertilisers.

**BUSINESS WEBSITES**

www.csbp.com.au
www.av.com.au
www.modwood.com.au



| | |
|---|---|
| **CSBP fertilisers** | |
| Manufacturing plants | 5 |
| Import and distribution centres | 5 |
| Depots | 6 |
| Regional sales representatives | 27 |
| Sales agents | 135 |
| **CSBP chemicals** | |
| Manufacturing plants | 10 |
| **Australian Vinyls** | |
| Manufacturing plants | 2 |
| **QNP (50%)** | |
| Manufacturing plants | 4 |
| Number of employees | 779* |

* Figure excludes contractors

Production from the 50 per cent-owned Queensland Nitrates (QNP) integrated ammonia/ammonium nitrate facility was lower than the previous year due to a planned maintenance shutdown and debottlenecking work. Demand remained strong and the expansion of production capacity from 185,000 tonnes per annum to 215,000 tonnes per annum was all contracted. The commissioning of the expansion was completed in February 2009.

The 75 per cent-owned Australian Gold Reagents (AGR) business recorded sodium cyanide sales below historical levels due to the impact of the Varanus Island gas outage on Western Australian gold mines, with stable volumes of exported solid product. AGR is currently expanding the production capacity of sodium cyanide solution at Kwinana, Western Australia, to meet the requirements of the Boddington gold project, due to be commissioned by October 2009.

Australian Vinyls has resolved customer and operational issues associated with an upgrade to the distributed control system during the year. However, sales volumes have been adversely affected by the slowdown in the building market impacting PVC pipe production. The combination of these two issues resulted in a loss for the year.

### Fertilisers

Significantly lower than historical sales volumes in both pasture and cropping markets resulted in reduced fertiliser earnings. The break to the season was affected by the fourth driest autumn on record for the southwest of Western Australia, resulting in later than normal buying decisions.

CSBP's John Wilson loads cyanide into isotainers at AGR's liquid loading station.

**Business sustainability**

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

The division had 23 workplace injuries during the year, five more than last year. Six Lost Time Injuries were recorded, an increase of one from last year, although the Lost Time Injury Frequency Rate remained similar due to increased total hours worked.

Approximately $2.1 million was invested in training and development, with a focus on leadership development. The company also supported nine apprenticeships and one traineeship during the year.

CSBP completed the $2.1 million expansion of its nutrient-stripping wetland at Kwinana and started the commissioning of a $5.3 million water recycling plant at Australian Vinyls in Laverton, Victoria.

Reportable environmental events increased this year to 27 compared to 22 the previous year. Of these 27 reportable events, nine were potential non-compliances. The division has a dedicated environment team to support manufacturing activities and continuously improve compliance with environmental standards.

The division supports a range of community organisations through either direct financial support or through the donation of goods. CSBP continued its three-year partnership at Kwinana with Youth Focus, a not-for-profit organisation which assists young people at risk of suicide or self-harm. Australian Vinyls also continued its partnership with the Western Chances Education Foundation, which assists disadvantaged young people in the western suburbs of Melbourne.

**Outlook**

Increased ammonium nitrate production at both QNP and Kwinana will make a positive contribution to earnings. Local demand for sodium cyanide will be influenced by the timing of the commissioning of the Boddington mine.

Production and earnings from the ammonia plant will increase, as gas restrictions related to the incident at the Varanus Island facilities ceased in July 2009.

CSBP Area Manager, Owen Langley (left), visits local farmer and Flexi-N customer Mark Graham.

# Industrial and Safety

## A market-leading position driven by an unrivalled branch network, breadth of product and service offering and superior customer service.

Blackwoods Account Manager at a customer site placing an order online via tablet computer, Port Kembla Coal Terminal, Wollongong, New South Wales.

### The business

Wesfarmers Industrial and Safety is the leading supplier of maintenance, repair and operating (MRO) products in Australia and New Zealand. It provides industrial and safety products and services across a broad range of industries including resources, construction, manufacturing, government and services.

The division comprises 10 businesses including Blackwoods, the leading MRO product supplier in Australia. Blackwoods has an extensive national network and breadth of product range, including tools, hardware, safety, apparel and footwear, material handling, fasteners, hygiene, welding, mechanical services, packaging and power transmission.

Complementing Blackwoods in Australia are four specialists: Protector Alsafe, Bullivants, Motion Industries and Total Fasteners. In New Zealand, Blackwoods Paykels, a generalist MRO, hose and conveyor business is complemented by three specialists: NZ Safety, Protector Safety and Packaging House. Most Australian and New Zealand specialty businesses hold a leading market position in their respective category. Additionally in New Zealand, Safety Source provides manufacturing, sourcing, design and specialised services, particularly in the areas of safety, clothing and signage.

The division operates from an unrivalled network of 240 locations. The network is supported by large distribution centres, hundreds of external and internal sales resources as well as e-business, websites and telemarketing channels.

### Strategy

As a nationwide single source distributor, Blackwoods aims to deliver great customer service while saving customers time and costs with fast delivery of all their workplace needs at competitive prices. Complementary specialists provide excellent technical advice and solutions.

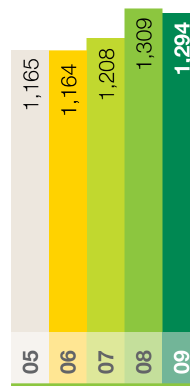
The division continues to strengthen its relationship with large customers by enhancing its sales force effectiveness, widening and improving its range of products and services and continuously improving its delivery performance through supply chain effectiveness. The penetration of smaller customers is supported by extensive branch networks, outbound sales teams and websites.

The division will continue to expand its presence in higher growth sectors and complement organic growth by value-creating acquisitions, strengthening its geographic, product and service offering.

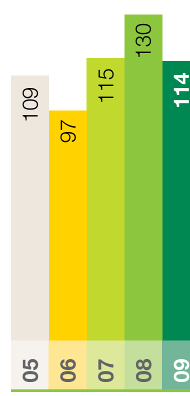
It is also focused on making better use of working capital and lowering its cost of doing business through continuous process enhancements.

It sets out to attract and retain high-quality people and to provide them with a safe and rewarding working environment.

**REVENUE ($m)**
**$1,294m**




**EBIT ($m)**
**$114m**




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

| | 05 | 06 | 07 | 08 | 09 |
|---|---|---|---|---|---|
| Revenue ($m) | 1,165 | 1,164 | 1,208 | 1,309 | **1,294** |
| Earnings before interest and tax ($m) | 109 | 97 | 115 | 130 | **114** |
| Capital employed ($m) | 798 | 769 | 734 | 775 | **808** |
| Return on capital employed (%) | 13.6 | 12.6 | 15.6 | 16.8 | **14.1** |
| Capital expenditure ($m) | 17 | 16 | 26 | 20 | **25** |

# Helping keep workplaces safe


## Growth strategies

**Increase share of customers' spend**
Provide improved customer service, delivery performance and products and service offering.

**Improve metropolitan sales penetration**
Support a more competitive offer through the outbound sales team, websites, merchandising and marketing programmes.

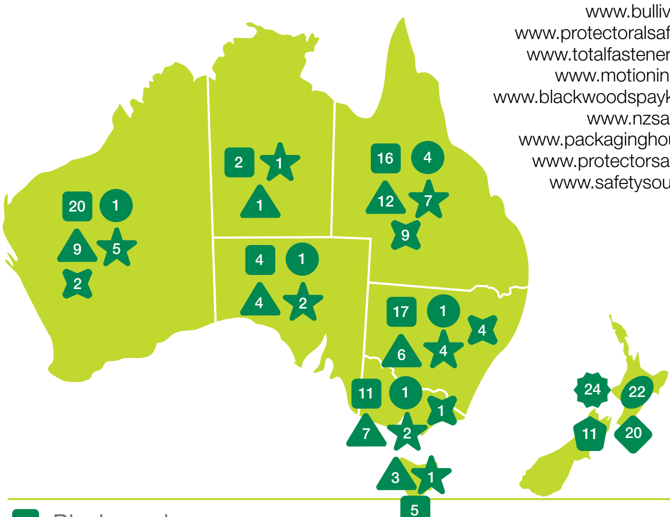
**Increase growth in selected sectors**
Focus resourcing investments and network, range and service extensions in selected industry sectors, including through acquisitions.

**Improve competitiveness**
Continue to improve effectiveness through organisational re-design, supply chain process improvement, technology investments, pricing, sourcing initiatives and ongoing expenses and capital management.

**Develop and retain employees**
Continue to provide a safe, challenging and rewarding workplace, with increased employee training investment and retention initiatives.


## BUSINESS WEBSITES

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




| | | |
|---|---|---|
| ■ | Blackwoods (including Atkins Electrical and Bakers Construction) | 75 |
| ▲ | Protector Alsafe | 42 |
| ★ | Bullivants | 22 |
| ✖ | Total Fasteners | 16 |
| ● | Motion Industries | 8 |
| ✹ | NZ Safety | 24 |
| ⬮ | Protector Safety (NZ) | 22 |
| ◆ | Blackwoods Paykels (NZ) | 20 |
| ⬟ | Packaging House (NZ) | 11 |
| | Number of employees | 3,191 |

### Results

Industrial and Safety delivered a solid performance in a challenging economic environment. Operating revenue declined by 1.1 per cent during the year to $1.3 billion, despite being 7.0 per cent higher than last year in the first six months, due to the business activity slowdown in the second half.

Sales were lower in most businesses, particularly in Victoria and New Zealand. Bullivants performed strongly, and all businesses, especially Blackwoods, continued to strengthen positions with major customers in the resources sector.

Earnings before interest and tax of $114 million were 12.3 per cent lower than last year, with reduced sales and increased margin pressure being only partially offset by expense reductions. Strong earnings growth was achieved by Bullivants and the division's Western Australian activities.

Due to lower earnings, return on capital reduced to 14.1 per cent compared with 16.8 per cent achieved last year.

### Year in brief

Over the year, the division continued to strengthen its capabilities, with a major focus on sales force effectiveness.

Delivery performance continued to improve and a strong focus on markets and customers has underpinned an overall strengthening of market positions. Significant focus has been directed at the supply chain, with a new demand management system being implemented. The international supply chain, including sourcing, quality assurance and logistics, has also been further enhanced.

Branch manager, Andrew Clark, and customer service team member, Leith Soutar, load an order outside the new Blackwoods Paykels/Protector Safety branch, Highbrook, East Tamaki, New Zealand.

Upgrading distribution capabilities continued with the near-completion of the Blackwoods Paykels Auckland and Blackwoods Perth distribution centres. Branch network development included ongoing refurbishment activity and a number of small acquisitions and greenfield branches for specialist businesses, while a small number of non-performing locations were closed.

A highlight in New Zealand included the migration of Blackwoods Paykels onto the common New Zealand IT platform, to enable better customer service at the growing number of shared Blackwoods Paykels/Protector Safety locations.

The combination of strong relationships with key suppliers and expanding direct sourcing capability has supported the continued development of the range of products and services offered. This was complemented by marketing activities and new catalogues. Protector Alsafe further expanded its training offer, while Bullivants introduced a new asset management service. E-business functionalities have continued to be developed, with strong growth achieved in this channel over the year.

New investments in resources and equipment have targeted the oil and gas, infrastructure and construction, and hospitality sectors.

Finally, good progress was also made on initiatives to deliver more effective operations, particularly to further increase the performance of the branch networks.

**Business sustainability**

Safety continues to be a major focus, with a number of initiatives targeting manual handling and related risk prevention, resulting in improvements on injury severity and reduction of the Lost Time Injury Frequency Rate from 4.5 to 2.4.

The businesses remained focused on attracting, retaining and developing quality employees, while the slowing of business activity facilitated a significant increase in employee retention.

Community support included ongoing employee involvement, donations and financial contributions, including support for the victims of the bushfires in Victoria.

The division also continued to increase its efforts on sustainability with improved supplier compliance monitoring, increased focus on waste management, and all new facility constructions incorporating energy and water efficient designs.


Warehouse Team Leader, Stephan Maric, picking an order at Protector Alsafe Distribution Centre, Altona, Victoria.

**Outlook**

While the economic environment is affecting the division's performance, the competitiveness of its business portfolio and ongoing improvement programmes position it well to benefit from economic recovery. Over the next year, resources and infrastructure-based activity are expected to provide growth opportunities and enable the division to further strengthen its competitive position.

# Energy

## The Energy division is focused on operating efficiency, customer service and growing its market share.

### The business

Wesfarmers Energy is comprised of four gas businesses and a power generation business.

The gas and power activities include: the production and distribution of industrial, medical and specialty gases by Coregas in eastern Australia and Air Liquide WA (40 per cent interest) operating in Western Australia and the Northern Territory; the production and distribution of liquefied petroleum gas (LPG) and the production of liquefied natural gas (LNG) by Wesfarmers LPG; the distribution and marketing of both LPG and LNG by Kleenheat Gas; and power generation for remote towns and mines by enGen.

### Strategy

Wesfarmers Energy's objective is to grow value through its businesses with essential products. This is achieved by improving existing businesses, expanding the division's geographical presence in key competency segments, and developing investments and capabilities in new segments.

### Results

Operating revenue for the Energy division increased to $598 million, 5.8 per cent above last year. Earnings before interest and tax of $75 million were 16.7 per cent lower than last year. The reduced earnings were largely due to lower international LPG prices and the impact of the Varanus Island gas disruption in Western Australia.

### Year in brief

**Industrial, medical and specialty gases**

**Coregas:** Earnings were slightly higher than last year, despite reduced demand from Coregas' major customer and subdued market activity in Victoria and New South Wales.

**Air Liquide WA (ALWA):** Earnings growth was achieved despite supply shortages during the Varanus Island gas disruption and sharply weaker second half demand, particularly in the resource sector. The operation of one of ALWA's two Air Separation Units (ASU) was suspended in December 2008, following the shutdown of the HIsmelt plant in Kwinana.

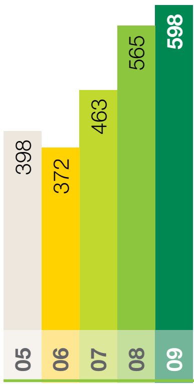
**LPG and LNG**

**Wesfarmers LPG:** Revenue was slightly higher than last year due to higher sales volumes and a lower AUD:USD foreign exchange rate, partially offset by lower international LPG prices. Earnings were significantly lower due to lower average selling prices and inventory write-downs associated with the Varanus Island gas disruption and lower full-year international LPG prices.

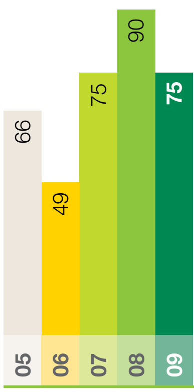
Production increased by 1.6 per cent to 170,300 tonnes as content in the Dampier to Bunbury pipeline was higher for the year, despite lower content in the period initially following the Varanus Island gas disruption. Imported LPG and emergency inventory holdings ensured continuity of LPG supply for the Western Australian market during the gas disruption.

Wesfarmers LPG, Process Engineer, Visnu Thachnamurthy (left), assists Peter Osboine from Kleenheat Gas load his tanker with EVOL LNG at Kwinana, Western Australia.

**REVENUE ($m)**
**$598m**




**EBIT ($m)**
**$75m**




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

| | 05 | 06 | 07 | 08 | 09 |
|---|---|---|---|---|---|
| Revenue ($m) | 398 | 372 | 463 | 565 | **598** |
| Earnings before interest and tax ($m) | 66 | 49 | 75 | 90 | **75** |
| Capital employed ($m) | 144 | 184 | 422 | 782 | **808** |
| Return on capital employed (%) | 45.8 | 26.8 | 17.9 | 11.6 | **9.2** |
| Capital expenditure ($m) | 31 | 50 | 78 | 118 | **40** |


## Growth strategies

**Grow LNG**
Continue development of the LNG business through increased marketing and business development.

**Efficiency and volumes**
Maximise growth of industrial gas volumes and improve operating efficiency to reduce the cost of business.

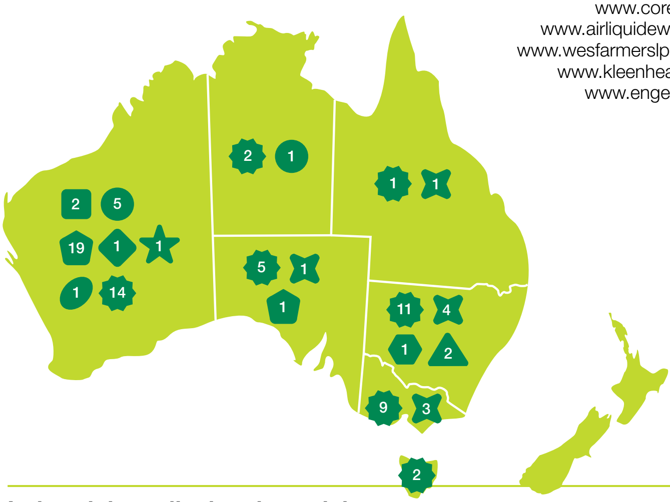
**Improve customer service**
Focus on customers and optimising costs in LPG distribution through direct to customer deliveries and centralised cylinder filling.

**Optimise facility usage**
Optimise usage of Western Australian LPG facilities to ensure continued supply for the Western Australian market.

**Capture new opportunities**
Pursue new and expansionary power generation opportunities.

**BUSINESS WEBSITES**

www.wesfarmersenergy.com.au
www.coregas.com
www.airliquidewa.com.au
www.wesfarmerslpg.com.au
www.kleenheat.com.au
www.engen.com.au




**Industrial, medical and specialty gases**

| | |
|---|---|
| Air separation units (ALWA) | 2 |
| Air separation units (Coregas) | 1 |
| Acetylene plant (ALWA) | 1 |
| Hydrogen/acetylene plants (Coregas) | 2 |
| Industrial gas depots/branches (ALWA) | 6 |
| Industrial gas depots/branches (Coregas) | 9 |
| **LPG and LNG** | |
| LPG depots/branches | 44 |
| LPG extraction facility | 1 |
| LNG production facility | 1 |
| **Power generation** | |
| Power stations owned and/or operated | 20 |
| Number of employees | 971 |

**LNG:** The Varanus Island gas disruption delayed commissioning of the 175 tonne-per-day LNG plant at Kwinana by three months, until September 2008. LNG production has steadily increased as off-take customers increase demand.

**Kleenheat Gas:** Earnings from continuing operations in Australia were lower than last year due to the impact of higher international LPG prices in the first half and the Varanus Island gas disruption. LPG cylinder sales volumes increased slightly due to growth in the cylinder exchange Kwik Gas business while bulk volumes were broadly in line with last year.

During the period, Kleenheat Gas launched "EVOL LNG", its brand for marketing LNG to the heavy duty vehicle market.

**Power generation**

**enGen:** Earnings were lower than last year primarily due to the delayed commencement of LNG-fuelled power stations at Sunrise Dam and Darlot in Western Australia.

### Business sustainability

During the year Wesfarmers Energy focused on further improvements in the safety of its operations and developing products that offer sustainable environmental benefits to its customers.

The division's Lost Time Injury Frequency Rate (LTIFR) was reduced from 6.3 to 2.2, with Coregas and Kleenheat Gas improving their safety performance and Air Liquide WA, enGen and WLPG maintaining zero LTIFR.

Wesfarmers Energy continued to pursue and develop sustainable energy alternatives. Thirteen LNG heavy duty vehicles and 18 tankers began transporting LNG produced from the Kwinana LNG plant to customer sites. In addition enGen is working with the South Australian government to construct a solar power station with the capacity to generate in excess of 600 kilowatts of power for Coober Pedy.

The division continued to proudly support the communities in which it operates, contributing more than $260,000 to community initiatives during the year. This included Kleenheat Gas' continued partnership with the Clontarf Foundation; Coregas entering its twenty-third year of sponsorship of the Tradesperson of the Year Award; and partial funding of a University of Western Australia research programme into near zero-emission hydrogen and carbon production from natural gas and bio-methane.

**Outlook**

Growth of LNG sales is expected through the development of the Western Australian heavy duty vehicle market and a full-year contribution from the plant. The ASU supplying HIsmelt is anticipated to remain in 'care and maintenance' until at least March 2010.

LPG earnings will continue to remain heavily dependent on international LPG prices, LPG content in the Dampier to Bunbury pipeline and the gas market in Western Australia.

Mick Anning delivers argon gas to Australian Lab Services in Smithfield, NSW.

# Other activities

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

**Gresham Partners**

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

During the year, Gresham strengthened its reputation as a leading independent adviser to Australian and multinational corporations as an active participant in a number of significant domestic and cross-border transactions, including its advisory role to BHP Billiton in the proposed iron ore joint venture with Rio Tinto.

Wesfarmers has direct investments in each of Gresham's three private equity funds and maintains its active engagement with the business through its representation on the Board and investment committees of the funds. Despite the general downward pressure on private equity asset valuations associated with the decline in global financial markets, Gresham has worked actively with each of its portfolio companies to ensure that they were best-placed to operate in a markedly different economic environment.

The share of profit from the partly-owned Gresham Partners amounted to $1 million while the Gresham Private Equity Funds generated a loss of $57 million. This result included a number of non-cash revaluations, including a write-down of $35 million following Riviera being placed into receivership during the year.

Riviera was the last remaining investment of Gresham Private Equity Fund 1 which, including this write-off, generated a cash internal rate of return of 27 per cent per annum since inception.

Gresham Private Equity Fund 2's investment in Australian Pacific Paper Products was realised through the sale of the business to Unicharm Corporation of Japan, returning more than four-and-a-half times the original capital invested by that Fund. New investments during the year across all three funds were limited to follow on investments in established portfolio companies.

Gresham's property funds management business manages more than $240 million of capital across two funds and had a strong year, despite continued turbulence in property and credit markets. The business broadened its engagement with a number of major property investors and developers and continues to produce satisfactory portfolio returns for its investors.

**Wespine Industries**

The 50 per cent-owned Wespine Industries, which operates a plantation softwood sawmill in Dardanup in Western Australia, contributed earnings of $4 million after tax. Earnings were impacted by reduced housing activity which resulted in lower sales volumes and downward pressure on prices in a highly competitive market. Gas supply constraints in the first months of the year due to the Varanus Island gas disruption, as well as substantial increases in energy costs also eroded margins.

An amended log supply contract with the Forest Products Commission was finalised in December 2008, providing increased log volumes for the longer-term, a move to delivered log prices and extension of the supply term until 2033.

The good safety performance of recent years was maintained, with only one Lost Time Injury recorded during the year.

Earnings are expected to be constrained by depressed markets in the coming year and the focus will be on maintaining a strong Western Australian market share through product quality, service and competitive pricing. A capital project underway for in-line treatment of structural timber will satisfy increasing market demand for higher value pest resistant timber.

**Bunnings Warehouse Property Trust**

Wesfarmers' investment in the Bunnings Warehouse Property Trust resulted in a loss of $8 million as a result of property revaluations.

The Trust was established in 1998 with a focus on warehouse retailing properties and, in particular, Bunnings Warehouses leased to Bunnings Group Limited. Bunnings Property Management Limited, the responsible entity for the Trust, is a wholly-owned subsidiary of Wesfarmers Limited.

Units in the Trust are listed on the Australian Securities Exchange and Wesfarmers holds, through a wholly-owned subsidiary, 22.7 per cent of the total units issued by the Trust.

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

# Sustainability

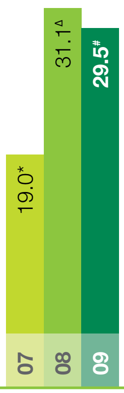
## Wesfarmers has identified five key areas of focus as part of its commitment to a sustainable future.

Curragh Environmental Officer, Paul Graham, takes a water sample from the MacKenzie River at Blackwater, Queensland.

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

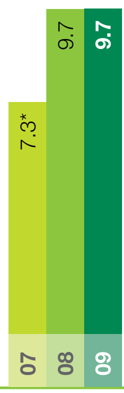

* Prior to the Coles acquistion
Δ Includes the former Coles group except Officeworks
\# Includes new facilities, particularly the CSBP ammonium nitrate expansion, but also was reduced by the gas shortage created by the Varanus Island incident in Western Australia

**ENERGY USE**
(million Gj)




* Prior to the Coles acquistion
Δ Includes the former Coles Group except Officeworks
\# Includes new facilities, particularly the CSBP ammonium nitrate expansion, but also was reduced by the gas shortage created by the Varanus Island incident in Western Australia

**WATER USE**
(megalitres)




* Prior to the Coles acquisition
The water use data does not include Target or Kmart because of difficulties in measuring water use in shared facilities

**LOST TIME INJURY FREQUENCY RATE**


* Prior to the Coles acquisition
Δ Excludes Coles and Officeworks


From 1 June 2009, Target removed plastic shopping bags from its stores nationally and replaced them with friendlier alternatives.

### Sustainability priorities

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

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

In the context of its commitment to sustainable outcomes, Wesfarmers has nominated five key areas of focus that will contribute towards delivering satisfactory returns for its shareholders in 2009 and beyond. Each of the Group's businesses – while providing different goods and services and making its own particular economic and social contributions – has oriented its sustainability efforts in 2009 around these priorities:

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

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

A full account of the company's sustainability policies, practices and performance will be available in the 2009 Sustainability Report to be published in November. This will be the twelfth such stand-alone, comprehensive document produced by Wesfarmers since it began reporting publicly in 1998/99.

### People

As one of Australia's largest employers, with more than 200,000 employees, Wesfarmers is committed to providing a safe, stimulating and ethical working environment that encourages high levels of personal and professional development.

The quality and diversity of the company's employees is a key competitive advantage and Wesfarmers continues to make strong investment in training and development across the Group. The businesses are compliant with the Equal Opportunity for Women in the Workplace Act and a number of them are implementing indigenous employment programmes.

Wesfarmers maintains an intense focus on improving safety performance but the Lost Time Injury Frequency Rate for the Group has increased with the inclusion for the first time of Coles data. Achieving better safety outcomes requires constant vigilance and effort across the company. The results achieved by the Resources, Energy, and Industrial and Safety divisions merit special reference.

### Carbon and energy management

As the world confronts an increasingly carbon-constrained future, reducing the company's carbon footprint is both a commercial priority and an environmental imperative. In line with proposed national emission reduction strategies, Wesfarmers intends to set both short-term and longer-term objectives while investing in new technologies that will contribute to the transition to a lower carbon economy. At the same time, the focus continues on the efficient and sustainable use of energy by the Group's businesses.

During the year Bunnings continued work towards achieving its target of carbon neutrality by 2015. The Wesfarmers Insurance Australian operations adopted the objective of being carbon neutral in 2009/10 through the use of offsets and through energy efficiency initiatives. The Energy division commissioned its LNG plant at Kwinana in Western Australia as part of a programme to offer more efficient and environmentally-friendly fuels for the heavy transport sector.

Wesfarmers submitted its first report under the Energy Efficiency Opportunities Act in December 2008 and is pursuing a wide range of energy efficiency and conservation initiatives across the Group as part of an overall approach to the pending constraints on carbon emissions. The company also commissioned a system for monitoring and recording energy use and greenhouse emissions to comply with the National Greenhouse and Energy Reporting Act and to create a management information system covering energy use and greenhouse emissions.

### Community investment

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

In 2008/09 Wesfarmers used the external assurance process of the London Benchmark Group (LBG) to assess the extent of the company's community contributions. LBG's assurance process has verified a cash, in-kind and product amount of $27.4 million. In addition, a further $31.8 million was raised through the active community involvement of the Wesfarmers Group of businesses. More details will be included in the Sustainability Report to be published in November 2009.

In addition to these ongoing commitments, the company's businesses provided support for those affected by the devastating Victorian bushfires. Total cash and in-kind contributions, including customer donations made in-store, exceeded $12.5 million.

Wesfarmers supports a number of Australia's leading arts companies through the award-winning Wesfarmers Arts sponsorship programme. This involvement stems from a belief that a vibrant cultural sector makes a positive contribution to the life of the community. The company's nationally-recognised collection of Australian art is shared with the public through exhibitions and loans to galleries. During the year works from the collection featured in prominent exhibitions, including the nationally-touring Cultural Warriors: Indigenous Art Triennial from the National Gallery of Australia.

### Environmental footprint

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

Key initiatives during the year included removal of plastic bags from all Target stores, Wesfarmers Limited becoming a member of the National Packaging Covenant, an e-waste recycling scheme piloted by Officeworks and the commissioning of CSBP's expanded nutrient-stripping wetland at Kwinana.

### A strong economic contribution

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

The creation of more than 10,000 new jobs across the Group during the year was a significant result at a time of concern about the impact of tough economic conditions on employment.

# Board of Directors

## Bob Every, age 64

### Chairman

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

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

Directorships of listed entities (last three years)

- Deputy Chairman of Boral Limited (appointed September 2007)
- Chairman of Iluka Resources Limited (appointed March 2004)
- Sims Group Limited (appointed October 2005 – resigned November 2007)

Other directorships/offices (current and recent)

- Director of Malcolm Sargent Cancer Fund for Children in Australia Limited (Redkite)
- Director of O'Connell Street Associates Pty Limited
- Director of OCA Services Pty Limited
- Director of CARE Australia

## Richard Goyder, age 49

### Managing Director

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

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

Directorships of listed entities (last three years)

- Nil

Other directorships/offices (current and recent)

- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- Director of Fremantle Football Club Limited
- Member of the University of Western Australia Business School Advisory Board
- Chairman of Scotch College Council

## Terry Bowen, age 42

### Finance Director

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

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

Directorships of listed entities (last three years)

- Nil

Other directorships/offices (current and recent)

- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- National executive member of the Group of 100

## Colin Carter OAM, age 66

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

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

Directorships of listed entities (last three years)

- SEEK Limited (appointed March 2005)
- Origin Energy Limited (appointed February 2000 – resigned April 2007)
- Foster's Group Limited (appointed March 2007 – resigned September 2007)

Other directorships/offices (current and recent)

- Director of Indigenous Enterprise Partnerships
- Director of World Vision Australia
- Director of the Ladder Project
- Director of the Geelong Football Club Limited
- Member of the Board of the Cape York Institute
- Member of the Federal Government's Independent Expert Panel on Sport
- Chairman of the AFL Foundation
- An adviser to, and former Senior Partner of, the Boston Consulting Group

## Patricia Cross, age 50

Status and term: Appointed in 2003 as a non-executive director (independent). Member of the Remuneration and Nomination committees.

Skills and experience: Bachelor of Science (Econ) with Honours from Georgetown University. Patricia has 25 years experience in international banking and finance, having served two years with the United States government, more than 15 years in management and executive roles with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank and 13 years as a non-executive director with organisations including the Transport Accident Commission (Deputy Chairman) and Suncorp-Metway Limited. She was previously a director of AMP Limited and Chairman of Qantas Superannuation Limited.

Directorships of listed entities (last three years)

- Qantas Airways Limited (appointed January 2004)
- National Australia Bank Limited (appointed December 2005)

Other directorships/offices (current and recent)

- Director of the Grattan Institute
- Director of the Murdoch Childrens Research Institute
- Director of Methodist Ladies' College (Melbourne)
- Member of the Australian Financial Centre Forum

## James Graham AM, age 61

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

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

Directorships of listed entities (last three years)

- Nil

Other directorships/offices (current and recent)

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

## Tony Howarth AO, age 57

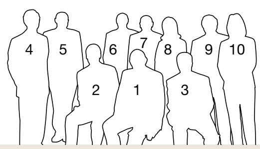
Status and term: Appointed in July 2007 as a non-executive director (independent). Chairman of the Audit committee and member of the Nomination commttee.

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

Directorships of listed entities (last three years)

- Chairman of Mermaid Marine Australia Limited (appointed July 2003)
- Chairman of Alinta Limited (appointed 2000 – resigned July 2006)
- Chairman of Home Building Society Limited (appointed June 2003 – delisted 24 December 2007)
- Deputy Chairman of Bank of Queensland Limited (appointed 18 December 2007)
- AWB Limited (appointed March 2005)

1. Bob Every
2. Richard Goyder
3. Terry Bowen
4. James Graham
5. Charles Macek
6. David White
7. Colin Carter
8. Patricia Cross
9. Tony Howarth
10. Diane Smith-Gander




Other directorships/offices (current and recent)
- Chairman of St John of God Health Care Inc
- Senator of the University of Western Australia
- Chairman of the Committee for Perth Limited
- Chairman of Force 15 Foundation
- Member of the Rio Tinto WA Future Fund
- Member of the University of Western Australia Business School Advisory Board
- President of the Australian Chamber of Commerce and Industry
- Director of the Chamber of Commerce and Industry of Western Australia (Inc)
- Director West Australian Rugby Union Inc

## Charles Macek, age 62

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

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

Directorships of listed entities (last three years)
- Telstra Corporation Limited (appointed November 2001)
- Living Cell Technologies Limited (appointed March 2006 – resigned August 2007)

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

## Diane Smith-Gander, age 51

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

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

Directorships of listed entities (last three years)
- Nil

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

## David White, age 61

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

**Skills and experience:** Bachelor of Business degree from Curtin University and a Fellow of CPA Australia.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Chairman of the Wheatbelt Area Consultative Committee
- Treasurer of Parkerville Children and Youth Care (Inc)
- Member of the Australian Institute of Company Directors
- Formerly the Treasurer of the Royal Agricultural Society of Western Australia (Inc)

# Corporate governance statement

The Board of Wesfarmers Limited is a strong advocate of good corporate governance.

The Board 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.

## Introduction

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

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

Wesfarmers complies with the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 2 August 2007 ('ASX Principles').

Wesfarmers' corporate governance practices for the year ended 30 June 2009, and at the date of this report, are outlined in this corporate governance statement. A checklist cross-referencing the ASX Principles to the relevant sections of this statement and elsewhere in the Annual Report is published in the corporate governance section of the company's website.

## Role of the Board

**Relevant governance documents**
**– Board Charter**

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

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

The responsibilities of the Board include:

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

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

## Structure and composition of the Board

The Board is currently comprised of 10 directors, with eight non-executive directors, including the Chairman, and two executive directors.

In August 2009, Ms Diane Smith-Gander was appointed as a new non-executive director and Mr Archie Norman was appointed as an adviser to the Board.

Ms Smith-Gander has had extensive experience in financial services as an executive with Westpac Banking Corporation and in management consultancy as a Partner at McKinsey & Company. She has had a successful 25 year business career during which she has been involved at a senior level across a wide range of different business sectors. Her range of highly developed skills and experience will be of great value to the Board and the company.

Mr Archie Norman, who has significant retail experience, was appointed as an adviser to the Board on retail issues. Mr Norman has been working with Wesfarmers and Coles at management level since October 2007 and has had a major role in helping guide the turnaround of the former Coles group businesses.

In his new advisory role, Mr Norman will attend Board meetings on a regular basis, as well as the Board's annual planning session, and provide retail advice to the Chairman and the Board as required.

### Director independence

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

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

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

The test of whether a relationship is material is based on the nature of the relationship and the circumstances of the director. Materiality is considered from the perspective of the company, the director, and the person or entity with which the director has a relationship.

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

– Mr Richard Goyder, Managing Director;

– Mr Terry Bowen, Finance Director; and

– Mr James Graham, a non-executive director, who is Managing Director of Gresham Partners Limited.

Mr Graham is technically deemed not to be independent by virtue of his professional association with Gresham Partners Limited, which acts as an investment adviser to the company. Details of Mr Graham's association with the company are set out in note 35 on page 142 of this Annual Report.

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

In addition, the Board has considered the independence of Mr David White, in relation to his period of service as a director. The Board considers that the length of time that Mr White has been on the Board does not have an adverse impact on his ability to bring an independent judgement to bear in decision-making. The Board considers that having a director who has served on the Board for a longer period helps to ensure continuity of corporate knowledge and experience, provided that the capacity for active contribution and independent judgement is maintained.

The Board considers that Mr White is an independent director given his continued and demonstrated performance and ability to make objective judgements on matters before the Board.

### Retirement and re-election

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

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

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

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

### Nomination and appointment of new directors

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

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

### Induction of new directors

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

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

### Knowledge, skills and experience

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

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

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

### Board access to information and independent advice

All directors have unrestricted access to employees of the Group and, subject to the law, access to all company records and information held by Group employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

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

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

### Conflicts of interest

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

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

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

## Operation of the Board

**Relevant governance documents**
- **Board Charter**
- **Audit Committee Charter**
- **Nomination Committee Charter**
- **Remuneration Committee Charter**
- **Gresham Mandate Review**

### Committees of the Board

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

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

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

Details of the membership, composition and responsibilities of each committee are detailed on page 66.

### Performance evaluation

A Board performance review was conducted in May 2009 which was facilitated by an external consultant. The review was undertaken through the completion of a detailed questionnaire by all directors and a selected group of senior executive managers. The process also included a review of individual directors' performance. Individual directors received feedback from the Chairman on a confidential basis. The results were considered by the Board as part of its annual planning session in May 2009.

Details of the performance review process for executive directors and senior executives are set out in the remuneration report, which forms part of the directors' report on pages 149 to 153 of this Annual Report.

### Remuneration

Full details of the remuneration paid to non-executive and executive directors and senior executives are set out in the remuneration report on pages 154 to 173 of this Annual Report.

## Ethical conduct and responsible decision-making

**Relevant governance documents**
- **Board Code of Conduct**
- **Code of Ethics and Conduct**
- **Board Charter**
- **Share Trading Policy**

### Conduct and ethics

The Board has adopted a Board Code of Conduct to guide the directors and promote high ethical and professional standards and responsible decision-making. In addition, the company has adopted a Code of Ethics and Conduct for all employees (including directors).

The Code of Ethics and Conduct is aimed at maintaining the highest ethical standards of corporate behaviour and accountability across the Group. Employees and directors are expected to respect the law; respect confidentiality; properly use Group assets, information and facilities; value and maintain professionalism; avoid conflicts of interest; act in the best interests of shareholders; contribute to the company's reputation as a good corporate citizen; and act with honesty, integrity, decency and responsibility at all times.

| | Audit Committee | Remuneration Committee | Nomination Committee | Gresham Mandate Review Committee |
|---|---|---|---|---|
| **Members** | – Mr Tony Howarth (Chairman from 17 October 2008)<br>– Dr Bob Every (effective 1 January 2009)<br>– Mr James Graham (until 1 January 2009)<br>– Mr Charles Macek<br>– Ms Diane Smith-Gander (effective 27 August 2009)<br>– Mr David White | – Dr Bob Every (Chairman)<br>– Mr Colin Carter<br>– Mrs Patricia Cross<br>– Mr James Graham (effective 1 January 2009) | – Dr Bob Every (Chairman)<br>– Mr Colin Carter<br>– Mrs Patricia Cross<br>– Mr James Graham<br>– Mr Tony Howarth<br>– Mr Charles Macek<br>– Ms Diane Smith-Gander (effective 27 August 2009)<br>– Mr David White | Any two of:<br>– Mr Colin Carter<br>– Mrs Patricia Cross<br>– Mr Charles Macek<br>– Mr David White |
| **Composition** | The Committee must comprise:<br>– only non-executive directors;<br>– at least three members;<br>– a majority of non-executive directors who satisfy the criteria for independence;<br>– members who have an understanding of financial statements and general accounting principles; and<br>– at least one member who has financial experience. | The Committee must comprise:<br>– only non-executive directors; and<br>– at least three members. | The Committee must comprise all non-executive directors. | The Committee must comprise such members as the Board determines from time to time. |
| **Responsibilities include:** | – Reviewing all published financial accounts of the company which require approval by the Board of directors, and discussion of the accounts with the external auditors and management prior to their submission to the Board;<br>– Reviewing any changes in accounting policies or practices and subsequent effects on the financial accounts of the company;<br>– Reviewing with management the terms of the external audit engagement in order to make recommendations to the Board;<br>– Reviewing and assessing non-audit services to be provided by the external auditor;<br>– Monitoring and assessing the systems for internal compliance and control, legal compliance and risk management;<br>– Advising on the appointment, performance and remuneration of the external auditor; and<br>– Reviewing and monitoring the company's continuous disclosure policies and procedures. | – Reviewing and making recommendations to the Board on remuneration for the non-executive directors and fixed and variable remuneration of the Managing Director (including the level of participation in the long term incentive plan);<br>– Reviewing and approving recommendations from the Managing Director on fixed and variable remuneration for senior executives (including the level and nature of participation in the long term incentive plan); and<br>– Reviewing and approving human resources policies and practices for senior executives. | – Reviewing Board and committee composition and recommending new appointments to the Board and the committees;<br>– Ensuring an effective induction programme for directors;<br>– Reviewing Board succession plans;<br>– Reviewing and making recommendations to the Board on the operation and performance of the Board and its Committees; and<br>– Making recommendations for the removal of directors. | – Considering and approving the mandate agreement terms and all fees payable to Gresham Partners Limited group of companies where they are to be appointed advisers to the company; and<br>– Reporting on the approved mandate terms and fees to the Board. |
| **Attendance** | Details of meeting attendance for members of each committee are set out in the directors' report on page 150 of this Annual Report. | | | |

**Whistleblower protection**

Wesfarmers encourages the reporting of unlawful and unethical behaviour, actively promotes and monitors compliance with the Code of Ethics and Conduct, and protects those who report breaches in good faith.

The Code of Ethics and Conduct provides protection to whistleblowers, as required by the Corporations Act 2001.

Under the code, whistleblowers are protected from any disadvantage, prejudice or victimisation for reports made in good faith of any breaches of the code or the Corporations Act 2001.

The Board has appointed protected disclosure officers (the Finance Director, Chief Legal Counsel and Company Secretary) to receive reports and manage investigations in relation to potential breaches of the Corporations Act 2001.

Guidelines were developed to assist directors and senior executives to manage reports of whistleblower complaints.

**Minimum shareholding requirement for directors**

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

**Share Trading Policy**

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

A director of Wesfarmers or member of the Executive Committee (a committee comprised of senior executives of the Group including divisional managing directors and chaired by the Managing Director) who intends to buy or sell shares must:

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

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

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

The company's Share Trading Policy prohibits executive directors and members of the Executive Committee from entering into transactions or arrangements which transfer the risk of any fluctuation in the value of shares obtained under Wesfarmers' long term incentive plan whilst the shares are subject to a restriction.

Each Wesfarmers director has entered into an agreement with the company under which the director must notify the company of any trade in the company's securities, or an associated entity's securities, within three business days.

**Sustainability**

The Board is committed to ensuring that all Wesfarmers operations work to sustainable business practices. Further information on the company's approach to sustainability is set out on page 57 of this Annual Report and the company's Sustainability Report which will be published in November 2009.

## Integrity in financial reporting

**Role of the Audit Committee**

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

The Finance Director, the General Manager, Group Accounting, the Group Internal Audit Manager, the Company Secretary, the external auditor (Ernst & Young), and any other persons considered appropriate, attend meetings of the Audit Committee by invitation.

The committee also meets from time to time with the external auditor in the absence of management.

### Independence of the external auditor

#### Appointment of auditor

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

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

#### Independence declaration

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

Ernst & Young has provided an independence declaration to the Board for the financial year ended 30 June 2009.

The independence declaration forms part of the directors' report and is provided on page 153 of this Annual Report.

#### Rotation of lead external audit partner

Mr Greg Meyerowitz is the lead audit partner for Ernst & Young in relation to the audit of the company. Mr Meyerowitz was appointed on 3 June 2009 replacing Mr Sean Van Gorp who was the lead audit partner for the period from 1 July 2006 to 3 June 2009.

### Restrictions on the performance of non-audit services by the external auditor

As part of the company's commitment to safeguarding integrity in financial reporting, the company has implemented procedures and policies to monitor the independence and competence of the company's external auditor.

Depending on the level of fees quoted for services, the engagement of the external auditor to undertake non-audit services requires the prior written approval of either the Company Secretary, the Chairman of the Audit Committee or the Audit Committee. In the event that the amount of non-audit services fees incurred exceeds the total value of audit fees agreed by the company in that year, then all requests for the performance of non-audit services by the external auditor in excess of this limit must be approved by either the Chairman of the Audit Committee or the Audit Committee.

The Audit Committee has approved guidelines to assist in identifying the types of services that may compromise the independence of the external auditor. Examples of services that are considered to potentially compromise audit independence include valuation services and internal audit services. Details of fees paid (or payable) to Ernst & Young for non-audit services provided to the Wesfarmers Group in the year ended 30 June 2009 are set out in the directors' report on page 152 of this Annual Report.

The Board has considered the nature of the non-audit services provided by the external auditor during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and that the auditor's independence has not been compromised.

### Attendance of external auditors at annual general meetings

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

## Continuous disclosure

**Relevant governance document**
- **Market Disclosure Policy (Summary entitled 'Continuous Disclosure Policy' is available on the company's website.)**

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

- announcements to the ASX;
- prevention of selective or inadvertent disclosure;
- conduct of investor and analyst briefings;
- media communications;
- commenting on expected earnings;
- communication black-out periods; and
- review of briefings and communications.

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

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

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

## Communications with shareholders

**Relevant governance document**
**– Communications Policy**

The company places considerable importance on effective communications with shareholders. The company's Communications Policy promotes the communication of information to shareholders through the distribution of an annual report and announcements through the ASX and the media regarding changes in its businesses, and the Chairman's address at the annual general meeting.

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

Wesfarmers also conducts live webcasts of major institutional investor and analyst briefings. These webcasts, together with the annual and half-year reports, ASX and media releases, and copies of significant business presentations and speeches, are available on the company's website.

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

The company regularly reviews its Communications Policy and underlying processes to ensure effective communication with shareholders is maintained.

### Annual general meeting

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

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

## Risk management

**Relevant governance documents**
**– Risk Management Policy**

### Risk oversight and management

The company is committed to the identification, monitoring and management of material business risks associated with its business activities across the Group and has embedded in its management and reporting systems a number of overarching risk management controls.

The risk management controls adopted by the company include:

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

### Divisional autonomy and responsibility to the Board

The company manages the diverse nature of its operations across the Group as autonomous divisions. The management of each division is required by the Board to design and implement the risk management policies and internal control systems to best manage the material business risks of the division in accordance with the company's structured group risk management programme.

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

In addition, some companies in the Insurance division are subject to reporting obligations to the Australian Prudential Regulatory Authority. These reporting obligations include a requirement to lodge Risk Management Strategies and Insurance Liability Valuation Reports. The Insurance division also manages risk through the adoption of reinsurance management strategies and business continuity management policies.

### Role of the Audit Committee and the internal audit function

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

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

### Financial reporting

#### CEO and CFO declaration and assurance

In accordance with section 295A of the Corporations Act 2001, the Managing Director and Finance Director provided a written statement to the Board ('Declaration') that, in their opinion:

- the company's financial report presents a true and fair view of the company's financial condition and operating results and is in accordance with applicable accounting standards; and
- the company's financial records for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001.

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

# Investor information

## Managing your shareholding

The company's share registry is managed by Computershare Investor Services Pty Limited (Computershare).

Computershare's Investor Centre website is the fastest, easiest and most convenient way to view and manage your shareholding. Investor Centre enables a shareholder to:

- view the company share price;
- change banking details;
- change your address (for non-CHESS sponsored holdings);
- update your dividend instructions;
- update your tax file number (TFN), Australian Business Number (ABN) or exemption;
- select email and communication preferences; and
- view transaction history.

Visit www.investorcentre.com/au and click on 'Register Now' for portfolio membership or simply click on 'Access Single Holding'.

When communicating with Computershare or accessing your holding online you will need your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also contact Computershare by:

| | |
|---|---|
| *Post:* | GPO Box 2975 Melbourne,<br>Victoria 3001 Australia |
| *Telephone:* | Australia: 1300 558 062<br>International: (+61 3) 9415 4631 |
| *Facsimile:* | Australia: (03) 9473 2500<br>International: (+61 3) 9473 2500 |
| *Email:* | web.queries@computershare.com.au |

### Tax File Numbers

While it is not compulsory to provide a TFN, if shareholders have not provided a TFN and Wesfarmers pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate. Shareholders can go online to update their TFN or download the form by visiting www.investorcentre.com/au and clicking on 'Downloadable Forms'.

### Change of name or consolidation of holdings

Name changes or consolidation of multiple holdings into one single holding must be made in writing by using the required forms which may be downloaded from www.investorcentre.com/au

Uncertificated Share Register: The Wesfarmers share register is uncertificated. Two forms of uncertificated holdings are available to shareholders:

- issuer sponsored holdings – these holdings are sponsored by Wesfarmers and there is no need for shareholders to be sponsored by a stockbroker; and
- broker sponsored holdings – shareholders may arrange to be sponsored by a stockbroker who will require a signed sponsorship agreement.

Holding statements are issued to shareholders within five business days after the end of any month in which transactions occur that alter the balance of their holding. Shareholders can also access details of their shareholdings and dividends paid on their holdings by visiting www.investorcentre.com/au

## Information on Wesfarmers

### Wesfarmers website

Up-to-date information on the company can be obtained from the company's website www.wesfarmers.com.au

### Securities Exchange Listing

Wesfarmers shares are listed on the Australian Securities Exchange under the following codes:

WES – Ordinary Shares

WESN – Partially Protected Shares.

Share prices can be accessed from major Australian newspapers, on the Wesfarmers website or at www.asx.com.au

### Dividend investment plan

The company's dividend investment plan was reinstated with effect from 27 February 2007. Details of the plan can be obtained from the share registry or the Wesfarmers website.

### Privacy

A copy of the Wesfarmers privacy policy is available on the Wesfarmers website.

### Wesfarmers Public Affairs Department

Further information and publications about the company's operations are available from the Public Affairs Department on telephone (08) 9327 4366 (within Australia) or (+61 8) 9327 4366 (International) or from the Wesfarmers website.

# Financial statements

**CONTENTS**



**Notes to the financial statements**

# Income statement

for the year ended 30 June 2009 – Wesfarmers Limited and its controlled entities

| | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| REVENUE | | | | | |
| Sale of goods | | **49,023** | 31,650 | **150** | 129 |
| Rendering of services | | **1,618** | 1,651 | **207** | 59 |
| Interest – subsidiaries | | **–** | – | **7** | 22 |
| Interest – other | | **146** | 121 | **39** | 16 |
| Dividends – subsidiaries | | **–** | – | **1,696** | 1,943 |
| Dividends – other | | **–** | 32 | **–** | – |
| Other | | **195** | 130 | **–** | – |
| | | **50,982** | 33,584 | **2,099** | 2,169 |
| EXPENSES | | | | | |
| Raw materials and inventory purchased | | **(33,719)** | (21,788) | **(82)** | (69) |
| Employee benefits expense | 4 | **(6,535)** | (4,464) | **(97)** | (58) |
| Insurance expenses | | **(1,203)** | (1,104) | **(58)** | (45) |
| Freight and other related expenses | | **(802)** | (499) | **–** | – |
| Occupancy-related expenses | 4 | **(2,008)** | (1,231) | **(9)** | (5) |
| Depreciation and amortisation | 4 | **(1,024)** | (660) | **(2)** | (2) |
| Other expenses | | **(2,833)** | (1,745) | **(177)** | (43) |
| | | **(48,124)** | (31,491) | **(425)** | (222) |
| Other income | 4 | **169** | 96 | **10** | – |
| Finance costs | 4 | **(963)** | (800) | **(851)** | (698) |
| Share of profits and losses of associates | 15 | **(50)** | 40 | **–** | – |
| **Profit before income tax** | | **2,014** | 1,429 | **833** | 1,249 |
| Income tax (expense)/benefit | 5 | **(479)** | (366) | **249** | 234 |
| **Profit attributable to members of the parent** | | **1,535** | 1,063 | **1,082** | 1,483 |
| Earnings per share (cents per share) | 6 | | | | |
| – basic for profit for the period attributable to ordinary equity holders of the parent | | **160.0** | 174.2 | | |
| – diluted for profit for the period attributable to ordinary equity holders of the parent | | **159.6** | 173.3 | | |
| Dividends per share paid or declared out of profits for the year (cents per share) | 7 | **110.0** | 200.0 | | |

# Balance sheet

as at 30 June 2009 – Wesfarmers Limited and its controlled entities

| | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| ASSETS | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 8 | **2,124** | 725 | **1,785** | 131 |
| Trade and other receivables | 9 | **1,893** | 2,022 | **6,530** | 6,295 |
| Inventories | 10 | **4,685** | 4,638 | **–** | – |
| Derivatives | 29 | **38** | 138 | **235** | 181 |
| Investments backing insurance contracts | 11 | **1,003** | 871 | **–** | – |
| Other | 12 | **221** | 211 | **–** | – |
| **Total current assets** | | **9,964** | 8,605 | **8,550** | 6,607 |
| **Non-current assets** | | | | | |
| Receivables | 9 | **211** | 135 | **18,995** | 19,403 |
| Available-for-sale investments | 13 | **18** | 36 | **–** | – |
| Other financial assets | 14 | **–** | – | **2,899** | 2,899 |
| Investment in associates | 15 | **392** | 465 | **–** | – |
| Deferred tax assets | 5 | **765** | 489 | **144** | 30 |
| Property, plant and equipment | 16 | **7,126** | 6,561 | **35** | 27 |
| Identifiable intangible assets | 17 | **4,365** | 4,408 | **–** | – |
| Goodwill | 17 | **16,273** | 16,269 | **–** | – |
| Derivatives | 29 | **147** | 149 | **168** | 149 |
| Other | 18 | **34** | 61 | **5** | 11 |
| **Total non-current assets** | | **29,331** | 28,573 | **22,246** | 22,519 |
| **Total assets** | | **39,295** | 37,178 | **30,796** | 29,126 |
| LIABILITIES | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | **4,037** | 3,905 | **130** | 137 |
| Interest-bearing loans and borrowings | 20 | **634** | 1,261 | **437** | 1,007 |
| Income tax payable | | **27** | 106 | **40** | 240 |
| Provisions | 21 | **1,066** | 1,083 | **180** | 63 |
| Insurance liabilities | 22 | **1,198** | 1,137 | **–** | – |
| Derivatives | 29 | **413** | 53 | **446** | 180 |
| Other | 23 | **336** | 277 | **–** | – |
| **Total current liabilities** | | **7,711** | 7,822 | **1,233** | 1,627 |
| **Non-current liabilities** | | | | | |
| Payables | 19 | **3** | 25 | **2** | – |
| Interest-bearing loans and borrowings | 20 | **5,535** | 8,256 | **5,149** | 7,902 |
| Provisions | 21 | **1,042** | 922 | **325** | 18 |
| Insurance liabilities | 22 | **503** | 340 | **–** | – |
| Derivatives | 29 | **153** | 89 | **163** | 150 |
| Other | 23 | **96** | 126 | **24** | 5 |
| **Total non-current liabilities** | | **7,332** | 9,758 | **5,663** | 8,075 |
| **Total liabilities** | | **15,043** | 17,580 | **6,896** | 9,702 |
| **Net assets** | | **24,252** | 19,598 | **23,900** | 19,424 |
| EQUITY | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Contributed equity | 24 | **23,286** | 18,173 | **23,280** | 18,167 |
| Employee reserved shares | 24 | **(62)** | (76) | **(59)** | (73) |
| Retained earnings | 25 | **1,183** | 1,176 | **714** | 1,123 |
| Reserves | 26 | **(155)** | 325 | **(35)** | 207 |
| **Total equity** | | **24,252** | 19,598 | **23,900** | 19,424 |

# Cash flow statement

for the year ended 30 June 2009 – Wesfarmers Limited and its controlled entities

| | Note | CONSOLIDATED 2009 $m | CONSOLIDATED 2008 $m | PARENT 2009 $m | PARENT 2008 $m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **54,169** | 35,826 | **380** | 391 |
| Payments to suppliers and employees | | **(49,909)** | (33,561) | **(65)** | (187) |
| Dividends received from subsidiaries | | **–** | – | **1,696** | 1,943 |
| Dividends and distributions received from associates | | **51** | 27 | **–** | – |
| Dividends received from others | | **–** | 32 | **–** | – |
| Interest received | | **147** | 121 | **47** | 37 |
| Borrowing costs | | **(816)** | (620) | **(729)** | (561) |
| Income tax paid | | **(598)** | (374) | **(352)** | (354) |
| Reimbursements received from tax consolidated entities | | **–** | – | **402** | 557 |
| **Net cash flows from operating activities** | 8 | **3,044** | 1,451 | **1,379** | 1,826 |
| **Cash flows from investing activities** | | | | | |
| Net acquisition of insurance deposits | | **(132)** | (55) | **–** | – |
| Purchase of property, plant and equipment and intangibles | 16 | **(1,503)** | (1,241) | **(10)** | (5) |
| Proceeds from sale of property, plant and equipment | | **61** | 72 | **–** | – |
| Proceeds from sale of controlled entities | | **9** | 23 | **–** | – |
| Net investments in associates and joint ventures | | **(46)** | (80) | **–** | – |
| Acquisition of subsidiaries, net of cash acquired | | **(16)** | (4,198) | **–** | – |
| Purchase of available-for-sale financial assets | | **–** | (22) | **–** | – |
| Net repayments to subsidiaries | | **–** | – | **245** | (6,116) |
| **Net cash flows from investing activities** | | **(1,627)** | (5,501) | **235** | (6,121) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **2,242** | 10,489 | **2,242** | 10,339 |
| Repayment of borrowings | | **(5,706)** | (8,178) | **(5,648)** | (8,178) |
| Proceeds from exercise of in-substance options under the employee share plan | 24 | **6** | 24 | **6** | 24 |
| Equity dividends paid | | **(1,066)** | (754) | **(1,066)** | (754) |
| Proceeds from issue of shares | 24 | **4,646** | 2,952 | **4,646** | 2,952 |
| Transaction costs from issue of shares | | **(53)** | (61) | **(53)** | (61) |
| **Net cash flows from financing activities** | | **69** | 4,472 | **127** | 4,322 |
| Net increase in cash and cash equivalents | | **1,486** | 422 | **1,741** | 27 |
| Cash and cash equivalents at beginning of period | | **638** | 216 | **44** | 17 |
| **Cash and cash equivalents at end of period** | 8 | **2,124** | 638 | **1,785** | 44 |

# Statement of recognised income and expense

for the year ended 30 June 2009 – Wesfarmers Limited and its controlled entities

| | | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | Note | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Foreign currency translation reserve** | | | | | |
| Exchange differences on translation of foreign operations | | **(7)** | (19) | **–** | – |
| **Available-for-sale financial assets reserve** | | | | | |
| Changes in the fair value of available-for-sale assets net of tax | | **(2)** | 26 | **–** | – |
| **Cash flow hedge reserve** | | | | | |
| Changes in the fair value of cash flow hedges net of tax | | **(468)** | 51 | **(242)** | 54 |
| **Restructure tax reserve** | | | | | |
| Recognition of tax losses arising on the 2001 ownership simplification plan | | **–** | 40 | **–** | 40 |
| **Retained earnings** | | | | | |
| Actuarial loss on defined benefit plan | 25 | **(41)** | (21) | **(4)** | (1) |
| **Net profit/(loss) recognised directly in equity** | | **(518)** | 77 | **(246)** | 93 |
| Net profit for the period | | **1,535** | 1,063 | **1,082** | 1,483 |
| **Total recognised income for the period** | | **1,017** | 1,140 | **836** | 1,576 |

## 1: Corporate information

The financial report of Wesfarmers Limited (referred to as 'Wesfarmers' or 'the Company') for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 15 September 2009. Wesfarmers is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of Wesfarmers Limited and its subsidiaries ('the Group') are described in note 3.

## 2: Summary of significant accounting policies

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for investments held by associates, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

### (b) Statement of compliance

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

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ('the AASB'), including International Financial Reporting Interpretations Committee ('IFRIC') 13 *Customer Loyalty Programmes*, that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2008. The adoption of these standards gave rise to additional disclosure which did not have material effect on the financial statements of the Group.

A number of Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2009. The impact of these new or amended Accounting Standards is not expected to give rise to material changes in the Group's financial statements. Refer to policy note (ag) for the Standards and Interpretations relevant to Wesfarmers that have not been early adopted.

### (c) Basis of consolidation

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

A list of controlled entities at year-end is contained in note 33.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated.

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

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

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

#### Significant accounting judgements

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

*Income tax*

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

#### Significant accounting estimates and assumptions

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

*Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 17.

*Coal rebates payable and rights to mine*

A coal rebate payable is recognised for the expected future rebates payable to Stanwell Corporation for the right to mine the Curragh North deposit. The value recognised is determined upon signing or repricing of contracts for the supply of export coal, as this crystallises a present obligation for the payment of rebates, and the calculation involves the estimation of tonnages to be supplied, USD/AUD exchange rates, coal prices and discount rates. A discount adjustment is recognised over the life of the contract as the present value unwinds.

A corresponding right to mine asset is recognised and amortised over the life of the asset on a basis that reflects the amounts payable to Stanwell adjusted for the effects of discounting.

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

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

**Significant accounting estimates and assumptions (continued)**

*Insurance liabilities – outstanding insurance claims*

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

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

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

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

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

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

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

Refer to note 22 for further details.

*Assets arising from reinsurance contracts*

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

*Inventories*

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

*Estimation of useful lives of assets*

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

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

*Customer cards and gift vouchers*

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

*Long service leave*

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

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

**(e) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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

**(e) Revenue (continued)**

*Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer. Revenue from lay-by transactions is recognised as part of revenue from sale of goods at the date upon which the customer satisfies all payment obligations and takes possession of the merchandise. Revenue from the sale of gift cards is recognised when the card is redeemed and the customers purchase goods by using the card, or when the customer card is no longer expected to be redeemed, based on an analysis of historical non-redemption rates.

The Group operates a loyalty points programme, which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can then be redeemed for products, subject to a minimum number of points being obtained.

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

*Rendering of services*

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

*Interest*

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

*Dividends*

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

*Operating lease rental revenue*

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

*Insurance premium revenue*

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

**(f) Finance costs**

Finance costs are recognised as an expense when incurred, with the exception of interest charges on funds invested in major projects with substantial development and construction phases. These costs are capitalised to the project until such time as the project is substantially complete, which is ordinarily when the project becomes operational.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the period, in this case 8.04 per cent (2008: 7.53 per cent) as disclosed in note 28.

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

**(g) Leases**

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

*Group as a lessee*

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

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

Operating 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 subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

**(h) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, excluding deposits held as investments by the insurance business.

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

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

**(i) Trade and other receivables**

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

Collectability and impairment are assessed on an ongoing basis at a divisional level. Individual debts that are known to be uncollectable are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

**(i) Trade and other receivables (continued)**

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

**(j) Inventories**

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

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

- raw materials – purchase cost on a weighted average basis;
- manufactured finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Work-in-progress also includes run-of-mine coal stocks for the Resources division consisting of production costs of drilling, blasting and over burden removal; and
- retail and wholesale merchandise finished goods – purchase cost on a weighted average basis, after deducting any settlement discount and including logistics expenses incurred in bringing the inventories to their present location and condition.

Volume related supplier rebates, and supplier promotional rebates where they exceed spend on promotional activities, are recognised as a reduction in the cost of inventory.

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

**(k) Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as forward currency contracts and cross-currency interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

For the purposes of hedge accounting, hedges are classified as:

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

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

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

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

*Fair value hedges*

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

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

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

*Cash flow hedges*

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

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

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

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

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

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

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

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

**(m) Impairment of financial assets**

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

*Financial assets carried at amortised cost*

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

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

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

*Financial assets carried at cost*

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

*Available-for-sale investments*

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

**(n) Foreign currency translation**

Both the functional and presentation currency of Wesfarmers Limited and its Australian subsidiaries is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

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

The functional currency of overseas subsidiaries is listed in note 33.

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

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

**(o) Investment in associates**

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

Under the equity method, the investment in associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates. The consolidated income statement reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of recognised income and expense.

The reporting dates of the associates and the Group may vary, whereupon management accounts of the associate for the period to the Group's balance date are used for equity accounting.
The associates' accounting policies are consistent to those used by the Group for like transactions and events in similar circumstances.

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

### (o) Investment in associates (continued)

An associate owns investment properties which are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

### (p) Interest in jointly controlled assets

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

### (q) Income tax

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

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

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

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

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

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

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

### (r) Other taxes

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

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

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

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

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

### (s) Property, plant and equipment

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

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 20-40 years
- Plant and equipment 3-40 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year-end.

Expenditure carried forward in respect of mining areas of interest in which production has commenced is amortised over the life of the mine based on the rate of depletion of the economically recoverable reserves. Amortisation is not charged on expenditure carried forward in respect of areas of interest in the development phase in which production has not yet commenced.

Leasehold improvements are amortised over the period of the lease or the anticipated useful life of the improvements, whichever is shorter.

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

**(s) Property, plant and equipment (continued)**

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

**(t) Investments and other financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date ie the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. Interest earned whilst holding available-for-sale financial investments is reported as interest revenue using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as ‘other income’ when the right of payment has been established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

**(u) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating-unit (or group of cash-generating units), to which goodwill relates.

Impairment testing is performed each year for cash-generating units to which goodwill and indefinite life intangibles have been allocated. Further details on the methodology and assumptions used are outlined in note 17.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group’s primary or the Group’s secondary reporting format determined in accordance with AASB 114 *Segment Reporting*.

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

**(u) Goodwill (continued)**

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. When the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit or group of cash-generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**(v) Intangible assets**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial year-end.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed each reporting period to determine whether infinite useful life assessment continues to be supportable. If not, the change in useful life assessment from infinite to finite is accounted for as a change in accounting estimate and is thus accounted for on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

**Trade names**

*Useful lives*
Indefinite and finite

*Amortisation method used*
Amortised over the period of expected future benefit on a straight line basis

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists

**Contractual and non-contractual relationships**

*Useful lives*
Finite (up to 15 years)

*Amortisation method used*
Amortised over the period of expected future benefit on a straight line basis

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end

**Software**

*Useful lives*
Finite (up to seven years)

*Amortisation method used*
Amortised over the period of expected future benefit on a straight line basis

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end

**Gaming licences**

*Useful lives*
Indefinite

*Amortisation method used*
No amortisation

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists

**Liquor licences**

*Useful lives*
Indefinite

*Amortisation method used*
No amortisation

*Impairment testing*
Annually as at 31 March and more frequently when an indication of impairment exists

**(w) Impairment**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation method is used. These calculations are compared to valuation multiples, or other fair value indicators where available, to ensure reasonableness. Impairment losses relating to continuing operations are recognised those expense categories consistent with the function of the impaired asset.

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

**(w) Impairment (continued)**

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses, on assets other than goodwill, may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(x) Trade and other payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are non-interest bearing and are normally settled on terms up to 60 days.

Coal rebates payable are recognised where a present obligation exists, which currently extends for up to a five year period. The amounts payable are discounted to present value. The liability is payable on a monthly basis based on export coal sales on standard commercial terms.

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

**(y) Interest-bearing loans and borrowings**

All loans and borrowings are recognised at amortised cost, being the fair value of the consideration received less directly attributable transaction costs, that remain unamortised.

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.

**(z) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability to the extent they are not already reflected in the cash flows.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

*Mine and plant rehabilitation*

Provision is made for the Group's estimated liability under specific legislative requirements and the conditions of its licences and leases for future costs (at discounted amounts) expected to be incurred rehabilitating areas of operation. The liability includes the cost of reclamation of the site using existing technology, including plant removal and landfill costs. This provision is recognised immediately at the time of disturbance or when development of the asset occurs.

*Restructure*

A provision for restructuring is recognised for the expected costs associated with restructuring once a present obligation exists.

*Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(aa) Employee leave benefits**

*Wages, salaries and annual leave*

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

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit valuation method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Expenses which are consequential to the employment of the employees (for example payroll tax associated with employee entitlements) are also recognised as a liability and included in the amount for employee entitlements.

**(ab) Pensions benefits**

*Defined contribution plan*

Contributions to superannuation funds are charged to the income statement when due.

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

**(ab) Pensions benefits (continued)**

*Defined benefit plan*

The Group contributes to defined benefit pension schemes. The cost of providing benefits under the plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised directly in equity.

The defined benefit asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

**(ac) Share-based payment transactions**

The Group provides benefits to employees (including executive directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently three plans in place to provide these benefits:

- the Wesfarmers Employee Share Ownership Plan ('WESOP'), which provides benefits to all qualifying employees, excluding those that participate in the Wesfarmers Long Term Incentive Plan ('WLTIP') below. The first issue under this plan was in October 2005;
- the WLTIP, which provides benefits to more senior qualifying employees. The first issue under this plan was in October 2005; and
- the Wesfarmers Employee Share Plan ('WESP'), which provides benefits to all employees. The last issue under this plan was in December 2004.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Wesfarmers Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity where applicable, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that are expected to ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The WESP is accounted for as an 'in-substance' option plan due to the limited recourse nature of the loan. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares in the Group held under the WESP are classified and disclosed as employee reserved shares and deducted from equity.

**(ad) Contributed equity**

Ordinary shares and price protected ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

The Group operates a dividend investment plan. An issue of shares under the dividend investment plan results in an increase in contributed equity.

**(ae) Insurance activities**

*Insurance premium revenue*

Premium revenue comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Interest revenue from premium funding activities is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Unearned premium*

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate.

*Outwards reinsurers*

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated as a prepayment at balance date.

*Outstanding claims liability*

The liability for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported ('IBNR'), claims incurred but not enough reported ('IBNER'); and estimated claims handling costs.

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

**(ae) Insurance activities (continued)**

*Outstanding claims liability (continued)*

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequate to a minimum of 85 per cent.

*Reinsurance and other recoveries receivable*

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

*Deferred acquisition costs*

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

Commissions paid in respect of premium funding activities are amortised over the expected life of the loan using the effective interest rate method. Commissions paid in respect of general insurance activities have capitalised as a deferred acquisition cost and are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

*Insurance investments*

As part of its investment strategy the Group actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Group has determined that all bank bills, short-term deposits and trade receivables held by underwriting entities are held to back general insurance contracts. These assets have been valued at fair value through the income statement.

*Fire brigade and other charges*

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

**(af) Earnings per share**

*Basic earnings per share*

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

*Diluted earnings per share*

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

– costs of servicing equity (other than dividends) and preference share dividends;
– the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
– other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(ag) Australian accounting standards issued but not adopted**

The standards and interpretations relevant to Wesfarmers that have not been early adopted are:

– AASB 8 and AASB 2007-3 *Operating Segments* and consequential amendments to other Australian Accounting Standards: applicable to annual reporting periods beginning on or after 1 July 2009.

  This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments. The Group has determined that its reportable segments are the same as the business segments previously reported under AASB 114.

– AASB 123 (Revised) and AASB 2007-6 *Borrowing Costs* and consequential amendments to other Australian Accounting Standards: applicable to annual reporting periods beginning on or after 1 July 2009.

  The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group's current policy is substantially the same as this standard, as borrowing costs relating to qualifying assets are currently capitalised, therefore, this revision is not expected to give rise to material changes in the Group's financial statements.

– AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 *Presentation of Financial Statements* and consequential amendments to other Australian Accounting Standards: applicable to annual reporting periods beginning on or after 1 July 2009.

  This revision introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements. This will only impact the disclosure of the Group's financial statements.

– AASB 2008-1 Amendments to Australian Accounting Standard *Share-based Payments: Vesting Conditions and Cancellations*: applicable to annual reporting periods beginning on or after 1 July 2009.

  The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This change is not expected to give rise to material changes in the Group's financial statements.

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

**(ag) Australian accounting standards issued but not adopted (continued)**

- AASB 127 (Revised) *Consolidated and Separate Financial Statements*: applicable to annual reporting periods beginning on or after 1 July 2009.

  Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction. Furthermore, the amended standard changes the accounting treatment of losses incurred by a subsidiary, as well as the loss of control of a subsidiary. This change is not expected to give rise to material changes to the Group's financial statements.

- AASB 3 *Business Combinations:* applicable to annual reporting periods beginning on or after 1 July 2009.

  The revised standard introduces a number of changes to the accounting treatment of business combinations, the most significant of which includes the requirement to recognise transaction costs immediately in earnings as an expense and a choice to measure a non-controlling interest in the acquiree (formerly a minority interest) either at its fair value, or at its proportionate interest in the acquiree's net assets. This choice will result in goodwill being recognised on acquisition relating to 100 per cent of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. This change will require prospective application only, with no effect on the current balances of the Group.

- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*: applicable to annual reporting periods beginning on or after 1 July 2009.

  The improvements project provides a mechanism for making non-urgent amendments to IFRS. The amendments are separated into two parts:

  Part 1 deals with accounting changes; and

  Part II deals with either terminology or editorial amendments that are expected to have minimal impact.

  The amendments are not expected to have an impact on the Group's financial statements. Amendments to AASB 138 *Intangible Assets* in relation to expensing advertising and promotional activities and amortisation based on a units of production method are not expected to impact the Group, although a further assessment is to be performed.

- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*: applicable to annual reporting periods beginning on or after 1 July 2009.

  Refer to AASB 2008-5 above. These amendments are not expected to have a material impact on the Group's financial statements. Amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in relation to classifying all of a held for sale subsidiary's assets and liabilities as 'held for sale' may impact the Group's financial statements in future periods.

- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*: applicable to annual reporting periods beginning on or after 1 July 2009.

  The main amendments are those made to AASB 127 *Consolidated and Separate Financial Statements* removing the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements. The distinction between pre- and post-acquisition profits is no longer required, however, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 *Consolidated and Separate Financial Statements* has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary rather than its fair value. This will require prospective application only.

- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items:* applicable to annual reporting periods beginning on or after 1 July 2009.

  The amendment to AASB 139 *Financial Instruments: Recognition and Measurement* clarifies how the principles underlying hedge accounting should be applied when:

  (i) a one-sided risk in a hedged item exists; and
  (ii) inflation in a financial hedged item existed or was likely to exist.

  This change is not expected to have a material impact on the Group's financial statements.

- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* [AASB 4, AASB 7, AASB 1023 & AASB 1038]: applicable to annual reporting periods beginning on or after 1 July 2009.

  The main amendment to AASB 7 *Financial Instruments: Disclosures* requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:

  - quoted prices in active markets for identical assets or liabilities (level 1);
  - inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); or
  - inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

  The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes from the amendments to AASB 7. This will result in a presentation impact only for the Group's financial statements.

- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]: applicable to annual reporting periods beginning on or after 1 July 2009.

  The main amendment of relevance is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity within the Group as long as the designation, documentation and effectiveness requirements of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment.

  The amendments pertaining to IFRS 5, 8, IAS 1, 7, 17, 36 and 39 have been issued in Australia as AASB 2009-5 (refer below). Amendments to AASB 2 and AASB 138 will require prospective application only with no effect on the Group's current balances and may impact the Group's financial statements in subsequent periods. AASB Interpretations 9 and 16 are not applicable to the Group.

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

**(ag) Australian accounting standards issued but not adopted (continued)**

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 5, 8, 101, 107, 117, 118, 136 & 139]: applicable to annual reporting periods beginning on or after 1 July 2010.

  The main amendment is that made to AASB 117 *Leases* by removing the specific guidance regarding classifying leases relating to land so that only the general guidance remains. Assessing leases relating to land based on the general criteria may result in more leases being classified as finance leases. These changes are not expected to have a material impact on the Group's financial statements.
- AASB 2009-7 *Amendments to Australian Accounting Standards* [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]: applicable to annual reporting periods beginning on or after 1 July 2009.

  These amendments are not expected to have a material impact on the Group's financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group cash-settled share-based payment transactions*: applicable to annual reporting periods beginning on or after 1 July 2010.

  The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:
  - the scope of AASB 2; and
  - the interaction between IFRS 2 and other standards.

  An entity that receives goods or services in a share-based payment arrangement must account for those goods or services regardless of which entity in the group settles the transaction, or whether the transaction is settled in shares or cash. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn. These amendments are not expected to have a material impact on the Group's financial statements.

  The Group expects to adopt these standards and interpretations in the 2010 and subsequent financial reports, however, they are not expected to have a significant impact on the financial statements of the Group.

## 3: Segment information

The Group's primary reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's operations are substantially in one material geographical segment only, being Australia, and therefore a secondary reporting format is not provided.

Transfer prices between business segments are set at an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

The business segments are as follows:

**Coles**
- Supermarket retailer including Coles retail support costs;
- Liquor retailer including hotel portfolio;
- Retail of fuel and operation of convenience stores; and
- Coles property business operator.

**Home Improvement and Office Supplies**
- Retail building material and home and garden improvement products;
- Servicing project builders and the housing industry; and
- Office supplies products.

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

**Insurance**
- Supplier of specialist rural and small business regional insurance;
- Supplier of general insurance through broking intermediaries; and
- Supplier of insurance broking services.

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

**Target**
- Retail of apparel, homewares and general merchandise including accessories, electrical and toys.

**Industrial and Safety**
- Supplier and distributor of maintenance, repair and operating (MRO) products; and
- Specialised supplier and distributor of industrial safety products and services.

**Energy**
- National marketing and distribution of LPG;
- LPG extraction for domestic and export markets;
- Manufacture and marketing of industrial gases and equipment; and
- Electricity supply to mining operations and regional centres.

**Chemicals and Fertilisers**
- Manufacture and marketing of chemicals for industry, mining and mineral processing; and
- Manufacture and marketing of broadacre and horticultural fertilisers.

**Other**
- Forest products: non-controlling interest in Wespine Pty Ltd, which manufactures products to service the wholesale timber market in Australia;
- Property: includes a non-controlling interest in Bunnings Warehouse Property Trust, which acquires properties suitable for retail property development and investment;
- Investment banking: non-controlling interest in Gresham Partners Group Limited, which is an investment bank providing financial advisory and investment management services; and
- Private equity investment: non-controlling interests in Gresham Private Equity Fund No. 1, Gresham Private Equity Fund No. 2 and Gresham Private Equity Fund No. 3 which are closed-end private equity funds targeting larger size private equity transactions in the areas of management buy-outs, expansion capital and corporate restructuring.

Revenue and earnings of various divisions are affected by seasonality and cyclicality as follows:

- Home Improvement, Coles, Kmart and Target – earnings are typically greater in the December half of the financial year due to the impact on the retail business of the Christmas holiday shopping period;
- Resources – the majority of the entity's coal contracts are renewed in April each calendar year, and depending upon the movement in prevailing coal prices this can result in significant changes in revenue and earnings in the last quarter of the financial year through to the third quarter of the following year; and
- Chemicals and Fertilisers – earnings are typically much greater in the June half of the financial year due to the impact of the Western Australian winter season break on fertiliser sales.

## 3: Segment information (continued)

| | COLES[1] | | HOME IMPROVEMENT AND OFFICE SUPPLIES | | RESOURCES[2] | | INSURANCE[3] | |
|---|---|---|---|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Segment revenue** | **28,799** | 16,876 | **7,151** | 6,160 | **2,411** | 1,311 | **1,720** | 1,649 |
| **Segment result** | | | | | | | | |
| Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads | **1,216** | 715 | **817** | 700 | **1,188** | 571 | **116** | 150 |
| Depreciation and amortisation | **(385)** | (240) | **(93)** | (75) | **(273)** | (148) | **(25)** | (28) |
| Earnings before interest, tax (EBIT) and corporate overheads | **831** | 475 | **724** | 625 | **915** | 423 | **91** | 122 |
| Finance costs[6] | | | | | | | | |
| Corporate overheads | | | | | | | | |
| Profit before income tax expense | | | | | | | | |
| Income tax expense | | | | | | | | |
| **Profit attributable to members of the parent** | | | | | | | | |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | **17,995** | 18,358 | **4,217** | 3,891 | **1,749** | 1,595 | **3,561** | 3,293 |
| Investments in associates | **31** | 14 | **–** | – | **–** | – | **–** | 17 |
| Tax assets | | | | | | | | |
| Total assets | | | | | | | | |
| Segment liabilities | **2,855** | 3,041 | **637** | 598 | **655** | 522 | **2,190** | 2,001 |
| Tax liabilities | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | |
| Total liabilities | | | | | | | | |
| **Other segment information** | | | | | | | | |
| Capital expenditure[7] | **606** | 351 | **378** | 302 | **252** | 146 | **26** | 18 |
| Share of net profit or loss of associates included in EBIT | **–** | – | **–** | – | **1** | – | **–** | 1 |
| Non-cash expenses other than depreciation and amortisation | **122** | 194 | **134** | 105 | **95** | 40 | **24** | 56 |

The 2008 segment results for the former Coles group businesses, comprising Coles, Office Supplies, Kmart and Target, are for the period from the date of acquisition on 23 November 2007 to 30 June 2008.

1 Coles division includes the supermarket, liquor, convenience and Coles property businesses, and previously unallocated Coles retail support costs.

2 Included in the Resources 2009 segment result is $204 million of hedge losses (2008: $102 million gain) in relation to foreign exchange forward contracts incurred by Curragh, including $88 million of losses associated with the early close out of certain contracts.

3 The Insurance 2008 segment result has been restated relating to non-reinsurance recoveries in the balance sheet of Lumley General New Zealand of $10 million.

4 2009 results were affected by the gas supply disruption caused by the explosion at Varanus Island during the period. These disruptions are subject to an insurance recovery process which is yet to be resolved.

5 2009 includes a loss on associates ($60 million), Coles Property impairment ($82 million), Coles store exit provision writeback ($30 million), Kmart supply chain and restructuring costs ($70 million) and Insurance restructuring costs and impairment of the Company's investment in Centrepoint Alliance Limited ($15 million).

6 Finance costs include $136 million relating to the recognition of a cumulative loss on a hedging instrument transferred from equity as the forecast transactions are no longer expected to occur. This is the result of losses being recognised on interest rate swaps used to hedge the maturity profile of debt facilities repaid with the proceeds of the share entitlement offer announced on 22 January 2009.

7 Capital expenditure includes accruals to represent costs incurred during the year. The amount excluding accruals is $1,503 million (2008: $1,241 million).

| KMART | | TARGET | | INDUSTRIAL AND SAFETY | | ENERGY[4] | | CHEMICALS AND FERTILISERS[4] | | OTHER[5] | | CONSOLIDATED | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **3,998** | 2,454 | **3,788** | 2,198 | **1,294** | 1,309 | **598** | 565 | **1,162** | 997 | **61** | 65 | **50,982** | 33,584 |
| **171** | 148 | **417** | 254 | **127** | 141 | **122** | 128 | **115** | 172 | **(187)** | (2) | **4,102** | 2,977 |
| **(62)** | (37) | **(60)** | (33) | **(13)** | (11) | **(47)** | (38) | **(63)** | (48) | **(3)** | (2) | **(1,024)** | (660) |
| **109** | 111 | **357** | 221 | **114** | 130 | **75** | 90 | **52** | 124 | **(190)** | (4) | **3,078** | 2,317 |
| | | | | | | | | | | | | **(963)** | (800) |
| | | | | | | | | | | | | **(101)** | (88) |
| | | | | | | | | | | | | **2,014** | 1,429 |
| | | | | | | | | | | | | **(479)** | (366) |
| | | | | | | | | | | | | **1,535** | 1,063 |
| **1,444** | 1,533 | **3,886** | 3,887 | **967** | 982 | **894** | 904 | **1,262** | 1,219 | **2,163** | 562 | **38,138** | 36,224 |
| **–** | – | **–** | – | **–** | – | **2** | 3 | **73** | 68 | **286** | 363 | **392** | 465 |
| | | | | | | | | | | | | **765** | 489 |
| | | | | | | | | | | | | **39,295** | 37,178 |
| **497** | 494 | **487** | 429 | **163** | 192 | **97** | 107 | **139** | 263 | **1,127** | 310 | **8,847** | 7,957 |
| | | | | | | | | | | | | **27** | 106 |
| | | | | | | | | | | | | **6,169** | 9,517 |
| | | | | | | | | | | | | **15,043** | 17,580 |
| **63** | 41 | **91** | 60 | **25** | 20 | **40** | 118 | **44** | 252 | **14** | 5 | **1,539** | 1,313 |
| **–** | – | **–** | – | **–** | – | **4** | 4 | **5** | 8 | **(60)** | 27 | **(50)** | 40 |
| **8** | 49 | **11** | 31 | **21** | 23 | **6** | 6 | **3** | 3 | **39** | 8 | **463** | 515 |

## 4: Revenue and expenses

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Employee benefits expense** | | | | |
| Remuneration, bonuses and on-costs | **6,033** | 4,128 | **81** | 53 |
| Amounts provided for employee entitlements | **434** | 294 | **2** | 2 |
| Share-based payments expense | **68** | 42 | **14** | 3 |
| | **6,535** | 4,464 | **97** | 58 |
| **Occupancy-related expenses** | | | | |
| Minimum lease payments | **1,602** | 992 | **8** | 4 |
| Other | **406** | 239 | **1** | 1 |
| | **2,008** | 1,231 | **9** | 5 |
| **Depreciation and amortisation** | | | | |
| Depreciation | **667** | 483 | **2** | 2 |
| Amortisation of intangibles | **83** | 53 | **–** | – |
| Amortisation of Stanwell rebate | **170** | 58 | **–** | – |
| Amortisation other | **104** | 66 | **–** | – |
| | **1,024** | 660 | **2** | 2 |
| **Impairment expense** | | | | |
| Impairment of freehold property | **82** | – | **–** | – |
| Impairment of property, plant and equipment | **5** | 59 | **–** | – |
| Impairment other | **31** | 55 | **–** | – |
| | **118** | 114 | **–** | – |
| **Other expenses included in income statement** | | | | |
| Government mining royalties | **208** | 73 | **–** | – |
| Repairs and maintenance | **378** | 224 | **–** | – |
| **Other income** | | | | |
| Gains on disposal of property, plant and equipment | **13** | 15 | **–** | – |
| Gain on sale of controlled entities | **1** | 17 | **–** | – |
| Settlement and other income | **155** | 64 | **10** | – |
| | **169** | 96 | **10** | – |
| **Finance costs** | | | | |
| Interest expense | **737** | 708 | **702** | 650 |
| Discount adjustment | **53** | 55 | **–** | – |
| Interest capitalised | **–** | (16) | **–** | – |
| Ineffective interest rate swap losses (refer to note 3, footnote (6)) | **136** | – | **136** | – |
| Other | **37** | 53 | **13** | 48 |
| | **963** | 800 | **851** | 698 |
| **Insurance underwriting result** | | | | |
| Premium revenue | **1,366** | 1,306 | | |
| Outwards reinsurance premium expense | **(305)** | (313) | | |
| Net premium revenue | **1,061** | 993 | | |
| Claims expense – undiscounted | **(1,144)** | (955) | | |
| Discount effect | **(16)** | 34 | | |
| Reinsurance and other recoveries revenue – undiscounted | **406** | 331 | | |
| Discount effect | **5** | (30) | | |
| Net claims incurred | **(749)** | (620) | | |
| Acquisition costs | **(232)** | (191) | | |
| Other underwriting expenses | **(70)** | (104) | | |
| Net underwriting expenses | **(302)** | (295) | | |
| Underwriting result | **10** | 78 | | |

Net claims incurred relating to risks borne in previous periods are not material.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |

## 5: Income tax

The major components of income tax expense are:

| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
|---|---|---|---|---|
| **Income statement** | | | | |
| *Current income tax* | | | | |
| Current income tax charge/(refund) | **583** | 531 | **(244)** | (200) |
| Adjustments in respect of current income tax of previous years | **(67)** | (4) | **–** | (6) |
| *Deferred income tax* | | | | |
| Deferred tax asset not previously recognised | **(84)** | – | **–** | – |
| Relating to origination and reversal of temporary differences | **47** | (161) | **(5)** | (28) |
| Income tax expense/(credit) reported in the income statement | **479** | 366 | **(249)** | (234) |
| **Statement of recognised income and expense** | | | | |
| *Deferred income tax related to items charged or credited directly to equity* | | | | |
| Net (loss)/gain on revaluation of cash flow hedges | **(212)** | 23 | **(103)** | 23 |
| Actuarial loss on defined benefit plan | **(18)** | – | **(2)** | – |
| Equity raising costs | **(15)** | (18) | **(15)** | (18) |
| Income tax expense reported in equity | **(245)** | 5 | **(120)** | 5 |

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
|---|---|---|---|---|
| Accounting profit before income tax | **2,014** | 1,429 | **833** | 1,249 |
| At the Group's statutory income tax rate of 30% (2008: 30%): | **604** | 429 | **250** | 375 |
| Adjustments in respect of current income tax of previous years | **(41)** | (4) | **–** | (6) |
| Carried forward tax losses now recognised | **–** | (24) | **–** | (24) |
| Non-assessable dividends | **–** | – | **(509)** | (583) |
| Additional Federal Government Investment Allowance deductions | **(11)** | – | **–** | – |
| Non-deductible writedown of investments | **30** | – | **–** | – |
| Share of associated companies net loss/(profit) after tax | **4** | (7) | **–** | – |
| Tax on undistributed associates profit | **4** | 2 | **–** | – |
| Research and development costs | **(26)** | – | **–** | – |
| Deferred tax asset not previously recognised | **(84)** | – | **–** | – |
| Finalisation of acquisition accounting adjustment | **–** | (23) | **–** | – |
| Other | **(1)** | (7) | **10** | 4 |
| Income tax expense/(credit) reported in the consolidated income statement | **479** | 366 | **(249)** | (234) |

**Deferred income tax**

Deferred income tax at 30 June relates to the following:

| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
|---|---|---|---|---|
| *Balance sheet* | | | | |
| Deferred tax assets | | | | |
| Provisions | **260** | 283 | **–** | – |
| Coal rebates payable | **77** | 70 | **–** | – |
| Employee benefits | **257** | 227 | **11** | 10 |
| Accrued and other payables | **70** | 25 | **4** | 14 |
| Borrowings | **38** | 16 | **38** | 16 |
| Insurance liabilities | **31** | 14 | **11** | – |
| Doubtful debts | **17** | 7 | **–** | – |
| Amortisation of intangibles | **–** | 46 | **–** | – |
| Derivatives | **164** | 43 | **183** | 28 |
| Deferred income | **17** | 16 | **–** | – |
| Trading stock | **103** | 103 | **–** | – |
| Fixed assets | **180** | 142 | **–** | – |
| Share issue costs | **24** | 18 | **24** | 18 |
| Gross deferred income tax assets | **1,238** | 1,010 | **271** | 86 |
| Amount netted against deferred tax liabilities | **(473)** | (521) | **(127)** | (56) |
| Net deferred tax assets | **765** | 489 | **144** | 30 |

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $000** | 2008 $000 | **2009 $000** | 2008 $000 |

## 5: Income tax (continued)

**Deferred income tax (continued)**

| | **2009 $000** | 2008 $000 | **2009 $000** | 2008 $000 |
|---|---|---|---|---|
| Deferred tax liabilities | | | | |
| Accelerated depreciation for tax purposes | **172** | 209 | **–** | – |
| Mining assets recognised for accounting purposes | **103** | 66 | **–** | – |
| Derivatives | **52** | 86 | **121** | 52 |
| Accrued income and other | **26** | 54 | **6** | 4 |
| Unremitted earnings of associates | **19** | 25 | **–** | – |
| Warehouse stock | **24** | 16 | **–** | – |
| Intangible assets | **71** | 59 | **–** | – |
| Deferred acquisition costs | **6** | 6 | **–** | – |
| Gross deferred income tax liabilities | **473** | 521 | **127** | 56 |
| Amount netted against deferred tax assets | **(473)** | (521) | **(127)** | (56) |
| Net deferred tax liabilities | **–** | – | **–** | – |
| *Income statement* | | | | |
| Provisions | **23** | (42) | **–** | – |
| Coal rebates payable | **(7)** | (39) | **–** | – |
| Employee benefits | **(30)** | (19) | **(1)** | (4) |
| Doubtful debts | **(10)** | – | **–** | – |
| Depreciation and amortisation | **(39)** | (68) | **–** | – |
| Derivatives | **59** | (11) | **17** | – |
| Unremitted earnings of associates | **(8)** | – | **–** | – |
| Insurance liabilities | **(17)** | 1 | **(11)** | – |
| Intangible assets | **12** | 29 | **–** | – |
| Stock | **8** | (124) | **–** | – |
| Mining assets recognised for accounting purposes | **37** | 36 | **–** | – |
| Accruals and other | **19** | 76 | **(10)** | (24) |
| Deferred tax expense/(credit) | **47** | (161) | **(5)** | (28) |
| Unrecognised deferred tax asset in respect of capital losses in Australia – available indefinitely subject to meeting relevant statutory tests | **218** | 226 | **–** | – |

**Tax consolidation**

Wesfarmers and its 100 per cent owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002. Wesfarmers is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is considered remote.

**Tax effect accounting by members of the tax consolidated group**

Members of the tax consolidated group have entered into a tax funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The tax funding agreement provides for each member of the tax consolidated group to pay a tax equivalent amount to or from the parent in accordance with their current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after lodgement of the consolidated return and payment of the tax liability.

## 6: Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to members of the parent, by the weighted average number of ordinary shares outstanding during the year (excluding employee reserved shares).

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the year (excluding employee reserved shares) plus, the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares.

Each partially protected ordinary share confers rights on a partially protected shareholder that are the same in all respects to those conferred by an ordinary share on an ordinary shareholder on an equal basis. In addition, partially protected ordinary shares provide a level of downside share price protection. Full terms and conditions are available from the Company website www.wesfarmers.com.au

Basic and dilutive earnings per share calculations are as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **2009 $m** | 2008 $m |
| Profit attributable to members of the parent | **1,535** | 1,063 |
| | **shares (m)** | shares (m) |
| Weighted average number of ordinary shares for basic earnings per share | **932** | 581 |
| Effect of dilution – employee reserved shares | **2** | 3 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | **934** | 584 |
| Earnings per share (cents per share) | **cents** | cents |
| – basic for profit for the period attributable to ordinary equity holders of the parent | **160.0** | 174.2 |
| – diluted for profit for the period attributable to ordinary equity holders of the parent | **159.6** | 173.3 |

Prior period earnings per share has been restated with an adjustment factor of 1.05 as a result of the entitlement offer announced on 22 January 2009. Current year earnings per share have been adjusted by a factor of 1.03 reflecting settlement of the entitlement offer part way through the financial year.

The Company announced on 22 January 2009 an equity issue including: a 3 for 7 accelerated pro-rata non-renounceable entitlement offer at an offer price of $13.50 per share which included a fully underwritten institutional component; and additional proceeds of $900 million raised by placements to two strategic investors.

On settlement of the institutional entitlement offer and placement on 6 February 2009, the Company issued 208.6 million shares at an average price of $13.94 per share.

After settlement of the retail component of the entitlement offer on 3 March 2009, the Company issued 128.7 million shares at a price of $13.50 per share.

The total amount raised was $4,646 million with 337.3 million shares issued.

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

## 7: Dividends paid and proposed

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Declared and paid during the period (fully franked at 30%)** | | | | |
| Final franked dividend for 2008: $1.35 (2007: $1.40) | **1,079** | 543 | **1,079** | 543 |
| Interim franked dividend for 2009: $0.50 (2008: $0.65) | **408** | 454 | **408** | 454 |
| | **1,487** | 997 | **1,487** | 997 |
| **Proposed and not recognised as a liability (fully franked at 30%)** | | | | |
| Final franked dividend for 2009: $0.60 (2008: $1.35) | **694** | 1,079 | **694** | 1,079 |
| **Franking credit balance** | | | | |
| Franking credits available for future years at 30% adjusted for debits and credits arising from the payment of income tax payable, and from recognised dividends receivable or payable | **262** | 316 | | |
| Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period | **(297)** | (462) | | |

The Group operates a dividend investment plan which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with Wesfarmers ordinary shares which has been applied to the dividends payable from March 2007. All holders of Wesfarmers ordinary shares with addresses in Australia or New Zealand are eligible to participate in the plan. The allocation price for shares is based on the average of the daily volume weighted average price of Wesfarmers shares sold on the Australian Securities Exchange calculated with reference to a period of not less than five consecutive trading days as determined by the directors.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |

## 8: Cash and cash equivalents

| | **2009** | 2008 | **2009** | 2008 |
|---|---|---|---|---|
| Cash on hand and in transit | **311** | 413 | **174** | 130 |
| Cash at bank and on deposit | **1,734** | 241 | **1,611** | 1 |
| Insurance broking trust accounts | **79** | 71 | **–** | – |
| | **2,124** | 725 | **1,785** | 131 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

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

**Reconciliation to cash flow statement**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

| | **2009** | 2008 | **2009** | 2008 |
|---|---|---|---|---|
| Cash on hand and in transit | **311** | 413 | **174** | 130 |
| Cash at bank and on deposit | **1,734** | 241 | **1,611** | 1 |
| Insurance broking accounts | **79** | 71 | **–** | – |
| Bank overdraft | **–** | (87) | **–** | (87) |
| | **2,124** | 638 | **1,785** | 44 |

**Reconciliation of net profit after tax to net cash flows from operations**

| | **2009** | 2008 | **2009** | 2008 |
|---|---|---|---|---|
| Net profit | **1,535** | 1,063 | **1,082** | 1,483 |
| *Adjustments* | | | | |
| Depreciation and amortisation | **1,024** | 660 | **2** | 2 |
| Impairment and writedowns of assets | **118** | 75 | **–** | – |
| Net gain on sale of controlled entities | **–** | (14) | **–** | – |
| Net loss on disposal of property, plant and equipment | **55** | 8 | **–** | 1 |
| Share of associates' net (profits)/losses | **50** | (40) | **–** | – |
| Dividends and distributions received from associates | **51** | 27 | **–** | – |
| Capitalised borrowing costs | **–** | (16) | **–** | – |
| Discount adjustment in borrowing costs | **53** | 55 | **–** | – |
| Amortisation of debt establishment costs | **(7)** | 33 | **(7)** | 33 |
| Non-cash issue of shares | **66** | 44 | **20** | 3 |
| Ineffective interest rate swap losses | **98** | – | **98** | – |
| Other | **(25)** | 30 | **(31)** | (1) |
| *Changes in assets and liabilities* | | | | |
| (Increase)/decrease in inventories | **(49)** | 257 | **–** | – |
| (Increase)/decrease in trade and other receivables | **73** | (78) | **24** | 4 |
| (Increase)/decrease in prepayments | **(14)** | (45) | **–** | – |
| (Increase)/decrease in pension assets | **(35)** | – | **–** | (3) |
| (Increase)/decrease in deferred tax assets | **(35)** | (74) | **(22)** | (27) |
| (Decrease)/increase in current tax liability | **(84)** | 59 | **(200)** | 178 |
| (Decrease)/increase in trade and other payables | **131** | (623) | **(11)** | 119 |
| (Decrease)/increase in provisions | **39** | 30 | **424** | 34 |
| Net cash from operating activities | **3,044** | 1,451 | **1,379** | 1,826 |

**Non-cash financing and investing activities**

| | **2009** | 2008 | **2009** | 2008 |
|---|---|---|---|---|
| Issue of share capital under employee long-term incentive plans | **66** | 44 | **66** | 44 |
| Issue of share capital under dividend investment plan | **415** | 231 | **415** | 231 |
| Issue of share capital for Coles group acquisition | **–** | 12,733 | **–** | 12,733 |
| Acquisition of rights to mine via coal rebates payable | **183** | 183 | **–** | – |

## 9: Trade and other receivables

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Current** | | | | |
| Trade receivables | **1,324** | 1,454 | **10** | 10 |
| Allowance for credit losses | **(50)** | (39) | **–** | – |
| Reinsurance and other recoveries receivable | **295** | 244 | **–** | – |
| Finance advances and loans | **134** | 123 | **–** | – |
| Related party receivables: | | | | |
| Subsidiaries | **–** | – | **6,420** | 6,232 |
| Associates | **5** | 9 | **–** | – |
| Other debtors | **185** | 231 | **100** | 53 |
| | **1,893** | 2,022 | **6,530** | 6,295 |
| **Non-current** | | | | |
| Reinsurance and other recoveries receivable | **203** | 120 | **–** | – |
| Finance advances and loans | **3** | 11 | **–** | – |
| Related party receivables: | | | | |
| Subsidiaries | **–** | – | **18,995** | 19,403 |
| Other debtors | **5** | 4 | **–** | – |
| | **211** | 135 | **18,995** | 19,403 |

Refer to note 28 for information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

**Impaired trade receivables**

As at 30 June 2009, current trade receivables of the Group with a nominal value of $50 million (2008: $43 million) were impaired. The amount of the allowance account was $50 million (2008: $39 million). It was assessed that a portion of the receivables are expected to be recovered. There were no impaired trade receivables for the parent in 2009 or 2008.

Movements in the allowance account for credit losses were as follows:

| | 2009 $m | 2008 $m |
|---|---|---|
| Carrying value at beginning of year | **39** | 8 |
| Allowance for credit losses recognised during the year | **23** | 42 |
| Receivables written off during the year as uncollectable | **(5)** | (7) |
| Unused amount reversed | **(7)** | (4) |
| Carrying value at end of year | **50** | 39 |

**Trade receivables past due but not impaired**

As at 30 June 2009, trade receivables of $381 million (2008: $255 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default or other indicators of impairment. The aging analysis of these trade receivables is as follows:

| | 2009 $m | 2008 $m |
|---|---|---|
| Under 3 months | **330** | 213 |
| 3 to 6 months | **35** | 34 |
| Over 6 months | **16** | 8 |
| | **381** | 255 |

With respect to trade receivables which are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations. Customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

## 9: Trade and other receivables (continued)

### Reinsurance and other recoveries receivable

The Group reinsures a portion of risks underwritten to control exposure to insurance losses, reduce volatility and protect capital. The Group's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the Group's reinsurance management strategy;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical losses and potential future losses based on the Group's maximum event retention; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

The reinsurance counterparty risk is managed with reference to an analysis of an entity's credit rating. Strict controls are maintained over reinsurance counterparty exposures. Reinsurance is placed with counterparties that have a strong credit rating. Credit risk exposures are calculated regularly and ratings are reviewed by management on a regular basis.

The following table provides information about the quality of the Group's credit risk exposure in respect of reinsurance recoveries on outstanding claims at the balance date. The analysis classifies the assets according to Standard and Poor's counterparty credit ratings. AAA is the highest possible rating.

| | CREDIT RATING | | | | | |
|---|---|---|---|---|---|---|
| | AAA $m | AA $m | A $m | BBB $m | Not rated $m | Total $m |
| YEAR ENDED 30 JUNE 2009 | | | | | | |
| Reinsurance recoveries on outstanding claims | **29** | **146** | **150** | **–** | **67** | **392** |
| Amounts due from reinsurers on paid claims | **–** | **6** | **6** | **–** | **–** | **12** |
| | **29** | **152** | **156** | **–** | **67** | **404** |
| YEAR ENDED 30 JUNE 2008 | | | | | | |
| Reinsurance recoveries on outstanding claims | 21 | 183 | 12 | – | 42 | 258 |
| Amounts due from reinsurers on paid claims | 1 | 16 | 4 | – | – | 21 |
| | 22 | 199 | 16 | – | 42 | 279 |

The remaining reinsurance and other recoveries receivable relate to the reinsurers' share of the unearned premium provisions. All reinsurance and other recoveries receivable are current and not impaired.

### Finance advances and loans

Finance advances and loans consist of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. A risk assessment process is used for new loan applications which ranges from conducting credit assessments to relying on the assessments of financial risk provided by credit insurers.

All finance advances and loans are current and not impaired.

### Related party receivables

For terms and conditions of related party receivables refer to note 35.

### Other debtors

These amounts generally arise from transactions outside the usual operating activities of the Group. They do not contain impaired assets and are not past due. Based on the credit history, it is expected that these other balances will be received when due.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |

## 10: Inventories

| | | | | |
|---|---|---|---|---|
| Raw materials | **75** | 73 | **–** | – |
| Work in progress | **88** | 77 | **–** | – |
| Finished goods | **4,522** | 4,488 | **–** | – |
| Total inventories at the lower of cost and net realisable value | **4,685** | 4,638 | **–** | – |

## 11: Investments backing insurance contracts

Investments backing insurance contracts are all financial assets at fair value through profit or loss and include the following:

| | | | | |
|---|---|---|---|---|
| Bank bills | **491** | 620 | **–** | – |
| Term deposits | **511** | 250 | **–** | – |
| Other | **1** | 1 | **–** | – |
| | **1,003** | 871 | **–** | – |

## 12: Other current assets

| | | | | |
|---|---|---|---|---|
| Deferred acquisition costs | **135** | 127 | **–** | – |
| Prepayments | **68** | 54 | **–** | – |
| Assets held for sale | **18** | 30 | **–** | – |
| | **221** | 211 | **–** | – |
| Movements in deferred acquisition costs | | | | |
| Carrying value at beginning of year | **127** | 119 | **–** | – |
| Acquisition costs deferred | **143** | 156 | **–** | – |
| Costs charged to profit and loss | **(126)** | (134) | **–** | – |
| Other movements | **(9)** | (14) | **–** | – |
| Carrying value at end of year | **135** | 127 | **–** | – |

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |

## 13: Available-for-sale financial investments

| | | | | |
|---|---|---|---|---|
| Shares in listed companies at fair value | **1** | 2 | **–** | – |
| Shares in unlisted companies at fair value | **17** | 34 | **–** | – |
| | **18** | 36 | **–** | – |

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value for listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

There are no individually material investments at 30 June 2009.

The fair value of the unlisted available-for-sale investments has been estimated using appropriate valuation techniques based on assumptions where the fair value cannot be determined by observable market prices or rates. Management believes the estimated fair value resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in reserves, are reasonable and the most appropriate at balance sheet date. Management also believes that changing any of the assumptions to a reasonably possible alternative would not result in a significantly different value.

## 14: Other financial assets

| | | | | |
|---|---|---|---|---|
| Investments in controlled entities at cost | **–** | – | **2,899** | 2,899 |
| | **–** | – | **2,899** | 2,899 |

Refer to note 33 for listing of subsidiaries.

## 15: Investments in associates

| | | | | |
|---|---|---|---|---|
| Shares and units in associates | **373** | 438 | **–** | – |
| Loans to associates at cost | **19** | 27 | **–** | – |
| | **392** | 465 | **–** | – |
| **Fair value of listed investments in associates** | | | | |
| Bunnings Warehouse Property Trust | **151** | 117 | **–** | – |
| Centrepoint Alliance Limited | **–** | 5 | **–** | – |
| **Share of associates' commitments** | | | | |
| Capital commitments | **12** | 23 | **–** | – |
| Lease commitments | **7** | 8 | **–** | – |
| Other commitments | **10** | 11 | **–** | – |

## 15: Investments in associates (continued)

| ASSOCIATE | PRINCIPAL ACTIVITY | OWNERSHIP 2009 % | OWNERSHIP 2008 % |
|---|---|---|---|
| Air Liquide WA Pty Ltd | Industrial gases | **40.0** | 40.0 |
| Albany Woolstores Pty Ltd | Wool handling | **35.0** | 35.0 |
| Bengalla Agricultural Company Pty Limited | Agriculture | **40.0** | 40.0 |
| Bengalla Coal Sales Company Pty Limited | Sales agent | **40.0** | 40.0 |
| Bengalla Mining Company Pty Limited | Management company | **40.0** | 40.0 |
| Bunnings Warehouse Property Trust | Property investment | **22.7** | 22.6 |
| Centrepoint Alliance Limited (b) | Commercial finance | **–** | 24.6 |
| Gresham Partners Group Limited | Investment banking | **50.0** | 50.0 |
| Gresham Private Equity Funds | Private equity fund | **(a)** | (a) |
| HAL Property Trust | Property ownership | **50.0** | 50.0 |
| Queensland Nitrates Management Pty Ltd | Chemical manufacture | **50.0** | 50.0 |
| Queensland Nitrates Pty Ltd | Chemical manufacture | **50.0** | 50.0 |
| Unigas | LP gas distribution | **–** | – |
| Wespine Industries Pty Ltd | Pine sawmillers | **50.0** | 50.0 |

Each of the above entities is incorporated in Australia and has a reporting date of 30 June with the exception of Gresham Partners Group Limited which has a reporting date of 30 September and the Bengalla companies that have a reporting date of 31 December.

(a) Gresham Private Equity Funds

Whilst the consolidated entity's interest in the unitholders' funds of Gresham Private Equity Fund No. 1 and 2 amounts to 50.6 per cent and 67.4 per cent respectively, consistent with the prior year, they are not controlled entities as the consolidated entity does not have the capacity to dominate decision-making in relation to their financial and operating policies. Such control requires a unitholders' resolution of 75 per cent of votes pursuant to the Funds' trust deeds. The consolidated entity's interest in the unitholders' fund of Gresham Private Equity Fund No. 3 is below 75 per cent. The fund is subject to future capital calls and the consolidated entity's interest is expected to reduce over time.

Gresham Private Equity Fund No. 1 has investments in Riviera being its sole investment. Riviera was placed into receivership on 8 May 2009. An impairment loss has been recognised by the fund. The Company's share of this loss of $35 million has been recognised in earnings. The managers of the fund are awaiting a report from the Administrators of Riviera and based on its findings are intending to wind up the fund.

(b) Centrepoint Alliance Limited was sold on 30 June 2009.

| SHARE OF REVENUES | | SHARE OF PROFIT/(LOSS) | | SHARE OF ASSETS | | SHARE OF LIABILITIES | | CARRYING AMOUNT | |
|---|---|---|---|---|---|---|---|---|---|
| **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **21** | 20 | **4** | 4 | **12** | 11 | **8** | 7 | **4** | 4 |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **–** | – | **1** | – | **–** | – | **–** | – | **–** | – |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **12** | 15 | **(8)** | – | **250** | 220 | **95** | 80 | **142** | 132 |
| **–** | 24 | **–** | 1 | **–** | 98 | **–** | 87 | **–** | 11 |
| **31** | 64 | **1** | 5 | **57** | 76 | **16** | 33 | **27** | 29 |
| **3** | 9 | **(57)** | 16 | **126** | 198 | **9** | 12 | **121** | 188 |
| **–** | – | **–** | – | **14** | 14 | **–** | – | **14** | 14 |
| **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **56** | 51 | **5** | 8 | **137** | 128 | **85** | 81 | **54** | 49 |
| **–** | 51 | **–** | 1 | **–** | – | **–** | – | **–** | – |
| **35** | 41 | **4** | 5 | **36** | 37 | **25** | 25 | **11** | 11 |
| **158** | 275 | **(50)** | 40 | **632** | 782 | **238** | 325 | **373** | 438 |

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |

## 16: Property, plant and equipment

| | **2009** | 2008 | **2009** | 2008 |
|---|---|---|---|---|
| **Freehold land** | | | | |
| Cost | **748** | 678 | **1** | 1 |
| Net carrying amount | **748** | 678 | **1** | 1 |
| Net carrying amount at beginning of year | **678** | 168 | **1** | 1 |
| Additions | **127** | 162 | **–** | – |
| Transfers | **31** | 17 | **–** | – |
| Transfers to assets held for sale | **1** | (22) | **–** | – |
| Transfers to inventory | **(1)** | (28) | **–** | – |
| Disposals | **(13)** | (6) | **–** | – |
| Acquisitions of controlled entities | **7** | 397 | **–** | – |
| Impairment charge | **(82)** | – | **–** | – |
| Exchange differences | **–** | (10) | **–** | – |
| Net carrying amount at end of year | **748** | 678 | **1** | 1 |
| **Buildings** | | | | |
| Cost | **571** | 477 | **5** | 3 |
| Accumulated depreciation and impairment | **(93)** | (84) | **(1)** | (1) |
| Net carrying amount | **478** | 393 | **4** | 2 |
| Net carrying amount at beginning of year | **393** | 203 | **2** | 2 |
| Additions | **74** | 119 | **2** | – |
| Transfers | **53** | 20 | **–** | – |
| Transfers to inventory | **(17)** | (66) | **–** | – |
| Disposals | **(14)** | (1) | **–** | – |
| Acquisitions of controlled entities | **–** | 129 | **–** | – |
| Depreciation expense | **(11)** | (9) | **–** | – |
| Exchange differences | **–** | (2) | **–** | – |
| Net carrying amount at end of year | **478** | 393 | **4** | 2 |
| Assets in course of construction included above | **1** | 3 | **–** | – |
| **Leasehold improvements** | | | | |
| Cost | **592** | 500 | **7** | 2 |
| Accumulated depreciation and impairment | **(151)** | (79) | **(1)** | – |
| Net carrying amount | **441** | 421 | **6** | 2 |
| Net carrying amount at beginning of year | **421** | 52 | **2** | 2 |
| Additions | **89** | 69 | **4** | – |
| Transfers | **12** | 13 | **–** | – |
| Rehabilitation provision asset increment | **1** | – | **–** | – |
| Disposals | **(5)** | (5) | **–** | – |
| Acquisitions of controlled entities | **–** | 343 | **–** | – |
| Impairment charge | **3** | (6) | **–** | – |
| Amortisation expense | **(80)** | (45) | **–** | – |
| Net carrying amount at end of year | **441** | 421 | **6** | 2 |
| Assets in course of construction included above | **12** | 2 | **2** | – |

## 16: Property, plant and equipment (continued)

| | CONSOLIDATED 2009 $m | CONSOLIDATED 2008 $m | PARENT 2009 $m | PARENT 2008 $m |
|---|---|---|---|---|
| **Plant, vehicles and equipment** | | | | |
| Cost | **7,300** | 6,454 | **37** | 34 |
| Accumulated depreciation and impairment | **(2,533)** | (1,981) | **(13)** | (12) |
| Net carrying amount | **4,767** | 4,473 | **24** | 22 |
| Net carrying amount at beginning of year | **4,473** | 1,798 | **22** | 20 |
| Additions | **1,123** | 910 | **4** | 5 |
| Transfers | **(93)** | (37) | **–** | – |
| Rehabilitation provision asset increment | **–** | 1 | **–** | – |
| Disposals | **(75)** | (41) | **–** | (1) |
| Acquisitions of controlled entities | **–** | 2,381 | **–** | – |
| Impairment charge | **(8)** | (53) | **–** | – |
| Depreciation expense | **(656)** | (474) | **(2)** | (2) |
| Exchange differences | **3** | (12) | **–** | – |
| Net carrying amount at end of year | **4,767** | 4,473 | **24** | 22 |
| Assets in course of construction included above | **587** | 747 | **1** | 2 |
| **Mineral lease and development costs** | | | | |
| Cost | **1,268** | 977 | **–** | – |
| Accumulated depreciation and impairment | **(576)** | (381) | **–** | – |
| Net carrying amount | **692** | 596 | **–** | – |
| Net carrying amount at beginning of year | **596** | 495 | **–** | – |
| Additions | **90** | 10 | **–** | – |
| Transfers | **–** | (13) | **–** | – |
| Arising on coal rebates | **183** | 183 | **–** | – |
| Rehabilitation provision asset increment | **17** | – | **–** | – |
| Amortisation expense | **(194)** | (79) | **–** | – |
| Net carrying amount at end of year | **692** | 596 | **–** | – |
| Assets in course of construction included above | **65** | 1 | **–** | – |
| **Total** | | | | |
| Cost | **10,479** | 9,086 | **50** | 40 |
| Accumulated depreciation and impairment | **(3,353)** | (2,525) | **(15)** | (13) |
| Net carrying amount | **7,126** | 6,561 | **35** | 27 |

Refer to note 20 for assets pledged as security.

**Property, plant and equipment impairments recognised**

During the period an $82 million impairment charge has been recognised in relation to property held by the Coles division as a result of a decline in rental yields used to determine the recoverable amount.

| | CONSOLIDATED 2009 $m | CONSOLIDATED 2008 $m |
|---|---|---|

## 17: Intangible assets and goodwill

| | 2009 $m | 2008 $m |
|---|---|---|
| **Trade names** | | |
| Cost | **3,798** | 3,798 |
| Accumulated amortisation | **(3)** | (1) |
| Net carrying amount | **3,795** | 3,797 |
| Net carrying amount at beginning of year | **3,797** | 9 |
| Acquisitions of controlled entities | **–** | 3,789 |
| Amortisation for the year | **(2)** | (1) |
| Net carrying amount at end of year | **3,795** | 3,797 |
| **Contractual and non-contractual relationships** | | |
| Cost | **126** | 124 |
| Accumulated amortisation | **(26)** | (16) |
| Net carrying amount | **100** | 108 |
| Net carrying amount at beginning of year | **108** | 121 |
| Additions | **–** | 3 |
| Disposals | **–** | (1) |
| Acquisitions of controlled entities | **2** | 2 |
| Disposals of controlled entities | **–** | (1) |
| Amortisation for the year | **(10)** | (12) |
| Effect of movements in exchange rates | **–** | (4) |
| Net carrying amount at end of year | **100** | 108 |
| **Software** | | |
| Cost | **429** | 402 |
| Accumulated amortisation | **(109)** | (38) |
| Net carrying amount | **320** | 364 |
| Net carrying amount at beginning of year | **364** | – |
| Additions | **28** | 38 |
| Disposals | **(1)** | (1) |
| Acquisitions of controlled entities | **–** | 367 |
| Amortisation for the year | **(71)** | (40) |
| Net carrying amount at end of year | **320** | 364 |
| **Gaming and liquor licences** | | |
| Cost | **150** | 139 |
| Net carrying amount | **150** | 139 |
| Net carrying amount at beginning of year | **139** | – |
| Additions | **11** | 2 |
| Acquisitions of controlled entities | **–** | 137 |
| Net carrying amount at end of year | **150** | 139 |
| **Total intangible assets** | **4,365** | 4,408 |

| | CONSOLIDATED 2009 $m | CONSOLIDATED 2008 $m |
|---|---|---|

## 17: Intangible assets and goodwill (continued)

**Allocation of intangible assets to groups of cash-generating units**

| | 2009 $m | 2008 $m |
|---|---|---|
| Carrying amount of intangibles | | |
| Resources | **2** | – |
| Energy | **28** | 29 |
| Home Improvement and Office Supplies | | |
| – Officeworks | **175** | 178 |
| Industrial and Safety | **9** | 9 |
| Insurance | **73** | 80 |
| Coles | **3,237** | 3,272 |
| Kmart | **297** | 294 |
| Target | **544** | 546 |
| | **4,365** | 4,408 |

Trade names: the majority of the trade names intangible asset balance relates to indefinite life brand names. The brand names have been assessed as having indefinite lives on the basis of strong brand strength, ongoing expected profitability and continuing support.

Gaming and liquor licences: gaming and liquor licences have been assessed as having indefinite lives on the basis that the licences are expected to be renewed in line with business continuity requirements.

**Goodwill**

| | 2009 $m | 2008 $m |
|---|---|---|
| Cost | **16,277** | 16,272 |
| Accumulated impairment | **(4)** | (3) |
| Net carrying amount | **16,273** | 16,269 |
| | | |
| Net carrying amount at beginning of year | **16,269** | 2,568 |
| Disposals | **(8)** | (1) |
| Acquisitions of controlled entities | **10** | 13,846 |
| Finalisation of acquisition accounting adjustment | **–** | (118) |
| Effect of movements in exchange rates | **2** | (26) |
| Net carrying amount at end of year | **16,273** | 16,269 |

**Allocation of goodwill to groups of cash-generating units**

| | 2009 $m | 2008 $m |
|---|---|---|
| Carrying amount of goodwill | | |
| Energy | | |
| – Coregas | **300** | 300 |
| – Other | **13** | 12 |
| Home Improvement and Office Supplies | | |
| – Bunnings | **848** | 846 |
| – Officeworks | **799** | 799 |
| Industrial and Safety | | |
| – Blackwoods Australia | **308** | 308 |
| – Other | **149** | 147 |
| Insurance | | |
| – Lumley Australia | **434** | 434 |
| – Other | **517** | 511 |
| Coles | **10,211** | 10,216 |
| Kmart | **273** | 273 |
| Target | **2,419** | 2,419 |
| Other | **2** | 4 |
| | **16,273** | 16,269 |

## 17: Intangible assets and goodwill (continued)

**Key assumptions used in impairment calculations**

The recoverable amounts of the cash-generating units have been determined using cash flow projections based on Wesfarmers' Board-approved corporate plans covering a five year period.

Where a value in use methodology has been used, these plans have been adjusted to exclude the costs and benefits of expansion capital, and have been prepared on the understanding that many actual outcomes will differ from assumptions used in the calculations.

Cash flows beyond the five year period are extrapolated using the estimated growth rates, which are based on the Group's estimates taking into consideration past historical performance as well as expected long-term operating conditions. Growth rates do not exceed the long-term average growth rate for the business in which the cash-generating unit operates.

Discount rates are based on the weighted average cost of capital determined by prevailing or benchmarked market inputs.

Other assumptions are determined with reference to external sources of information and use consistent and conservative estimates for such variables such as terminal cash flow multiples.

The impairment calculations have been prepared for the purpose of determining whether the cash-generating units' carrying value does not exceed its recoverable amount, but does not purport to be a market valuation of the relevant business operations.

Outlined below are the key assumptions used for cash-generating units with significant goodwill balances. As outlined below, changes in discount rates used for Coles division impairment testing could cause the carrying value to exceed its recoverable amount. Such an increase in the discount rates could arise, for example, following an increase in prevailing risk-free and borrowing rates.

The Group considers that, for other cash-generating units, any reasonably possible change in key assumptions would not cause the carrying amount to exceed the recoverable amount. However, future increases in discount rates or changes in other key assumptions such as operating conditions or financial performance could cause the carrying values of cash-generating units to exceed their recoverable amounts. Although this would not be expected to result in a significant write-down to goodwill or intangible assets, there may be an impact on future earnings.

| | CONSOLIDATED | |
|---|---|---|
| | **2009 $m** | 2008 $m |
| **Key assumptions used in fair value less costs to sell calculations** | | |
| *Coles* | | |
| Discount rate (post tax) | **9.2%** | 9.2% |
| Growth rate beyond five year financial plan | **3.2%** | 3.2% |
| Perpetuity factor for calculation of terminal value (1/(discount rate – growth rate)) | **16.7** | 16.7 |

Other key assumptions include retail sales, EBIT margin and inflation rate (which are based on past experience and external sources of information) and a programme of business improvement strategies, including store upgrades (which are based on management projections). The recoverable amount of the Coles division currently exceeds its carrying value by $2,359 million (2008: $991 million). This excess in recoverable amount could be reduced should changes in the following key assumptions occur:

i. Trading conditions – The cash flows are based on the forecast improved operating and financial performance of the Coles division, which have been derived from the 2009 Wesfarmers Board-approved Corporate Plan. Although the timing of the cash flows arising from this improvement are influenced by general market conditions, Wesfarmers believes the magnitude of the longer-term cash flows will be far less impacted. This view is based on the likely longer-term trends in the business (ie steadily increasing market demand) and the inherent value of the network, especially once such a network has been revitalised. Notwithstanding this, should such an improvement not occur, the impact on the cash flows could result in a reduction of the recoverable amount to below the carrying value.

ii. Discount rate – The discount rate for the Coles division has been determined based on the weighted average cost of capital with reference to the prevailing risk-free and borrowing rates, and with consideration to the risk associated with the Coles turnaround. Consequently, should these rates increase, the discount rate would also increase. An increase in the discount rate of over 0.9% (2008: 0.4%) would result in a reduction of the recoverable amount to below the carrying value.

| | | |
|---|---|---|
| *Target* | | |
| Discount rate (post tax) | **10.4%** | 10.5% |
| Growth rate beyond five year financial plan | **3.2%** | 3.2% |
| Perpetuity factor for calculation of terminal value (1/(discount rate – growth rate)) | **13.9** | 13.7 |

Other key assumptions include retail sales, EBIT margin and inflation rate (which are based on past experience and external sources of information) and a programme of business improvement strategies, including store upgrades (which are based on management projections).

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **18: Other non-current assets** | | | | |
| Deferred acquisition costs | **–** | 6 | **–** | – |
| Defined benefit asset | **5** | 30 | **5** | 11 |
| Investment property | **6** | 7 | **–** | – |
| Prepaid rent | **15** | 15 | **–** | – |
| Other | **8** | 3 | **–** | – |
| | **34** | 61 | **5** | 11 |
| Movements in deferred acquisition costs | | | | |
| Carrying amount at beginning of year | **6** | – | **–** | – |
| Acquisition costs deferred during the period | **–** | 6 | **–** | – |
| Costs charged to profit and loss | **(6)** | – | **–** | – |
| Carrying amount at the end of the year | **–** | 6 | **–** | – |
| **19: Trade and other payables** | | | | |
| **Current** | | | | |
| Trade payables | **4,037** | 3,905 | **122** | 136 |
| Related party payables | | | | |
| Subsidiaries | **–** | – | **8** | 1 |
| | **4,037** | 3,905 | **130** | 137 |
| **Non-current** | | | | |
| Other creditors and accruals | **3** | 25 | **2** | – |
| | **3** | 25 | **2** | – |

## 20: Interest-bearing loans and borrowings

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Current** | | | | |
| Secured | | | | |
| Bank loans | **2** | 3 | **–** | – |
| Unsecured | | | | |
| Term loans (a), (b) | **437** | – | **437** | – |
| Other bank loans | **194** | 288 | **–** | 70 |
| Commercial paper | **–** | 190 | **–** | 160 |
| Bank bills | **–** | 480 | **–** | 480 |
| Bank overdrafts | **–** | 87 | **–** | 87 |
| Corporate bonds (c) | **–** | 210 | **–** | 210 |
| Other loans | **1** | 3 | **–** | – |
| | **634** | 1,261 | **437** | 1,007 |
| **Non-current** | | | | |
| Unsecured | | | | |
| Term loans (a), (b) | **4,318** | 5,867 | **4,318** | 5,867 |
| Other bank loans | **–** | 750 | **–** | 750 |
| Bank bills | **–** | 627 | **–** | 627 |
| Corporate bonds (c) | **1,217** | 1,012 | **831** | 658 |
| | **5,535** | 8,256 | **5,149** | 7,902 |
| Total interest-bearing loans and borrowings | **6,169** | 9,517 | **5,586** | 8,909 |
| **Financing facilities available** | | | | |
| Total facilities | | | | |
| Term loans (a), (b) | **4,787** | 6,000 | **4,787** | 6,000 |
| Other bank loans | **214** | 1,478 | **–** | 1,214 |
| Commercial paper | **320** | 300 | **320** | 300 |
| Bank bills | **1,082** | 1,330 | **1,082** | 1,330 |
| Bank overdrafts | **–** | 2 | **–** | – |
| | **6,403** | 9,110 | **6,189** | 8,844 |
| Facilities used at balance date | | | | |
| Term loans (a), (b) | **4,787** | 5,900 | **4,787** | 5,900 |
| Other bank loans | **194** | 1,041 | **–** | 820 |
| Commercial paper | **–** | 190 | **–** | 160 |
| Bank bills | **–** | 1,107 | **–** | 1,107 |
| Bank overdrafts | **–** | 87 | **–** | 87 |
| | **4,981** | 8,325 | **4,787** | 8,074 |
| Facilities unused at balance date | | | | |
| Term loans (a), (b) | **–** | 100 | **–** | 100 |
| Other bank loans | **20** | 437 | **–** | 394 |
| Commercial paper | **320** | 110 | **320** | 140 |
| Bank bills | **1,082** | 223 | **1,082** | 223 |
| Bank overdrafts | **–** | (85) | **–** | (87) |
| | **1,422** | 785 | **1,402** | 770 |
| Total facilities | **6,403** | 9,110 | **6,189** | 8,844 |
| Facilities used at reporting date | **4,981** | 8,325 | **4,787** | 8,074 |
| Facilities unused at reporting date | **1,422** | 785 | **1,402** | 770 |

## 20: Interest-bearing loans and borrowings (continued)

Repayment obligations in respect of the amount of the facilities utilised are included in maturities of financial liabilities tables in note 28.

**Funding activities**

In the prior period, Wesfarmers arranged a fully underwritten $10 billion syndicated credit facility for the purposes of funding the cash component of the acquisition of the Coles group, repaying certain existing Coles group indebtedness and other existing debt of Wesfarmers, and funding the ongoing working capital requirements of Wesfarmers and its subsidiaries. Following Wesfarmers' $4.6 billion equity raising (announced on 22 January 2009) gross debt has been reduced to $6.2 billion ($4.0 billion of which is outstanding under the syndicated credit facility), with an additional $0.5 billion of debt expected to be repaid by 31 December 2009.

The syndicated credit facility documentation contains financial covenants that Wesfarmers is required to meet. As at 30 June 2009, Wesfarmers has complied with these covenants. Wesfarmers' other funding facilities contain the same representations, warranties and covenants as those contained in the syndicated credit facility.

The syndicated credit facility requires that wholly owned subsidiaries of Wesfarmers representing at least five per cent of EBITDA or total assets of the Wesfarmers Group are guarantors and that the guarantor group represents at least 85 per cent of the Group's total assets and 85 per cent of the EBITDA of the Group. Insurance underwriting subsidiaries are not permitted to guarantee the senior debt facility due to insurance regulatory restrictions. In addition, other funding facilities have the benefit of the same guarantee.

The carrying amount of the syndicated bank loans is net of remaining capitalised debt fees directly attributable to the acquisition. These will be released to earnings based on the effective interest rate over the earlier of the terms of the syndicated bank loans and repayment.

The senior credit facility originally consisted of three tranches: Facility A ($4.0 billion bridging facility), Facility B ($5.0 billion term loan facility) and Facility C ($1.0 billion revolving loan facility). Facility A was refinanced prior to 30 June 2008 through a combination of issuing a $711 million (US$ 650 million) US dollar bond, entering into bilateral debt facility agreements with banking counterparties, and an equity raising of $2.6 billion. During the current period Facility C and $1.0 billion of Facility B have been repaid.

**(a) Term loan – bilateral facility**

Committed bilateral bank facilities of $1.2 billion were entered into in 2008 as part of the refinancing of the prior period bridge facility. Drawings on the facility stand at $787 million as at 30 June 2009. The original maturity date of the bilateral facilities was 15 December 2009. During 2009, agreement was reached with a number of banks who were party to the original bilateral debt agreement to extend the maturity of $350 million of the bilateral facilities to 31 December 2011. The balance of $437 million is payable at the original maturity date on 15 December 2009. Interest is payable at a rate calculated as the Australian bank bill swap yield, plus a margin (based on ratings). The margin is subject to change based on the Company's Standard and Poor's credit rating.

**(b) Term loan – syndicated facility (Facility B)**

As at 30 June 2009, this $4.0 billion facility was fully drawn. This facility has been reduced from $5.0 billion, following the refinancing and early repayment of $1.0 billion of the original facility during the year. Of this facility, $1.8 billion has been extended from 1 October 2010 to 31 December 2011 (Facility D), another $1.8 billion has been extended to 31 December 2012 (Facility E) and a further $222 million has been extended to 27 February 2015. The balance of $171 million is payable at the original maturity date on 1 October 2010. Indebtedness under the senior credit facility may be voluntarily prepaid by Wesfarmers, in whole or in part, subject to certain restrictions including minimum and whole multiple restrictions. Interest is payable at a rate calculated as the Australian bank bill swap yield plus a margin. The margin is subject to change based on the Company's Standard and Poor's credit rating.

**(c) Corporate bonds**

As a result of the acquisition of the Coles group, in the prior period, Wesfarmers entered into financing arrangements with Coles group's note holders. The medium-term fixed rate notes outstanding have a principal of A$400 million and mature on 25 July 2012. Interest on these notes is payable semi-annually in arrears at six per cent per annum.

Wesfarmers issued US bonds, in the prior period, with a face value of $711 million (US$ 650 million), maturing on 10 April 2013. Interest on these bonds is payable semi-annually in arrears at 6.998 per cent per annum. One of the requirements of the Offering Memorandum is that if both Moody's and Standard and Poor's cease to rate the notes investment grade during a change of control transaction, each holder of the notes has the right to require Wesfarmers to purchase all or a portion of the holder's notes at a purchase price equal to 101 per cent of the principal amount thereof plus accrued and unpaid interest. In addition, if there is a downgrade to the credit ratings assigned to the notes by Moody's or Standard and Poor's the interest rate on the notes will increase. Further information can be found in the Offering Memorandum.

Derivative contracts are held to hedge future foreign exchange translation and currency interest rate risks in relation to US bonds. Refer to note 29 for further details.

**Assets pledged as security**

A controlled entity has issued a floating charge over assets, capped at $80 million, as security for payment obligations to a trade creditor. The assets are excluded from financial covenants in all debt documentation.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **21: Provisions** | | | | |
| Current | | | | |
| Employee benefits | **745** | 689 | **16** | 14 |
| Workers' compensation | **85** | 79 | **83** | – |
| Self-insured risks | **42** | 89 | **36** | 28 |
| Mine and plant rehabilitation | **3** | 5 | **–** | – |
| Restructuring and make good | **63** | 109 | **–** | – |
| Surplus leased space | **9** | 8 | **–** | – |
| Off-market contracts | **74** | 73 | **–** | – |
| Unearned contributions | **–** | – | **45** | 21 |
| Other | **45** | 31 | **–** | – |
| | **1,066** | 1,083 | **180** | 63 |
| Non-current | | | | |
| Employee benefits | **147** | 126 | **20** | 18 |
| Workers' compensation | **251** | 238 | **251** | – |
| Self-insured risks | **62** | 2 | **54** | – |
| Mine and plant rehabilitation | **144** | 115 | **–** | – |
| Restructuring and make good | **34** | 4 | **–** | – |
| Surplus leased space | **14** | 21 | **–** | – |
| Off-market contracts | **349** | 399 | **–** | – |
| Other | **41** | 17 | **–** | – |
| | **1,042** | 922 | **325** | 18 |
| Total provisions | **2,108** | 2,005 | **505** | 81 |

Provisions have been calculated using discount rates between 5 per cent and 10 per cent (2008: between 6 per cent and 10 per cent).

### Workers' compensation and self-insured risks

The Group is self-insured for costs relating to workers' compensation and general liability claims. Provisions are recognised based on claims reported, and an estimate of claims incurred but not reported, prior to reporting date.

These provisions are determined on a discounted basis, using an actuarially determined method, which is based on various assumptions including, but not limited to, future inflation, investment return, average claim size and claim administration expenses. These assumptions are reviewed periodically and any reassessment of these assumptions will affect workers' compensation or claims expense (either increasing or decreasing the expense).

### Mine and plant rehabilitation

In accordance with mining lease agreements and Group policies, obligations exist to remediate areas where mining activity has taken place. Work is ongoing at various sites and in some cases will extend over periods beyond 20 years. Provisions have generally been calculated assuming current technologies. As part of the valuation methodology, the risks are incorporated in the cash flows rather than the discount rates to aid with comparability.

### Restructuring and make good

These provisions relate principally to:

- the closure of retail outlets or distribution centres;
- the disaggregation of shared services and supply chain within the former Coles group divisions;
- restructuring; and
- associated redundancies.

Provisions are recognised where steps have been taken to implement the restructuring plan, including discussions with affected personnel.

### Surplus leased space

The surplus leased space provision covers future payments for leased premises, which are onerous, net of actual and expected sub-leasing revenue, and relates to commitments of up to eight years (2008: nine years). 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

In existence at the date of acquisition of Coles group by Wesfarmers were a number of contracts. Changes in market conditions had resulted in the original terms of the contract becoming unfavourable in comparison to market supply conditions present at the date of acquisition. The obligation for the discounted future above market payments has been provided for. The fair value of the contract is updated for key underlying assumptions such as volume/capacity factors as these become known and is released to earnings over the period of the contract.

### Unearned contributions

These relate to contributions received in advance from entities within the Group to fund future self insurance losses.

## 21: Provisions (continued)

YEAR ENDED 30 JUNE 2009

| | Workers' compensation $m | Self-insured risks $m | Mine and plant rehabilitation $m | Restructuring and make good $m | Surplus leased space $m | Off market contracts $m | Unearned contributions $m | Other $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | | | |
| Carrying amount at beginning of year | **317** | **91** | **120** | **113** | **29** | **472** | **–** | **48** | **1,190** |
| Arising during year | **71** | **35** | **1** | **22** | **–** | **17** | **–** | **50** | **196** |
| Utilised | **(89)** | **(27)** | **(7)** | **(38)** | **(6)** | **(66)** | **–** | **(2)** | **(235)** |
| Unused amounts reversed | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(11)** | **(11)** |
| Acquisition of controlled entities | **2** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2** |
| Discount rate adjustment | **32** | **5** | **8** | **–** | **–** | **–** | **–** | **–** | **45** |
| Fair value adjustment | **–** | **–** | **25** | **–** | **–** | **–** | **–** | **–** | **25** |
| Exchange differences | **3** | **–** | **–** | **–** | **–** | **–** | **–** | **1** | **4** |
| Carrying amount at end of year | **336** | **104** | **147** | **97** | **23** | **423** | **–** | **86** | **1,216** |
| **Parent** | | | | | | | | | |
| Carrying amount at beginning of year | **–** | **28** | **–** | **–** | **–** | **–** | **21** | **–** | **49** |
| Arising during year | **78** | **35** | **–** | **–** | **–** | **–** | **49** | **–** | **162** |
| Utilised | **(89)** | **(27)** | **–** | **–** | **–** | **–** | **(25)** | **–** | **(141)** |
| Transfers | **314** | **50** | **–** | **–** | **–** | **–** | **–** | **–** | **364** |
| Discount rate adjustment | **31** | **4** | **–** | **–** | **–** | **–** | **–** | **–** | **35** |
| Carrying amount at end of year | **334** | **90** | **–** | **–** | **–** | **–** | **45** | **–** | **469** |

YEAR ENDED 30 JUNE 2008

| | Workers' compensation $m | Self-insured risks $m | Mine and plant rehabilitation $m | Restructuring and make good $m | Surplus leased space $m | Off market contracts $m | Unearned contributions $m | Other $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| Consolidated | | | | | | | | | |
| Carrying amount at beginning of year | 2 | 15 | 113 | 19 | 1 | – | – | 4 | 154 |
| Arising during year | 28 | 31 | 7 | 88 | – | 19 | – | 15 | 188 |
| Utilised | (48) | (17) | (7) | (59) | (9) | (48) | – | (8) | (196) |
| Unused amounts reversed | – | – | – | – | – | – | – | (3) | (3) |
| Acquisition of controlled entities | 325 | 62 | – | 65 | 37 | 501 | – | 40 | 1,030 |
| Discount rate adjustment | 10 | – | 7 | – | – | – | – | – | 17 |
| Carrying amount at end of year | 317 | 91 | 120 | 113 | 29 | 472 | – | 48 | 1,190 |
| Parent | | | | | | | | | |
| Carrying amount at beginning of year | – | 15 | – | – | – | – | 11 | – | 26 |
| Arising during year | – | 17 | – | – | – | – | 21 | – | 38 |
| Utilised | – | (4) | – | – | – | – | (11) | – | (15) |
| Carrying amount at end of year | – | 28 | – | – | – | – | 21 | – | 49 |

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |

## 22: Insurance liabilities

| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
|---|---|---|---|---|
| **Unearned insurance premiums** | | | | |
| Current | **718** | 687 | **–** | – |
| Non-current | **66** | 63 | **–** | – |
| | **784** | 750 | **–** | – |
| Carrying amount at beginning of year | **750** | 690 | **–** | – |
| Acquisition of companies | **–** | – | **–** | – |
| Deferral of premium on contracts written during year | **728** | 690 | **–** | – |
| Earning of premiums deferred in prior years | **(694)** | (630) | **–** | – |
| Carrying amount at end of year | **784** | 750 | **–** | – |
| **Outstanding insurance claims** | | | | |
| Current | **480** | 450 | **–** | – |
| Non-current | **437** | 277 | **–** | – |
| | **917** | 727 | **–** | – |
| **Outstanding insurance claims** | | | | |
| Gross central estimate of outstanding claims liabilities | **887** | 721 | | |
| Discount to present value | **(61)** | (77) | | |
| Claim handling expenses | **33** | 27 | | |
| Risk margin | **58** | 56 | | |
| | **917** | 727 | | |
| **Total insurance liabilities** | | | | |
| Current | **1,198** | 1,137 | **–** | – |
| Non-current | **503** | 340 | **–** | – |
| | **1,701** | 1,477 | **–** | – |

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency between 85 per cent and 90 per cent. The probability of adequacy at 30 June 2009 is approximately 85 per cent (2008: 85 per cent) which is within the Group's internal target range of 85 per cent to 90 per cent.

The risk margin included in net outstanding claims is 13.0 per cent of the central estimate (2008: 15.2 per cent). The discount rate used is 4.3 per cent (2008: 6.9 per cent).

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | **Gross $m** | **Reinsurance $m** | **2009 Net $m** | 2008 Net $m |
| Movement in outstanding insurance claims | | | | |
| Carrying amount at beginning of year | **727** | **(279)** | **448** | 427 |
| Incurred claims recognised in profit and loss | **1,160** | **(411)** | **749** | 620 |
| Net claim payments | **(1,126)** | **338** | **(788)** | (589) |
| Acquisition of companies | **176** | **(52)** | **124** | – |
| Other | **(20)** | **–** | **(20)** | (10) |
| Carrying amount at end of year | **917** | **(404)** | **513** | 448 |

## 22: Insurance liabilities (continued)

### Liquidity risk

Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Group is exposed to daily calls on its available cash resources from policy claims. The Group manages this risk in accordance with the Group's liquidity policy whereby investments are held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations.

The Group limits the risk of liquidity shortfalls resulting from mismatch in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

The maturity profile of the Group's discounted net outstanding claims provision is analysed below.

| Consolidated | < 3 months, or on demand $m | >3-<6 months $m | >6-<12 months $m | >1-<2 years $m | >2-<3 years $m | >3-<4 years $m | >4-<5 years $m | >5 years $m | Total contractual cash flows $m | Carrying amount (assets)/ liabilities $m |
|---|---|---|---|---|---|---|---|---|---|---|
| YEAR ENDED 30 JUNE 2009 | | | | | | | | | | |
| Gross outstanding claims | **241** | **122** | **117** | **151** | **89** | **66** | **44** | **87** | **917** | **917** |
| Reinsurance recoveries | **(79)** | **(58)** | **(64)** | **(69)** | **(35)** | **(26)** | **(20)** | **(53)** | **(404)** | **(404)** |
| Net outstanding claims provision | **162** | **64** | **53** | **82** | **54** | **40** | **24** | **34** | **513** | **513** |
| YEAR ENDED 30 JUNE 2008 | | | | | | | | | | |
| Gross outstanding claims | 207 | 102 | 104 | 109 | 62 | 42 | 30 | 71 | 727 | 727 |
| Reinsurance recoveries | (68) | (42) | (44) | (45) | (23) | (15) | (11) | (31) | (279) | (279) |
| Net outstanding claims provision | 139 | 60 | 60 | 64 | 39 | 27 | 19 | 40 | 448 | 448 |

### Claims development table

The following table shows the development of the estimated ultimate incurred cost for the public liability and workers' compensation classes of business in Australia for the five most recent accident years. The estimated ultimate incurred cost at each point in time consists of the payments to date plus the actuarial estimate of outstanding claims. The subsequent components in the table provide a breakdown of the current estimate of ultimate incurred cost between payments to date and the various components of the outstanding claims liability.

| | CONSOLIDATED ACCIDENT YEAR | | | | | |
|---|---|---|---|---|---|---|
| Ultimate claims cost estimate | 2005 $m | 2006 $m | 2007 $m | 2008 $m | **2009 $m** | Total $m |
| At end of accident year | 54 | 62 | 69 | 87 | **91** | 363 |
| One year later | 53 | 56 | 74 | 90 | **–** | 273 |
| Two years later | 49 | 58 | 75 | – | **–** | 182 |
| Three years later | 55 | 64 | – | – | **–** | 119 |
| Four years later | 52 | – | – | – | **–** | 52 |
| Current estimate of ultimate claims cost | 52 | 64 | 75 | 90 | **91** | 372 |
| Cumulative payments | (39) | (36) | (28) | (24) | **(10)** | (137) |
| Undiscounted central estimate | 13 | 28 | 47 | 66 | **81** | 235 |
| Discount to present value | (2) | (3) | (6) | (7) | **(9)** | (27) |
| Deferred premium | – | – | – | – | **–** | – |
| Discounted central estimate | 11 | 25 | 41 | 59 | **72** | 208 |
| Claims handling expense | 1 | 1 | 2 | 3 | **4** | 11 |
| Risk margin | 2 | 4 | 7 | 9 | **11** | 33 |
| Net outstanding claims liabilities | 14 | 30 | 50 | 71 | **87** | 252 |
| Liabilities and other recoveries | 8 | 16 | 22 | 24 | **27** | 97 |
| Gross outstanding claims liabilities | 22 | 46 | 72 | 95 | **114** | 349 |

The reconciliation of the movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recovery bases to give the most meaningful insight into the impact on the income statement.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **23: Other liabilities** | | | | |
| Coal rebates payable | | | | |
| Current | **160** | 101 | **–** | – |
| Non-current | **86** | 119 | **–** | – |
| | **246** | 220 | **–** | – |
| Deferred coal revenue | | | | |
| Current | **9** | 11 | **–** | – |
| Non-current | **2** | 2 | **–** | – |
| | **11** | 13 | **–** | – |
| Other | | | | |
| Current | **167** | 165 | **–** | – |
| Non-current | **8** | 5 | **24** | 5 |
| | **175** | 170 | **24** | 5 |
| Total | | | | |
| Current | **336** | 277 | **–** | – |
| Non-current | **96** | 126 | **24** | 5 |
| | **432** | 403 | **24** | 5 |
| **24: Contributed equity** | | | | |
| Ordinary shares (a) | **23,286** | 18,173 | **23,280** | 18,167 |
| Employee reserved shares (b) | **(62)** | (76) | **(59)** | (73) |
| | **23,224** | 18,097 | **23,221** | 18,094 |

**(a) Ordinary shares**

All ordinary shares are fully paid. Fully paid ordinary shares (including employee reserved shares) carry one vote per share and carry the right to dividends.

Each partially protected ordinary share confers rights on a partially protected shareholder that are the same in all respects to those conferred by an ordinary share on an ordinary shareholder on an equal basis. In addition, partially protected ordinary shares provide a level of downside share price protection. Full terms and conditions are available from the Company website www.wesfarmers.com.au

The Group operates a dividend investment plan which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with Wesfarmers ordinary shares which has been applied to the dividends payable from March 2007. All holders of Wesfarmers ordinary shares with addresses in Australia or New Zealand are eligible to participate in the plan. The allocation price for shares is based on the average of the daily volume weighted average price of Wesfarmers shares sold on the Australian Securities Exchange calculated with reference to a period of not less than five consecutive trading days as determined by the directors.

## 24: Contributed equity (continued)

### (a) Ordinary shares (continued)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| **Movement in ordinary shares on issue** | Thousands | $m | Thousands | $m |
| At 1 July 2007 | 388,069 | 2,256 | 388,069 | 2,250 |
| Issue of shares under non-executive director plan at $40.94 per share | 3 | – | 3 | – |
| Issue of shares as consideration for Coles group acquisition at $41.48 per share | 152,606 | 6,331 | 152,606 | 6,331 |
| Issue of shares under employee long term incentive plans at $41.21 per share | 1,064 | 44 | 1,064 | 44 |
| Issue of shares under dividend investment plan at $40.47 per share | 3,068 | 124 | 3,068 | 124 |
| Issue of shares under non-executive director plan at $39.57 per share | 2 | – | 2 | – |
| Issue of shares under dividend investment plan at $36.56 per share | 2,920 | 107 | 2,920 | 107 |
| Issue of shares under underwriting agreement at $36.56 per share | 9,424 | 344 | 9,424 | 344 |
| Issue of shares under entitlement offer at $29.00 per share | 89,030 | 2,583 | 89,030 | 2,583 |
| Issue of shares under institutional book build at $38.75 per share | 654 | 25 | 654 | 25 |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | 343 | 14 | 343 | 14 |
| Transaction costs associated with entitlement offer | – | (43) | – | (43) |
| At 30 June 2008 | **647,183** | **11,785** | **647,183** | **11,779** |
| Issue of shares under non-executive director plan at $31.82 per share | **5** | **–** | **5** | **–** |
| Issue of shares under salary sacrifice share plan at $29.09 per share | **57** | **2** | **57** | **2** |
| Issue of shares under dividend investment plan at $30.46 per share | **11,230** | **342** | **11,230** | **342** |
| Issue of shares under employee long term incentive plans at $18.11 per share | **4,575** | **83** | **4,575** | **83** |
| Issue of shares under salary sacrifice plan at $16.25 per share | **141** | **2** | **141** | **2** |
| Issue of shares under salary sacrifice plan at $18.72 per share | **87** | **2** | **87** | **2** |
| Issue of shares under placement at $14.25 per share | **63,158** | **900** | **63,158** | **900** |
| Issue of shares under institutional book build at $15.00 per share | **30,153** | **452** | **30,153** | **452** |
| Issue of shares under institutional entitlement offer at $13.50 per share | **115,282** | **1,556** | **115,282** | **1,556** |
| Issue of shares under non-executive director plan at $16.86 per share | **9** | **–** | **9** | **–** |
| Issue of shares under retail entitlement offer at $13.50 per share | **128,661** | **1,737** | **128,661** | **1,737** |
| Issue of shares under dividend investment plan at $17.37 per share | **4,217** | **73** | **4,217** | **73** |
| Issue of shares under retail entitlement offer at $13.50 per share | **59** | **1** | **59** | **1** |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | **310** | **13** | **310** | **13** |
| Transaction costs associated with entitlement offer | **–** | **(37)** | **–** | **(37)** |
| **At 30 June 2009** | **1,005,127** | **16,911** | **1,005,127** | **16,905** |

| **Movement in partially protected ordinary shares on issue** | Thousands | $m | Thousands | $m |
|---|---|---|---|---|
| At 1 July 2007 | – | – | – | – |
| Issue of shares as consideration for Coles group acquisition at $41.95 per share | 152,598 | 6,402 | 152,598 | 6,402 |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | (343) | (14) | (343) | (14) |
| At 30 June 2008 | **152,255** | **6,388** | **152,255** | **6,388** |
| Partially protected ordinary shares converted to ordinary shares at $41.95 per share | **(310)** | **(13)** | **(310)** | **(13)** |
| **At 30 June 2009** | **151,945** | **6,375** | **151,945** | **6,375** |
| **Total contributed equity** | **1,157,072** | **23,286** | **1,157,072** | **23,280** |

### (b) Employee reserved shares

| **Movement in employee reserved shares on issue** | Thousands | $m | Thousands | $m |
|---|---|---|---|---|
| At 30 June 2007 | 6,426 | 111 | 6,178 | 108 |
| Exercise of in-substance options | (1,156) | (24) | (1,076) | (24) |
| Dividends applied | – | (11) | – | (11) |
| At 30 June 2008 | **5,270** | **76** | **5,102** | **73** |
| Exercise of in-substance options | **(497)** | **(6)** | **(472)** | **(6)** |
| Dividends applied | **–** | **(8)** | **–** | **(8)** |
| **At 30 June 2009** | **4,773** | **62** | **4,630** | **59** |

Shares issued to employees under the share loan plan referred to in note 37 (termed as 'employee reserved shares') are fully paid via a limited-recourse loan to the employee from the parent and a subsidiary, and as such the arrangement is accounted for as in-substance options. Loans are repaid from dividends declared, capital returns and cash repayments. Once the loan is repaid in full the employee reserved shares are converted to unrestricted ordinary shares.

## 24: Contributed equity (continued)

**(c) Capital management**

The Board is responsible for approving and monitoring the progress of capital management. When managing capital, the objective is to ensure that Wesfarmers continues as a going concern as well as maintaining optimal returns to shareholders and benefits for other stakeholders. Wesfarmers also aims to maintain a stable investment grade capital structure ensuring low cost of capital is available to the Group.

In order to manage the short and long-term capital structure, the Group adjusts the amount of ordinary dividends paid to shareholders, maintains a dividend reinvestment plan, returns capital to shareholders and arranges debt to fund new acquisitions. Wesfarmers' dividend policy is to pay dividends based on the Group's current and projected cash position having regard to capital expenditure, retained earnings, franking credits, debt levels and business economic conditions in general.

Wesfarmers Limited continues to maintain investment grade credit ratings, following the credit rating downgrade announced on completion of the Coles group acquisition. These ratings allow Wesfarmers to access global debt capital markets as required.

Some subsidiaries in the Insurance division are general insurance companies, which are subject to externally imposed capital requirements set and monitored by regulatory bodies. These subsidiaries have been ring-fenced and maintain a level of solvency deemed sufficient by Standard and Poor's to support at least an A- rating.

Wesfarmers monitors capital on the basis of the ratios of net debt to total equity and cash interest cover. Net debt is calculated as total interest bearing debt less cash at bank and on deposit. Total equity is as shown in the balance sheet. Interest cover is calculated as earnings before interest, tax, depreciation and amortisation divided by net cash interest paid (excluding interest revenue earned in any Insurance business).

Net debt to total capital and cash interest cover were as follows:

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| Total interest bearing debt | **6,169** | 9,517 | **5,586** | 8,909 |
| Less: | | | | |
| Cash at bank and on deposit | **1,734** | 241 | **1,785** | 1 |
| Net financial debt | **4,435** | 9,276 | **3,801** | 8,908 |
| Total equity | **24,252** | 19,598 | **23,901** | 19,424 |
| **Net debt to equity** | **18.3%** | 47.3% | **15.9%** | 45.9% |
| Profit before income tax | **2,014** | 1,429 | **833** | 1,249 |
| Borrowing costs | **963** | 800 | **851** | 698 |
| Depreciation and amortisation | **1,024** | 660 | **2** | 2 |
| Earnings before interest, tax, depreciation and amortisation | **4,001** | 2,889 | **1,686** | 1,949 |
| Net cash interest paid | **762** | 586 | **682** | 672 |
| **Cash interest cover** | **5.3** | 4.9 | **2.5** | 2.9 |

Details of externally imposed capital requirements are contained in note 20.

## 25: Retained earnings

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Balance as at 1 July** | **1,176** | 1,131 | **1,123** | 638 |
| Net profit | **1,535** | 1,063 | **1,082** | 1,483 |
| Dividends | **(1,487)** | (997) | **(1,487)** | (997) |
| Actuarial loss on defined benefit plan | **(41)** | (21) | **(4)** | (1) |
| **Balance as at 30 June** | **1,183** | 1,176 | **714** | 1,123 |

## 26: Reserves

| | CONSOLIDATED | | | | | | PARENT | | |
|---|---|---|---|---|---|---|---|---|---|
| | Restructure tax reserve $m | Capital reserve $m | Foreign currency translation reserve $m | Hedging reserve $m | Available-for-sale reserve $m | Total $m | Restructure tax reserve $m | Hedging reserve $m | Total $m |
| Balance at 1 July 2007 | 110 | 24 | 5 | 110 | (22) | 227 | 110 | 3 | 113 |
| Tax losses in relation to the 2001 simplification plan | 40 | – | – | – | – | 40 | 40 | – | 40 |
| Revaluation of financial instruments | – | – | – | 73 | 23 | 96 | – | 77 | 77 |
| Tax effect of revaluation | – | – | – | (23) | 3 | (20) | – | (23) | (23) |
| Ineffective hedges (gains)/losses transferred to net profit – gross | – | – | – | 1 | – | 1 | – | – | – |
| Currency translation differences | – | – | (19) | – | – | (19) | – | – | – |
| **Balance at 30 June 2008** | 150 | 24 | (14) | 161 | 4 | 325 | 150 | 57 | 207 |
| Revaluation of financial instruments | **–** | **–** | **–** | **(863)** | **(3)** | **(866)** | **–** | **(623)** | **(623)** |
| Tax effect of revaluation | **–** | **–** | **–** | **259** | **1** | **260** | **–** | **187** | **187** |
| Realised (gains)/losses transferred to balance sheet/net profit | **–** | **–** | **–** | **55** | **–** | **55** | **–** | **142** | **142** |
| Tax effect of transfers | **–** | **–** | **–** | **(17)** | **–** | **(17)** | **–** | **(43)** | **(43)** |
| Ineffective hedge (gains)/losses transferred to net profit – gross | **–** | **–** | **–** | **140** | **–** | **140** | **–** | **136** | **136** |
| Tax effect of ineffective cash flow hedges | **–** | **–** | **–** | **(42)** | **–** | **(42)** | **–** | **(41)** | **(41)** |
| Currency translation differences | **–** | **–** | **(10)** | **–** | **–** | **(10)** | **–** | **–** | **–** |
| **Balance at 30 June 2009** | **150** | **24** | **(24)** | **(307)** | **2** | **(155)** | **150** | **(185)** | **(35)** |

### Nature and purpose of reserves

#### Restructure tax reserve

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

#### Capital reserve

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

#### Foreign currency translation reserve

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

#### Hedging reserve

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

#### Available-for-sale reserve

The available-for-sale reserve records fair value changes on available-for-sale investments.

## 27: Business combinations

**Finalisation of acquisition accounting**

**Australian Vinyls Corporation**

On 31 August 2008, the provisional acquisition accounting period ended for the acquisition of Australian Vinyls Corporation. There were no significant adjustments to the fair value of identifiable assets and liabilities which were provisionally disclosed at 30 June 2008.

**Coles Group Limited ('Coles group')**

On 22 November 2008, the provisional acquisition accounting period ended for the acquisition of the Coles group. Adjustments were made in finalising the acquisition accounting, resulting in the fair value of identifiable assets recognised on acquisition increasing by $118 million compared to the provisional fair value amounts previously reported at 30 June 2008. This increase is due largely to an increase in deferred tax assets, relating to property, plant and equipment, and provisions, as a result of finalising the tax effect accounting. The increase in the fair value resulted in a corresponding decrease to goodwill recognised on acquisition.

Retained earnings as at 30 June 2008 has increased by $19 million as a result of the above changes. This is due largely to a decrease in income tax expense. The impact to net profit after tax for the 12 months to 30 June 2009 is not considered by the Company to be significant.

## 28: Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise syndicated and other bank loans, bank accepted bills, commercial paper, corporate bonds and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations or, in the case of short-term deposits, to invest surplus funds. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts, to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period, the Group's policy that no speculative trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are:

- liquidity risk;
- market risk (including foreign currency, interest rate and commodity price risk); and
- credit risk.

The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

### (a) Liquidity risk

Wesfarmers maintains a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans/bank accepted bills, commercial paper, corporate bonds and the overnight money market across a range of maturities. Although the bank debt facilities have fixed maturity dates, from time to time they are reviewed and extended, thus deferring the repayment of the principal. Wesfarmers aims to spread maturities to avoid excessive refinancing in any period.

Liquidity risk is managed centrally by Group Treasury, by considering over a period of time the operating cash flow forecasts of the underlying businesses and accessing the debt and equity capital markets. Wesfarmers continues to maintain investment grade credit ratings from Moody's and Standard and Poor's.

Wesfarmers aims to maintain funding flexibility by keeping committed credit lines available with a variety of counterparties. At 30 June 2009, the Group had unutilised committed debt facilities of $1,422 million (2008: $790 million). Unutilised committed debt facilities include backup liquidity for the Group's commercial paper programmes through committed commercial paper standby facilities, of which $320 million was available at 30 June 2009 (2008: $110 million). Refer to note 20 for the financing facilities used and unused. Surplus funds are generally invested in instruments that are tradeable in highly liquid markets.

Liquidity risk disclosures for insurance liabilities are included in note 22.

**Maturities of financial liabilities**

The tables below analyse the Group's and the parent entity's financial liabilities including net and gross settled financial instruments into relevant maturity periods based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and hence will not necessarily reconcile with the amounts disclosed in the balance sheet.

For foreign exchange derivatives and cross currency interest rate swaps, the amounts disclosed are the gross cash flows to be paid.

For interest rate swaps, the cash flows are the net amounts to be paid at each quarter excluding accruals included in trade and other payables and have been estimated using forward interest rates applicable at the reporting date.

Derivative cash flows exclude accruals recognised in trade and other payables.

The carrying values of financial guarantee contracts have been assessed as nil based on the probability of default.

Refer to note 30 for further details on contingent liabilities.

## 28: Financial risk management objectives and policies (continued)

**(a) Liquidity risk (continued)**

| Consolidated | < 3 months, or on demand $m | >3-<6 months $m | >6-<12 months $m | >1-<2 years $m | >2-<3 years $m | >3-<4 years $m | >4-<5 years $m | >5 years $m | Total contractual cash flows $m | Carrying amount (assets)/ liabilities $m |
|---|---|---|---|---|---|---|---|---|---|---|
| YEAR ENDED 30 JUNE 2009 | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables | **3,555** | **447** | **35** | **2** | **–** | **–** | **–** | **1** | **4,040** | **4,040** |
| Loans and borrowings before swaps | **114** | **518** | **–** | **171** | **2,153** | **3,039** | **–** | **222** | **6,217** | **6,169** |
| Expected future interest payments on loans and borrowings | **70** | **88** | **158** | **356** | **338** | **182** | **22** | **18** | **1,232** | **–** |
| Coal rebates payable | **–** | **–** | **160** | **46** | **20** | **20** | **–** | **–** | **246** | **246** |
| **Total non-derivatives** | **3,739** | **1,053** | **353** | **575** | **2,511** | **3,241** | **22** | **241** | **11,735** | **10,455** |
| **Derivatives** | | | | | | | | | | |
| Effective interest rate swaps (net settled) | **45** | **41** | **70** | **84** | **25** | **7** | **1** | **–** | **273** | **263** |
| Ineffective interest rate swaps (net settled) | **15** | **14** | **28** | **29** | **3** | **–** | **–** | **–** | **89** | **74** |
| Cross currency interest rate swap (gross settled) | | | | | | | | | | |
| – (inflow) | **–** | **(28)** | **(28)** | **(55)** | **(54)** | **(784)** | **–** | **–** | **(949)** | **(137)** |
| – outflow | **12** | **13** | **25** | **57** | **64** | **640** | **–** | **–** | **811** | |
| Net cross currency interest rate swaps | **12** | **(15)** | **(3)** | **2** | **10** | **(144)** | **–** | **–** | **(138)** | **(137)** |
| Effective foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | **(572)** | **(406)** | **(515)** | **(444)** | **(122)** | **(44)** | **–** | **–** | **(2,103)** | **91** |
| – outflow | **600** | **435** | **533** | **448** | **127** | **46** | **–** | **–** | **2,189** | |
| Non-hedge foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | **(259)** | **(127)** | **(126)** | **–** | **–** | **–** | **–** | **–** | **(512)** | **90** |
| – outflow | **300** | **153** | **146** | **–** | **–** | **–** | **–** | **–** | **599** | |
| Net foreign exchange contracts | **69** | **55** | **38** | **4** | **5** | **2** | **–** | **–** | **173** | **181** |
| **Total derivatives** | **141** | **95** | **133** | **119** | **43** | **(135)** | **1** | **–** | **397** | **381** |
| YEAR ENDED 30 JUNE 2008 | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables | 3,672 | 205 | 28 | 25 | – | – | – | – | 3,930 | 3,930 |
| Loans and borrowings before swaps | 209 | 418 | 638 | 2,230 | 5,050 | – | 1,111 | – | 9,656 | 9,517 |
| Expected future interest payments on loans and borrowings | 92 | 178 | 339 | 569 | 273 | 74 | 62 | – | 1,587 | – |
| Coal rebates payable | 22 | 20 | 83 | 69 | 12 | 40 | – | – | 246 | 220 |
| **Total non-derivatives** | 3,995 | 821 | 1,088 | 2,893 | 5,335 | 114 | 1,173 | – | 15,419 | 13,667 |
| **Derivatives** | | | | | | | | | | |
| Interest rate swaps (net settled) | (1) | (7) | (8) | (13) | (3) | 4 | (6) | 1 | (33) | (21) |
| Cross currency interest rate swap (gross settled) | | | | | | | | | | |
| – (inflow) | – | (14) | (25) | (50) | (50) | (50) | (50) | – | (239) | |
| – outflow | 2 | 21 | 42 | 84 | 84 | 84 | 84 | – | 401 | |
| Net cross currency interest rate swaps | 2 | 7 | 17 | 34 | 34 | 34 | 34 | – | 162 | 59 |
| Foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | (874) | (574) | (616) | (597) | (292) | (103) | (17) | – | (3,073) | |
| – outflow | 858 | 547 | 545 | 494 | 240 | 84 | 15 | – | 2,783 | |
| Net foreign exchange contracts | (16) | (27) | (71) | (103) | (52) | (19) | (2) | – | (290) | (183) |
| **Total derivatives** | (15) | (27) | (62) | (82) | (21) | 19 | 26 | 1 | (161) | (145) |

## 28: Financial risk management objectives and policies (continued)

**(a) Liquidity risk (continued)**

| Parent | < 3 months, or on demand $m | >3-<6 months $m | >6-<12 months $m | >1-<2 years $m | >2-<3 years $m | >3-<4 years $m | >4-<5 years $m | >5 years $m | Total contractual cash flows $m | Carrying amount (assets)/ liabilities $m |
|---|---|---|---|---|---|---|---|---|---|---|
| YEAR ENDED 30 JUNE 2009 | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables | **121** | **–** | **1** | **2** | **–** | **–** | **–** | **–** | **124** | **124** |
| Related party payables | **8** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **8** | **8** |
| Loans and borrowings before swaps | **–** | **438** | **–** | **171** | **2,153** | **2,515** | **–** | **222** | **5,499** | **5,586** |
| Expected future interest payments on loans and borrowings | **56** | **87** | **146** | **332** | **314** | **170** | **22** | **18** | **1,145** | **–** |
| **Total non-derivatives** | **185** | **525** | **147** | **505** | **2,467** | **2,685** | **22** | **240** | **6,776** | **5,718** |
| **Derivatives** | | | | | | | | | | |
| Effective interest rate swaps (net settled) | **46** | **42** | **72** | **86** | **25** | **7** | **1** | **–** | **279** | **269** |
| Ineffective interest rate swaps (net settled) | **15** | **14** | **28** | **29** | **3** | **–** | **–** | **–** | **89** | **74** |
| Cross currency interest rate swap (gross settled) | | | | | | | | | | |
| – (inflow) | **–** | **(28)** | **(28)** | **(55)** | **(54)** | **(784)** | **–** | **–** | **(949)** | **(137)** |
| – outflow | **12** | **13** | **25** | **57** | **64** | **640** | **–** | **–** | **811** | |
| Net cross currency interest rate swaps | **12** | **(15)** | **(3)** | **2** | **10** | **(144)** | **–** | **–** | **(138)** | **(137)** |
| Effective foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | **(1,172)** | **(841)** | **(1,048)** | **(892)** | **(249)** | **(90)** | **–** | **–** | **(4,292)** | |
| – outflow | **1,172** | **841** | **1,048** | **892** | **249** | **90** | **–** | **–** | **4,292** | |
| Ineffective foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | **(559)** | **(280)** | **(272)** | **–** | **–** | **–** | **–** | **–** | **(1,111)** | |
| – outflow | **559** | **280** | **272** | **–** | **–** | **–** | **–** | **–** | **1,111** | |
| Net foreign exchange contracts | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total derivatives** | **73** | **41** | **97** | **117** | **38** | **(137)** | **1** | **–** | **230** | **206** |
| YEAR ENDED 30 JUNE 2008 | | | | | | | | | | |
| **Non-derivatives** | | | | | | | | | | |
| Trade and other payables | 125 | 11 | – | – | – | – | – | – | 136 | 136 |
| Related party payables | 1 | – | – | – | – | – | – | – | 1 | 1 |
| Loans and borrowings before swaps | 157 | 295 | 558 | 2,229 | 5,050 | – | 711 | – | 9,000 | 8,909 |
| Expected future interest payments on loans and borrowings | 87 | 172 | 325 | 545 | 249 | 50 | 50 | – | 1,478 | – |
| **Total non-derivatives** | 370 | 478 | 883 | 2,774 | 5,299 | 50 | 761 | – | 10,615 | 9,046 |
| **Derivatives** | | | | | | | | | | |
| Interest rate swaps (net settled) | (2) | (7) | (14) | (25) | (15) | (7) | (3) | – | (73) | (59) |
| Cross currency interest rate swap (gross settled) | | | | | | | | | | |
| – (inflow) | – | (14) | (25) | (50) | (50) | (50) | (50) | – | (239) | |
| – outflow | 2 | 21 | 42 | 84 | 84 | 84 | 84 | – | 401 | |
| Net cross currency interest rate swaps | 2 | 7 | 17 | 34 | 34 | 34 | 34 | – | 162 | 59 |
| Foreign exchange contracts (gross settled) | | | | | | | | | | |
| – (inflow) | (1,732) | (1,121) | (1,161) | (1,091) | (532) | (187) | (32) | – | (5,856) | |
| – outflow | 1,732 | 1,121 | 1,161 | 1,091 | 532 | 187 | 32 | – | 5,856 | |
| Net foreign exchange contracts | – | – | – | – | – | – | – | – | – | – |
| **Total derivatives** | – | – | 3 | 9 | 19 | 27 | 31 | – | 89 | – |

## 28: Financial risk management objectives and policies (continued)

### (b) Market risk

#### Foreign currency risk

The Group's policy has been developed to limit the impact of currency fluctuations together with maintaining the integrity of business decisions and protecting the competitive position of the Group's activities.

The Group's primary currency exposures are in relation to US dollars and arise from sales or purchases by a division in currencies other than the division's functional currency.

As a result of operations in New Zealand, the Group's balance sheet can be affected by movements in the AUD/NZD exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in NZ dollars in New Zealand.

The Group requires all divisions to hedge foreign exchange exposures for firm commitments relating to sales or purchases or when highly probable forecast transactions have been identified. Before hedging, the divisions are also required to take into account their competitive position. The hedging instrument must be in the same currency as the hedged item. Divisions are not permitted to speculate on future currency movements.

The Group aims to hedge approximately 45 per cent to 55 per cent (over five years) of its foreign currency sales for which firm commitments or highly probable forecast transactions existed at the balance sheet date. The current hedge contracts extend out to January 2013. Such foreign currency purchases arise predominantly in the Resources division.

The Group aims to hedge approximately 70 per cent to 100 per cent (up to 12 months) of its foreign currency purchases for which firm commitments or highly probable forecast transactions existed at the balance sheet date. The current hedge contracts extend out to July 2010. Such foreign currency purchases arise predominantly in the retail, Chemicals and Fertilisers and Industrial and Safety divisions.

The parent company transacts all hedges of sales and purchases on a back-to-back basis with external contracts with banks being exactly offset by internal contracts with the relevant divisions. From a Group perspective, the back-to-back internal contracts are eliminated as part of the consolidation process, leaving only the external contracts in the name of Wesfarmers Limited.

The parent has US dollar denominated debt which is converted to Australian dollars using cross currency interest rate swaps. As a result, the parent company has minimal foreign exchange exposure.

Refer to note 29 for details of outstanding foreign exchange derivative contracts used by the Group to manage exposure to foreign exchange risk as at 30 June 2009.

The Group's exposure of its financial instruments to the US dollar and NZ dollar (prior to hedging contracts) at the reporting date were as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **USD A$m** | **NZD A$m** | USD A$m | NZD A$m |
| CONSOLIDATED | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | **61** | **71** | 35 | 41 |
| Trade and other receivables | **77** | **149** | 147 | 166 |
| Amounts due from reinsurers on paid claims | **–** | **65** | – | 42 |
| Finance advances and loans | **–** | **65** | – | 56 |
| Cross currency interest rate swap | **137** | **–** | – | – |
| Effective foreign exchange derivative assets | **–** | **–** | 183 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | **76** | **136** | 222 | 181 |
| Interest bearing loans and borrowings | **831** | **194** | 658 | 253 |
| Cross currency interest rate swap | **–** | **–** | 59 | – |
| Insurance liabilities | **–** | **218** | – | 205 |
| Coal rebate payable | **246** | **–** | 220 | – |
| Effective foreign exchange derivative liabilities | **91** | **–** | – | – |
| Ineffective foreign exchange derivative liabilities | **83** | **–** | – | – |
| PARENT | | | | |
| **Financial assets** | | | | |
| Cross currency interest rate swap | **137** | **–** | – | – |
| **Financial liabilities** | | | | |
| Interest bearing loans and borrowings | **831** | **–** | 658 | – |
| Cross currency interest rate swap | **–** | **–** | 59 | – |

## 28: Financial risk management objectives and policies (continued)

**(b) Market risk (continued)**

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

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

| | | 2009 | | | 2008 | |
|---|---|---|---|---|---|---|
| | Actual | +15% | -20% | Actual | +10% | -5% |
| US dollar | **0.81** | **0.93** | **0.65** | 0.96 | 1.06 | 0.91 |

The increased volatility in foreign exchange markets in recent periods has been reflected as an increase to the reasonably possible movements used for performing the sensitivity analysis for the current period.

The impact on profit and equity is estimated by relating the hypothetical changes in the US dollar exchange rate to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole. 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 of the Group and being of a monetary nature.

Differences from the translation of financial statements into the Group's presentation currency are not taken into consideration as the impact is not material to the Group. Therefore, no sensitivity analysis is performed for exposure to the NZ dollar as the amount is immaterial to the Group.

The results of the foreign exchange rate sensitivity analysis is driven by four main factors as outlined below:

- the impact of applying the above foreign exchange movements to financial instruments that are not in hedge relationships will be recognised directly in profit;
- to the extent that the foreign currency denominated derivatives on balance sheet form part of an effective cash flow hedge relationship, any fair value movements caused by applying the above sensitivity movements will be deferred in equity and will not impact profit to the extent the hedge relationship is effective. This approach varies from the prior year where any fair value movements on financial instruments with maturities less than 12 months were recognised in earnings;
- no movement is recognised for the coal rebate payable for the current year, as any change in the fair value of the coal rebate payable is offset in earnings by a corresponding change in the amortisation of the asset. This represents a change in approach from the prior year, where the change in fair value of the rebate payable due to changes in the US dollar rate was shown; and
- movements in financial instruments forming part of a fair value hedge relationship will be recognised in profit. However, as a corresponding entry will be recognised for the hedged item, there will be no net impact on profit to the extent the hedge relationship is effective.

At 30 June 2009, had the Australian dollar moved against the US dollar, as illustrated in the table above, with all other variables held constant, Group profit after tax and other equity would have been impacted as follows (there is no impact on the parent):

| | | AUD/USD + 15% | | AUD/USD – 20% | |
|---|---|---|---|---|---|
| Year ended 30 June 2009 CONSOLIDATED | USD exposure A$m | Impact on profit A$m | Impact on equity A$m | Impact on profit A$m | Impact on equity A$m |
| **Financial assets** | | | | | |
| Cash and cash equivalents | **61** | **(6)** | **–** | **11** | **–** |
| Trade and other receivables | **77** | **(7)** | **–** | **13** | **–** |
| **Financial liabilities** | | | | | |
| Trade and other payables | **76** | **7** | **–** | **(13)** | **–** |
| Interest bearing loans and borrowings | **831** | **93** | **–** | **(112)** | **–** |
| Cross currency interest rate swap | **(137)** | **(93)** | **–** | **112** | **–** |
| Coal rebate payable | **246** | **–** | **–** | **–** | **–** |
| Effective foreign exchange derivative liabilities | **91** | **–** | **30** | **–** | **(55)** |
| De-designated foreign exchange derivative liabilities* | **83** | **–** | **–** | **–** | **–** |
| Net impact | | **(6)** | **30** | **11** | **(55)** |

* Ineffective foreign exchange derivative liabilities do not impact profit or equity as there are equal and opposite hedge relationships in place.

## 28: Financial risk management objectives and policies (continued)

### (b) Market risk (continued)

| Year ended 30 June 2008 CONSOLIDATED | USD exposure A$m | AUD/USD + 10% Impact on profit A$m | AUD/USD + 10% Impact on equity A$m | AUD/USD – 5% Impact on profit A$m | AUD/USD – 5% Impact on equity A$m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 35 | (3) | – | 2 | – |
| Trade and other receivables | 147 | (13) | – | 8 | – |
| Effective foreign exchange derivative assets | 183 | 27 | 74 | (19) | (40) |
| **Financial liabilities** | | | | | |
| Trade and other payables | 222 | 20 | – | (12) | – |
| Interest bearing loans and borrowings | 658 | (30) | – | 14 | – |
| Cross currency interest rate swap | 59 | 30 | – | (14) | – |
| Coal rebate payable | 220 | 14 | – | (8) | – |
| Net impact | | 45 | 74 | (29) | (40) |

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations that have floating interest rates.

The Group's policy is to limit the Group's exposure to adverse fluctuations in interest rates which could erode Group profitability and adversely affect shareholder value. The policy requires that an interest rate risk management (IRRM) plan, be developed based on cash flow forecasts. A committee comprising of senior management meet periodically to review the IRRM plan and make interest rate hedging recommendations, which are provided to the Finance Director for approval. The Group's interest rate hedging profile is regularly reported to the Wesfarmers Board and senior executives.

To manage the interest rate exposure, the Group generally enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge interest costs associated with underlying debt obligations. At 30 June 2009, after taking into account the effect of interest rate swaps, economic hedging relationships and early repayment of a portion of core debt facilities, approximately 18 per cent of the Group's core borrowings are exposed to movements in variable rates (2008: approximately 35 per cent). Refer to note 29 for details of outstanding interest rate swap derivative contracts used to manage the Group's interest rate risk as at 30 June 2009.

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

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

As at the reporting date, the Group had the following financial assets and liabilities with exposure to interest rate risk. Interest on financial instruments, classified as floating rate, is repriced at intervals of less than one year. Interest on financial instruments, classified as fixed rate, is fixed until maturity of the instrument. Other financial instruments of the Group and the parent that are not included in the tables below are non-interest bearing and are therefore, not subject to interest rate risk.

The weighted average interest rate is calculated after taking into account the impact of interest rate swaps. The decrease in floating interest rates to 6.22 per cent (2008: 9.03 per cent) reflects the current interest rate environment in which official interest rates have been cut significantly during the year.

| | CONSOLIDATED 2009 Balance $m | CONSOLIDATED 2009 Weighted average interest rate % | CONSOLIDATED 2008 Balance $m | CONSOLIDATED 2008 Weighted average interest rate % | PARENT 2009 Balance $m | PARENT 2009 Weighted average interest rate % | PARENT 2008 Balance $m | PARENT 2008 Weighted average interest rate % |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| **Fixed rate** | | | | | | | | |
| Finance advances and loans | **137** | **20.20** | 134 | 17.99 | **–** | **–** | – | – |
| Loans to associates | **19** | **7.00** | 27 | 7.12 | **–** | **–** | – | – |
| Weighted average effective interest rate on fixed rate assets | | **18.59** | | 16.14 | | **–** | | – |
| **Floating rate** | | | | | | | | |
| Investments backing insurance contracts | **1,003** | **5.27** | 871 | 7.46 | **–** | **–** | – | – |
| Cash assets | **1,813** | **3.05** | 312 | 5.93 | **1,785** | **3.05** | 1 | 1.25 |
| Weighted average effective interest rate on floating rate assets | | **3.84** | | 7.06 | | **3.05** | | 1.25 |
| Total weighted average effective interest rate on financial assets at balance date | | **4.62** | | 8.15 | | **3.05** | | 1.25 |

## 28: Financial risk management objectives and policies (continued)

### (b) Market risk (continued)

| | CONSOLIDATED | | | | PARENT | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Balance $m | Weighted average interest rate % | Balance $m | Weighted average interest rate % | Balance $m | Weighted average interest rate % | Balance $m | Weighted average interest rate % |
| **Financial liabilities** | | | | | | | | |
| **Fixed rate** | | | | | | | | |
| Term loans | **4,473** | **8.72** | 4,850 | 7.45 | **4,473** | **8.72** | 4,850 | 7.45 |
| Commercial paper | **–** | **–** | 80 | 6.10 | **–** | **–** | 80 | 6.10 |
| Bank bills | **–** | **–** | 450 | 6.65 | **–** | **–** | 450 | 6.65 |
| Corporate bonds | **386** | **6.54** | – | – | **–** | **–** | – | – |
| Weighted average effective interest rate on fixed rate liabilities | | **8.55** | | 7.36 | | **8.72** | | 7.36 |
| **Floating rate** | | | | | | | | |
| Bank overdraft | **–** | **–** | 87 | 10.20 | **–** | **–** | 87 | 10.20 |
| Secured bank loan | **2** | **12.17** | 3 | 12.17 | **–** | **–** | – | – |
| Term loans | **282** | **4.73** | 1,017 | 8.75 | **282** | **4.73** | 1,017 | 8.75 |
| Other unsecured bank loan | **194** | **4.48** | 1,038 | 8.73 | **–** | **–** | 820 | 7.84 |
| Commercial paper | **–** | **–** | 110 | 8.51 | **–** | **–** | 80 | 8.22 |
| Bank bills | **–** | **–** | 657 | 7.98 | **–** | **–** | 657 | 7.98 |
| Corporate bonds | **831** | **7.12** | 1,222 | 10.05 | **831** | **7.12** | 868 | 10.63 |
| Weighted average effective interest rate on floating rate liabilities | | **6.22** | | 9.03 | | **6.51** | | 9.07 |
| Total weighted average effective interest rate on financial liabilities at balance date | | **8.05** | | 8.09 | | **8.28** | | 7.96 |
| Total weighted average effective interest rate on financial liabilities during the period | | **8.04** | | 7.53 | | **8.09** | | 7.51 |

The sensitivity analysis below demonstrates the impact that a reasonably possible change in interest rates would have on Group profit after tax and equity. The impact is determined by assessing the effect that such a reasonably possible change in interest rates would have on the interest income/(expense) for the coming 12 month period and the impact on financial instrument fair values. This sensitivity is based on reasonably possible changes over a financial year, determined using observed historical interest rate movements for the preceding five year period, with a heavier weighting given to more recent market data. Past movements are not necessarily indicative of future movements.

The results of the sensitivity analysis are driven by three main factors as outlined below:

- for unhedged floating rate financial instruments any increase or decrease in interest rates will impact Group profit;
- to the extent that derivatives form part of an effective cash flow hedge relationship, where floating rate interest payments have been swapped for fixed using an interest rate swap, there will be no impact on Group profit and any increase/(decrease) in the fair value of the underlying derivative instruments will be deferred in equity to the extent the hedge relationship is effective; and
- movements in the fair value of derivatives in fair value hedge relationships 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 to the extent the hedge relationship is effective.

The following sensitivity analysis is based on the Australian variable interest rate risk exposures in existence at balance sheet date. If interest rates had moved and with all other variables held constant, profit after tax and equity would have been affected as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| CONSOLIDATED | Impact on profit A$m | Impact on equity A$m | Impact on profit A$m | Impact on equity A$m |
| Australian variable interest rate + 75bps (2008: + 80bps) | **(7)** | **82** | (25) | 104 |
| Australian variable interest rate – 50bps (2008: – 0bps) | **4** | **(54)** | – | – |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| PARENT | Impact on profit A$m | Impact on equity A$m | Impact on profit A$m | Impact on equity A$m |
| Australian variable interest rate + 75bps (2008: + 80bps) | **(7)** | **82** | (20) | 104 |
| Australian variable interest rate – 50bps (2008: – 0bps) | **4** | **(54)** | – | – |

## 28: Financial risk management objectives and policies (continued)

### (b) Market risk (continued)

The sensitivity is lower in 2009 than in 2008 because of the decrease in debt due to recent equity raisings undertaken by the Group, the majority of the proceeds of which were used to reduce overall debt of the Group, as outlined in note 24.

#### Commodity price risk

The Group's exposure to commodity price risk arises largely from coal price fluctuations which impact its coal mining operations. Excluding the foreign exchange risk component, which is managed as part of the Group's overall foreign exchange risk management policies and procedures referred to above, this exposure is not hedged as the coal type predominantly sold by the Group is not a readily traded commodity on a market exchange.

No sensitivity analysis is provided for the Group's coal and gas 'own use contracts' as they are outside the scope of AASB 139 *Financial Instruments: Recognition and Measurement*. Such contracts are to buy or sell non-financial items and were entered into, and continue to be held, for the purpose of the receipt or delivery of the non-financial item, in accordance with the division's expected purchase, sale or usage requirements.

### (c) Credit risk

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

#### Credit risk related to receivables

Customer credit risk is managed by each division subject to established policies, procedures and controls relating to customer credit risk management. The Group trades with recognised, creditworthy third parties. Depending on the division, credit terms are generally 14 to 30 days from date of invoice. It is the Group's policy that customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, receivable balances are monitored on an ongoing basis.

An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered objective evidence of impairment. The Group's exposure to bad debts is not significant and default rates have historically been very low. An ageing of receivables past due is included in note 9. The carrying amounts of the Group's trade receivables are denominated in Australian dollars, US dollars or NZ dollars. Since the Group trades only with recognised third parties, no requests or requirement for collateral covering trade receivable balances have been made.

The following concentrations of the maximum credit exposure of current receivables is shown for the consolidated entity:

| | 2009 | 2008 |
|---|---|---|
| Chemicals and Fertilisers | **7.5%** | 5.8% |
| Resources | **6.3%** | 8.7% |
| Corporate | **1.2%** | 3.4% |
| Energy | **3.6%** | 3.6% |
| Home Improvement and Office Supplies | **10.6%** | 8.1% |
| Industrial and Safety | **10.1%** | 10.7% |
| Insurance | **50.7%** | 44.6% |
| Coles | **7.9%** | 13.0% |
| Kmart | **1.6%** | 1.6% |
| Target | **0.5%** | 0.5% |
| | **100.0%** | 100.0% |

#### Credit risk related to financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with Board approved policy. Investments of surplus funds are made only with counterparties rated above AA- by Standard and Poor's and within credit limits assigned to each counterparty, unless appropriate approval is provided. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. In the current period Wesfarmers increased the percentage of its portfolio invested with Australia's four major banks and credit limits and ratings of counterparty financial institutions have continued to be monitored closely.

The carrying amount of financial assets represents the maximum credit exposure. There is also exposure to credit risk when the Group provides a guarantee to another party. Details of contingent liabilities are disclosed in note 30. There are no significant concentrations of credit risk within the Group.

## 28: Financial risk management objectives and policies (continued)

### (d) Fair values

The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are as follows:

| | | CARRYING AMOUNT | | FAIR VALUE | |
|---|---|---|---|---|---|
| | Note | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **CONSOLIDATED** | | | | | |
| **Financial assets** | | | | | |
| Cash | 8 | **2,124** | 725 | **2,124** | 725 |
| Trade receivables | 9 | **1,274** | 1,415 | **1,273** | 1,476 |
| Amounts due from reinsurers on paid claims | 9 | **12** | 21 | **12** | 21 |
| Finance advances and loans | 9 | **137** | 134 | **137** | 134 |
| Receivables from associates | 9 | **5** | 9 | **5** | 9 |
| Other debtors | 9 | **190** | 235 | **190** | 235 |
| Investments backing insurance contracts | | | | | |
| Bank bills | 11 | **491** | 620 | **491** | 620 |
| Term deposits | 11 | **511** | 250 | **511** | 250 |
| Other | 11 | **1** | 1 | **1** | 1 |
| Available-for-sale investments | 13 | **18** | 36 | **18** | 36 |
| Loans to associates | 15 | **19** | 27 | **19** | 27 |
| Forward currency contracts | 29 | **42** | 228 | **42** | 228 |
| Interest rate swaps | 29 | **6** | 59 | **6** | 59 |
| Cross currency interest rate swaps | 29 | **137** | – | **137** | – |
| **Financial liabilities** | | | | | |
| Trade payables | 19 | **4,037** | 3,905 | **4,037** | 3,905 |
| Other creditors and accruals | 19 | **3** | 25 | **3** | 25 |
| Interest bearing loans and borrowings: | | | | | |
| Secured bank loans | 20 | **2** | 3 | **2** | 3 |
| Syndicated bank loans | 20 | **4,755** | 5,867 | **4,753** | 5,867 |
| Unsecured bank loans | 20 | **194** | 1,038 | **194** | 1,038 |
| Commercial paper | 20 | **–** | 190 | **–** | 190 |
| Bank bills | 20 | **–** | 1,107 | **–** | 1,107 |
| Bank overdraft | 20 | **–** | 87 | **–** | 87 |
| Corporate bonds | 20 | **1,217** | 1,222 | **1,261** | 1,288 |
| Other loans | 20 | **1** | 3 | **1** | 3 |
| Coal rebate payable | 23 | **246** | 220 | **246** | 220 |
| Forward currency contracts | 29 | **223** | 45 | **223** | 45 |
| Interest rate swaps | 29 | **343** | 38 | **343** | 38 |
| Cross currency interest rate swaps | 29 | **–** | 59 | **–** | 59 |

## 28: Financial risk management objectives and policies (continued)

**(d) Fair values (continued)**

| | | CARRYING AMOUNT | | FAIR VALUE | |
|---|---|---|---|---|---|
| | Note | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **PARENT** | | | | | |
| **Financial assets** | | | | | |
| Cash | 8 | **1,785** | 131 | **1,785** | 131 |
| Trade receivables | 9 | **10** | 10 | **10** | 10 |
| Other debtors | 9 | **100** | 53 | **100** | 53 |
| Receivables from subsidiaries | 9 | **25,415** | 25,635 | **25,415** | 25,635 |
| Forward currency contracts – external | 29 | **42** | 228 | **42** | 228 |
| Forward currency contracts – internal back-to-back | 29 | **223** | 35 | **223** | 35 |
| Interest rate swaps – external | 29 | **–** | 59 | **–** | 59 |
| Cross currency interest rate swaps | 29 | **137** | – | **137** | – |
| **Financial liabilities** | | | | | |
| Trade payables | 19 | **122** | 136 | **122** | 136 |
| Loans from subsidiaries | 19 | **8** | 1 | **8** | 1 |
| Interest bearing loans and borrowings: | | | | | |
| Syndicated bank loans | 20 | **4,754** | 5,867 | **4,754** | 5,867 |
| Unsecured bank loans | 20 | **–** | 820 | **–** | 820 |
| Commercial paper | 20 | **–** | 160 | **–** | 160 |
| Bank bills | 20 | **–** | 1,107 | **–** | 1,107 |
| Corporate bonds | 20 | **831** | 868 | **867** | 933 |
| Bank overdraft | 20 | **–** | 87 | **–** | 87 |
| Forward currency contracts – external | 29 | **223** | 35 | **223** | 35 |
| Forward currency contracts – internal back-to-back | 29 | **42** | 228 | **42** | 228 |
| Interest rate swaps – external | 29 | **343** | 8 | **343** | 8 |
| Cross currency interest rate swaps | 29 | **–** | 59 | **–** | 59 |

The methods and assumptions used to estimate the fair value of financial instruments are outlined below:

### Cash

The carrying amount is fair value due to the liquid nature of these assets.

### Receivables/payables

Due to the short-term nature of these financial rights and obligations, their carrying amounts are estimated to represent their fair values.

### Other financial assets/liabilities

Market values have been used to determine the fair value of listed available-for-sale investments. The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates.

### Interest bearing liabilities

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held or based on discounting expected future cash flows at market rates.

## 29: Hedging activities

### Foreign exchange contracts

The terms of the forward currency contracts have been negotiated to match the terms of the underlying hedged items and, as such, the hedges are expected to be highly effective in offsetting changes in cash flows attributable to movements in the foreign exchange rates. Note, de-designated hedges that have equal and opposite offsetting hedges are not disclosed below.

| Instrument | Notional amount | Average rate | Expiry | Hedge type | FAIR VALUE 2009 $m | FAIR VALUE 2008 $m |
|---|---|---|---|---|---|---|
| Foreign exchange forwards | 2009: US$934.7 million (2008: US$1,862.5 million) | AUD/USD = 0.7795 (2008: AUD/USD = 0.8170) | July 2009 to January 2013 | Cash flow hedge – Forward sales contracts relating mainly to USD coal and LPG sales and have maturities out to January 2013. | **7** | 228 |
| | 2009: US$678.5 million (2008: US$738.4 million) | AUD/USD = 0.7230 (2008: AUD/USD = 0.9101) | July 2009 to June 2010 | Cash flow hedges – Forward purchases contracts relating mainly to capital expenditure or the purchase of inventory and have maturities out to June 2010. | **(93)** | (45) |
| | 2009: EUR€17.9 million (2008: EUR€11.0 million) | AUD/EUR = 0.5518 (2008: AUD/EUR = 0.5946) | July 2009 to March 2010 | | **(1)** | – |
| | 2009: NZ$19.0 million (2008: NZ$13.7 million) | NZD/USD = 0.5701 (2008: NZD/USD = 0.7599) | July 2009 to June 2010 | | **(4)** | – |
| | | | | | **(91)** | 183 |

### Interest rate swap contracts

The terms of the interest rate contracts match the terms of the underlying debt items and, as such, the hedges are expected to be highly effective in offsetting changes in cash flows attributable to movements in interest rates. Note, de-designated hedges that have equal and opposite offsetting hedges are not disclosed below.

| Instrument | Notional amount | Rate | Expiry | Hedge type | FAIR VALUE 2009 $m | FAIR VALUE 2008 $m |
|---|---|---|---|---|---|---|
| Interest rate swaps | AUD 2009: $4,600 million (2008: $5,380 million) | Receive BBSW or BBSY floating Pay 7.4% fixed (2008: 7.4%) | December 2009 to July 2013 | Cash flow hedge – to hedge exposures to variability in AUD cash flows attributable to movements in the three month benchmark reference rate (BBSW or BBSY) in relation to floating rate bank bill, term loans or commercial paper debt. | **(259)** | 59 |
| | AUD 2009: $650 million (2008: $0 million) | Receive BBSW or BBSY floating Pay 6.7% fixed (2008: 0.0%) | October 2012 to October 2013 | Cash flow hedge – delay start interest rate swaps to hedge exposures to variability in AUD cash flows attributable to movements in the three month benchmark reference rate (BBSW or BBSY) in relation to term loan debt starting from 1 Oct 2010. | **(10)** | – |
| | NZD 2009: NZ$30 million (2008: NZ$70 million) | Receive BKBM floating Pay 8.1% fixed (2008: 8.1%) | July 2009 to October 2009 | Cash flow hedge – to hedge exposures to variability in NZD cash flows attributable to movements in the benchmark reference rate (BKBM) in relation to floating rate term loan debt. | **–** | – |
| | AUD 2009: $0 million (2008: $400 million) | Receive 0.0% fixed (2008: 6.0% fixed) 2008: Pay BBSW plus 0.52% floating | Expired | Fair value hedge – to swap the 2012 $400 million bond from a fixed rate to floating rate exposure. | **–** | (30) |
| | AUD 2009: $229 million (2008: $209 million) | Receive 6.4% fixed (2008: 6.3%) Pay BBSW floating | July 2011 to June 2021 | Other hedge – to hedge the exposure to changes in the fair value of the outstanding insurance claims (a recognised liability) attributable to changes in fixed interest rates. | **6** | (8) |
| | | | | | **(263)** | 21 |

## 29: Hedging activities (continued)

### Cross currency interest rate swap contracts

| Instrument | Notional amount | Rate | Expiry | Hedge type | FAIR VALUE 2009 $m | FAIR VALUE 2008 $m |
|---|---|---|---|---|---|---|
| Fixed for floating cross currency interest rate swap | USD 2009: US$650 million (2008: US$650 million) | Receive 6.998% fixed (2008: 6.998%) Pay BBSW plus 3.979% floating | April 2013 | Cash flow hedge – to eliminate variability in cash flows due to foreign exchange risk on the margin or portion of the interest coupon of the debt above the benchmark US dollar Libor benchmark curve (and by extension the cash flow portion of the US dollar libor and Australian dollar BBSW coupons above the benchmark currency interest rate curves in relation to the cross currency swap) (margin) for the term of the hedged bond and cross currency interest rate swap ('CCIRS'). | **7** | (10) |
| | | | | Fair value hedge – to eliminate variability in the changes in the fair value of the remaining portion of coupon and principal cash flows of the US dollar bond due to changes in spot foreign exchange rates as well as currency interest rates. Spot foreign exchange and interest rate risks are designated as separate market risks. The designated hedged cash flows are the benchmark interest rate component (US dollar Libor) of the coupon of the hedged item as well as the principal amount. | **130** | (49) |
| | | | | | **137** | (59) |
| **Total derivatives in effective hedge relationships** | | | | | **(217)** | 145 |

| | 2009 $m | 2008 $m |
|---|---|---|
| Total derivatives comprise: | | |
| **Current assets** | | |
| Forward currency contracts – cash flow hedges | **30** | 136 |
| Forward currency contracts classified as held for trading* | **2** | – |
| Interest rate swaps – cash flow hedges | **–** | 2 |
| Interest rate swaps – fair value hedges | **6** | – |
| Total current assets | **38** | 138 |
| **Non-current assets** | | |
| Forward currency contracts – cash flow hedges | **10** | 92 |
| Cross currency interest rate swap – cash flow hedge | **7** | – |
| Cross currency interest rate swap – fair value hedge | **130** | – |
| Interest rate swaps – cash flow hedges | **–** | 57 |
| Total non-current assets | **147** | 149 |
| **Current liabilities** | | |
| Forward currency contracts – cash flow hedges | **(110)** | (45) |
| Forward currency contracts classified as held for trading* | **(92)** | – |
| Interest rate swaps – cash flow hedges | **(167)** | (8) |
| Interest rate swaps classified as held for trading* | **(44)** | – |
| Total current liabilities | **(413)** | (53) |
| **Non-current liabilities** | | |
| Forward currency contracts – cash flow hedges | **(21)** | – |
| Cross currency interest rate swap – cash flow hedge | **–** | (10) |
| Cross currency interest rate swap – fair value hedge | **–** | (49) |
| Interest rate swaps – cash flow hedges | **(102)** | (22) |
| Interest rate swaps classified as held for trading* | **(30)** | – |
| Interest rate swaps – fair value hedges | **–** | (8) |
| Total non-current liabilities | **(153)** | (89) |
| **Total derivatives** | **(381)** | 145 |

* Derivative instruments classified as held for trading primarily consist of derivatives previously in effective hedge relationships but which no longer satisfy the requirements for hedge accounting.

## 30: Commitments and contingencies

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Operating lease commitments – Group as lessee** | | | | |
| The Group has entered into commercial leases on office, retail and distribution properties, motor vehicles and office equipment. The lease terms and implicit interest rates vary significantly. For the lease of buildings the lease terms range from one year to 25 years and have various renewal or purchase options, escalation clauses, termination rights and residual liability clauses. | | | | |
| Future minimum rental payable under non-cancellable operating leases not included within this financial report were as follows: | | | | |
| Within one year | **1,473** | 1,351 | **4** | 4 |
| Greater than one year but not more than five years | **4,738** | 4,528 | **1** | 4 |
| More than five years | **5,067** | 5,037 | **1** | – |
| | **11,278** | 10,916 | **6** | 8 |
| **Operating lease commitments – Group as lessor** | | | | |
| Contracted non-cancellable future minimum lease payments expected to be received in relation to non-cancellable sub-leases not included in this financial report were as follows: | | | | |
| Within one year | **12** | 8 | **–** | – |
| Greater than one year but not more than five years | **32** | 21 | **–** | – |
| More than five years | **13** | 14 | **–** | – |
| | **57** | 43 | **–** | – |
| **Capital commitments** | | | | |
| Commitments arising from contracts for capital expenditure contracted for at balance date not included in this financial report were as follows: | | | | |
| Within one year | **351** | 306 | **–** | 3 |
| Greater than one year but not more than five years | **7** | – | **–** | – |
| Commitments arising from agreements to invest in Gresham Private Equity Funds contracted for at balance date not included in this financial report were as follows: | | | | |
| Due within one year | **101** | 121 | **–** | – |
| Within one year but not more than five years | **–** | – | **–** | – |
| **Other expenditure commitments** | | | | |
| Contracted other expenditure commitments not included in this financial report were as follows: | | | | |
| Within one year | **15** | 11 | **–** | – |
| Greater than one year but not more than five years | **21** | 21 | **–** | – |
| More than five years | **2** | 13 | **–** | – |
| | **38** | 45 | **–** | – |
| **Commitments relating to jointly controlled operations** | | | | |
| At 30 June 2009, the Group's share of the Bengalla Joint Venture commitments were $11 million (2008: $6 million) principally relating to the acquisition of plant and equipment, of which all is payable within one year. The Group's share of the Kwinana Sodium Cyanide Joint Venture capital commitments were $2 million (2008: $0 million) relating to the acquisition of plant and equipment, of which all is payable within one year. | | | | |
| Share of capital commitments of the joint venture operation: | | | | |
| Due within one year | **13** | 6 | **–** | – |
| **Contingencies** | | | | |
| Contingent liabilities at balance date not included in this financial report were as follows: | | | | |
| Trading guarantees | **1,037** | 816 | **352** | 193 |

## 30: Commitments and contingencies (continued)

The Group has issued a number of bank guarantees to third parties for various operational and legal purposes. It is not expected that these guarantees will be called on.

On acquisition of the Coles group, Wesfarmers assumed responsibility for the guarantees entered into by the Coles group relating to the sale of its Myer business in June 2006, under which Coles group had guaranteed the performance of certain lease agreements held by Myer Ltd. The guarantees amount to $131 million (2008: $147 million) and expire within two years. The fair value of these guarantees is not considered to be material and has not been recognised in this financial report.

### Other

Certain companies within the Group are party to various legal actions that have arisen in the normal course of buiness. It is expected that any liabilities arising from such legal action would not have a material adverse effect on the Group's financial report.

## 31: Events after the balance sheet date

### Dividend

A fully franked dividend of 60 cents per share resulting in a dividend payment of $694 million was declared for a payment date of 1 October 2009. The dividend has not been provided for in the 30 June 2009 full-year financial statements.

### Board appointments

On 27 August 2009, Wesfarmers announced the appointment of Ms Diane Smith-Gander as a new director and Mr Archie Norman as an adviser to the Board on retail issues.

### Issue of medium term notes

On 4 September 2009 Wesfarmers announced the issue of $400 million of unsecured fixed rate medium term notes maturing in September 2014, with pricing of 260 basis points over the five year mid swap rate; and $100 million of unsecured floating rate medium term notes maturing in September 2014, with a pricing of 260 basis points over the average mid three month Bank Bill Reference Rate (BBSW) . Settlement on the transaction was on 11 September 2009.

## 32: Interest in jointly controlled assets

The Group has the following interests in joint ventures in Australia:

| | | INTEREST | |
|---|---|---|---|
| JOINT VENTURE | PRINCIPAL ACTIVITY | 2009 % | 2008 % |
| Sodium Cyanide JV | Sodium cyanide manufacture | **75** | 75 |
| Bengalla JV | Coal mining | **40** | 40 |
| Kwinana Industrial Gases JV | Oxygen and nitrogen manufacture | **40** | 40 |
| HAL Property Trust | Property ownership | **50** | 50 |

The share of the assets, revenue and expenses of the jointly controlled assets, which are included in the consolidated financial statements, are as follows:

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2009 $m | 2008 $m | 2009 $m | 2008 $m |
| **Current assets** | | | | |
| Cash and cash equivalents | **7** | 6 | **–** | – |
| Inventories | **10** | 7 | **–** | – |
| Other | **3** | 3 | **–** | – |
| Total current assets | **20** | 16 | **–** | – |
| **Non-current assets** | | | | |
| Property, plant and equipment | **270** | 247 | **–** | – |
| Total non-current assets | **270** | 247 | **–** | – |
| **Total assets** | **290** | 263 | **–** | – |
| **Revenue** | **320** | 253 | **–** | – |
| Costs of sales | **(181)** | (161) | **–** | – |
| Administrative expenses | **(5)** | (6) | **–** | – |
| Profit before income tax | **134** | 86 | **–** | – |
| Income tax expense | **(40)** | (26) | **–** | – |
| **Net profit** | **94** | 60 | **–** | – |

Refer to note 30 for details on capital commitments. There were no impairment losses in the jointly controlled assets.

## 33: Subsidiaries

The consolidated financial statements include the financial statements of Wesfarmers Limited and the subsidiaries listed in the following table:

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2009 % | 2008 % |
|---|---|---|---|---|
| AALARA Risk Management Pty Ltd | Australia | AUD | 50 | 50 |
| Aben Pty Ltd | Australia | AUD | – | 100 |
| A.C.N. 003 921 873 Pty Limited | Australia | AUD | 100 | 100 |
| A.C.N. 082 931 486 Pty Ltd | Australia | AUD | 100 | 100 |
| A.C.N. 112 719 918 Pty Ltd | Australia | AUD | 100 | 100 |
| All Transport Insurance Brokers Pty Ltd | Australia | AUD | 100 | 100 |
| ALW Newco Pty Limited | Australia | AUD | 100 | 100 |
| Andearp Pty Ltd | Australia | AUD | 100 | 100 |
| Arana Hills Properties Pty Limited | Australia | AUD | 100 | 100 |
| Australian Gold Reagents Pty Ltd | Australia | AUD | 75 | 75 |
| Australian Graphics Pty Ltd | Australia | AUD | 100 | 100 |
| Australian Grocery Holdings Pty Ltd | Australia | AUD | 100 | 100 |
| Australian International Insurance Limited [+] | Australia | AUD | 100 | 100 |
| Australian Liquor Group Ltd [+] | Australia | AUD | 100 | 100 |
| Australian Taxi Insurance Underwriting Agency Pty Ltd | Australia | AUD | 100 | 100 |
| Australian Underwriting Holdings Limited [+] | Australia | AUD | 100 | 100 |
| Australian Underwriting Services Pty Ltd | Australia | AUD | 100 | 100 |
| Australian Vinyls Corporation Pty Ltd [+] | Australia | AUD | 100 | 100 |
| AVC Holdings Pty Ltd [+] | Australia | AUD | 100 | 100 |
| AVC Trading Pty Ltd [+] | Australia | AUD | 100 | 100 |
| Bakop Pty Ltd | Australia | AUD | 100 | 100 |
| Barrier Investments Pty Ltd | Australia | AUD | 100 | 100 |
| BBC Hardware Limited [+] | Australia | AUD | 100 | 100 |
| BBC Hardware Properties (NSW) Pty Ltd | Australia | AUD | 100 | 100 |
| BBC Hardware Properties (Vic) Pty Ltd | Australia | AUD | 100 | 100 |
| Bi-Lo Pty Limited [+] | Australia | AUD | 100 | 100 |
| Boylan & James Limited [#] | United Kingdom | GBP | – | 100 |
| Brian Pty Ltd | Australia | AUD | 100 | 100 |
| Bullivants Lifting and Industrial Products Pty Limited | Australia | AUD | 100 | 100 |
| Bullivants Pty Limited [+] | Australia | AUD | 100 | 100 |
| Bunnings (Northern Territory) Pty Ltd | Australia | AUD | 100 | 100 |
| Bunnings Group Limited [+] | Australia | AUD | 100 | 100 |
| Bunnings Limited [#] | New Zealand | NZD | 100 | 100 |
| Bunnings Management Services Pty Ltd | Australia | AUD | 100 | 100 |
| Bunnings Manufacturing Pty Ltd | Australia | AUD | 100 | 100 |
| Bunnings Properties Pty Ltd | Australia | AUD | 100 | 100 |
| Bunnings Property Management Limited [<] | Australia | AUD | 100 | 100 |
| Bunnings Pulp Mill Pty Ltd | Australia | AUD | 100 | 100 |
| Byrne Watkinson Kaye Insurance Brokers Pty Ltd | Australia | AUD | 100 | 100 |
| C S Holdings Pty Limited [+] | Australia | AUD | 100 | 100 |
| Campbells Hardware & Timber Pty Limited | Australia | AUD | 100 | 100 |
| Car Rental Risk Management Services Pty Ltd | Australia | AUD | 100 | 100 |
| CGNZ Finance Limited | New Zealand | NZD | 100 | 100 |
| Charlie Carter (Norwest) Pty Ltd | Australia | AUD | 100 | 100 |
| Chemical Holdings Kwinana Pty Ltd [+] | Australia | AUD | 100 | 100 |
| Clarkson Shopping Centre Pty Ltd | Australia | AUD | 100 | 100 |
| CMFL Services Ltd [+] | Australia | AUD | 100 | 100 |
| CMNZ Investments Pty Ltd | Australia | AUD | 100 | 100 |
| CMPQ (CML) Pty Ltd | Australia | AUD | 100 | 100 |
| CMPQ (PEN) Pty Ltd | Australia | AUD | 100 | 100 |
| CMTI Pty Ltd | Australia | AUD | 100 | 100 |
| Co-operative Wholesale Services Ltd | Australia | AUD | 100 | 100 |
| Coles Ansett Travel Pty Ltd | Australia | AUD | 97.5 | 97.5 |
| Coles Finance Company | United States | USD | 100 | 100 |
| Coles Group Asia Pty Ltd [+] | Australia | AUD | 100 | 100 |

## 33: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2009 % | 2008 % |
|---|---|---|---|---|
| Coles Group Deposit Services Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group Employee Share Plan Ltd | Australia | AUD | **100** | 100 |
| Coles Group Finance Limited + | Australia | AUD | **100** | 100 |
| Coles Group Finance (USA) Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group International Pty Ltd + | Australia | AUD | **100** | 100 |
| Coles Group Limited + | Australia | AUD | **100** | 100 |
| Coles Group New Zealand Holdings Limited | New Zealand | NZD | **100** | 100 |
| Coles Group Properties Holdings Ltd + | Australia | AUD | **100** | 100 |
| Coles Group Properties Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Group Property Developments Ltd + | Australia | AUD | **100** | 100 |
| Coles Group Supply Chain Pty Ltd + | Australia | AUD | **100** | 100 |
| Coles LD Australia Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Melbourne Ltd + | Australia | AUD | **100** | 100 |
| Coles Myer Superannuation Fund Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Online Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Properties WA Ltd + | Australia | AUD | **100** | 100 |
| Coles Retail Group Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Stores (New Zealand) Limited | New Zealand | NZD | **100** | 100 |
| Coles Supercentres Pty Ltd | Australia | AUD | **100** | 100 |
| Coles Supermarkets Australia Pty Ltd + | Australia | AUD | **100** | 100 |
| Comnet Pty Ltd | Australia | AUD | **100** | 100 |
| Comprehensive Holiday Insurance (Underwriting Agents) Pty Ltd | Australia | AUD | **100** | 100 |
| ConsortiumCo Pty Ltd | Australia | AUD | **100** | 100 |
| Coregas Pty Ltd + | Australia | AUD | **100** | 100 |
| Credit Management Pty Ltd | Australia | AUD | **100** | 100 |
| Crombie Lockwood (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| CSA Retail (Finance) Pty Ltd @ | Australia | AUD | **100** | – |
| CSBP Ammonia Terminal Pty Ltd | Australia | AUD | **100** | 100 |
| CSBP Limited + | Australia | AUD | **100** | 100 |
| Cuming Smith and Company Limited + | Australia | AUD | **100** | 100 |
| Curragh Coal Sales Co Pty Ltd | Australia | AUD | **100** | 100 |
| Curragh Queensland Mining Pty Ltd | Australia | AUD | **100** | 100 |
| Dairy Properties Co-operative Limited | Australia | AUD | **100** | 100 |
| Dennison & Associates Pty Ltd | Australia | AUD | **100** | 100 |
| Direct Fulfilment Group Pty Ltd | Australia | AUD | **100** | 100 |
| e.colesgroup Pty Ltd + | Australia | AUD | **100** | 100 |
| e.tailing (Coles Group) Pty Ltd | Australia | AUD | **100** | 100 |
| Eastfarmers Pty Ltd | Australia | AUD | **100** | 100 |
| Edward Lumley & Sons (Vic) Proprietary Limited | Australia | AUD | **–** | 100 |
| ELH Services Limited # | United Kingdom | GBP | **100** | 100 |
| ELOL Limited # | United Kingdom | GBP | **100** | 100 |
| Energy Generation Pty Ltd + | Australia | AUD | **100** | 100 |
| Eskdale Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Eureka Operations Pty Ltd + | Australia | AUD | **100** | 100 |
| FIF Investments Pty Limited | Australia | AUD | **100** | 100 |
| Financial Network Card Services Pty Ltd | Australia | AUD | **100** | 100 |
| Fitzgibbons Hotel Pty Ltd | Australia | AUD | **100** | 100 |
| Fitzinn Pty Ltd | Australia | AUD | **100** | 100 |
| Fosseys (Australia) Pty Ltd | Australia | AUD | **100** | 100 |
| FPT (Australia) Pty Limited | Australia | AUD | **100** | 100 |
| Fulthom Pty Limited | Australia | AUD | **100** | 100 |
| G J Coles & Coy Pty Limited | Australia | AUD | **100** | 100 |
| Gault Armstrong Kemble Pty Ltd | Australia | AUD | **100** | 100 |
| Gault Armstrong SARL | New Caledonia | XPF | **100** | 100 |
| GBPL Pty Ltd | Australia | AUD | **100** | 100 |

## 33: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2009 % | 2008 % |
|---|---|---|---|---|
| General Merchandise & Apparel Group Pty Ltd | Australia | AUD | **100** | 100 |
| GPML Pty Ltd | Australia | AUD | **100** | 100 |
| Grocery Holdings Pty Ltd + | Australia | AUD | **100** | 100 |
| Guidel Pty Ltd | Australia | AUD | **100** | 100 |
| Hadrill Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Harris Technology (NZ) Pty Ltd | Australia | AUD | **100** | 100 |
| Harris Technology Pty Ltd + | Australia | AUD | **100** | 100 |
| Hedz No 2 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 3 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 4 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 5 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 6 Pty Ltd | Australia | AUD | **100** | 100 |
| Hedz No 7 Pty Ltd | Australia | AUD | **100** | 100 |
| Hotel Wickham Investments Pty Ltd | Australia | AUD | **100** | 100 |
| HouseWorks Co Pty Ltd | Australia | AUD | **100** | 100 |
| Howard Smith Limited + | Australia | AUD | **100** | 100 |
| Howard Smith Nominees Pty Limited | Australia | AUD | **100** | 100 |
| HT (Colesgroup) Pty Ltd | Australia | AUD | **100** | 100 |
| Ibert Pty Limited | Australia | AUD | **100** | 100 |
| Idobent Pty Ltd | Australia | AUD | **100** | 100 |
| J Blackwood & Son Limited + | Australia | AUD | **100** | 100 |
| J Blackwood & Son Steel & Metals Pty Ltd | Australia | AUD | **100** | 100 |
| K Mart Australia Ltd + | Australia | AUD | **100** | 100 |
| Katies Fashions (Aust) Pty Limited | Australia | AUD | **100** | 100 |
| Keith Johnson & Company Limited # | United Kingdom | GBP | **–** | 100 |
| Kleenheat Gas House Franchising Pty Ltd | Australia | AUD | **100** | 100 |
| Knox Liquor Australia Pty Ltd | Australia | AUD | **100** | 100 |
| Kwinana Nitrogen Company Proprietary Limited | Australia | AUD | **100** | 100 |
| Lawvale Pty Ltd | Australia | AUD | **100** | 100 |
| LHG Pty Ltd + | Australia | AUD | **100** | 100 |
| LHG2 Pty Ltd + | Australia | AUD | **100** | 100 |
| LHG3 Pty Ltd | Australia | AUD | **100** | 100 |
| Liftco Pty Limited + | Australia | AUD | **100** | 100 |
| Liquorland (Australia) Pty Ltd + | Australia | AUD | **100** | 100 |
| Liquorland (Qld) Pty Ltd + | Australia | AUD | **100** | 100 |
| Loadsafe Systems Pty Ltd | Australia | AUD | **100** | 100 |
| Loggia Pty Ltd + | Australia | AUD | **100** | 100 |
| Lumley Corporation Pty Limited | Australia | AUD | **100** | 100 |
| Lumley Finance (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Finance Limited + | Australia | AUD | **100** | 100 |
| Lumley General Insurance (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Insurance Group Limited | Australia | AUD | **100** | 100 |
| Lumley Investments (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Life (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Management Services Pty Limited | Australia | AUD | **100** | 100 |
| Lumley Risk Consultants Ltd | Australia | AUD | **–** | 100 |
| Lumley Securities Limited | Australia | AUD | **–** | 100 |
| Lumley Services (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Lumley Superannuation Pty Limited | Australia | AUD | **100** | 100 |
| Lumley Technology Limited | Australia | AUD | **100** | 100 |
| Manacol Pty Limited + | Australia | AUD | **100** | 100 |
| Mandate Management Consultants Pty Ltd | Australia | AUD | **–** | 100 |
| Mawhinney Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Meredith Distribution (NSW) Pty Ltd | Australia | AUD | **100** | 100 |
| Meredith Distribution Pty Ltd | Australia | AUD | **100** | 100 |

## 33: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2009 % | 2008 % |
|---|---|---|---|---|
| MIB Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Millars (WA) Pty Ltd | Australia | AUD | **100** | 100 |
| Modwood Technologies Pty Ltd | Australia | AUD | **100** | 100 |
| Monument Finance Limited # | New Zealand | NZD | **100** | 100 |
| Monument Insurance (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Morley Shopping Centre Pty Limited | Australia | AUD | **100** | 100 |
| Motion Industries Pty Ltd | Australia | AUD | **100** | 100 |
| Multimedia Services Pty Ltd | Australia | AUD | **100** | 100 |
| Mycar Automotive Pty Ltd | Australia | AUD | **100** | 100 |
| NEGF Power Management Pty Ltd | Australia | AUD | **100** | 100 |
| NEGF Power Sales Pty Ltd | Australia | AUD | **100** | 100 |
| Newmart Pty Ltd + | Australia | AUD | **100** | 100 |
| now.com.au Pty Ltd | Australia | AUD | **100** | 100 |
| NZ Finance Holdings Pty Limited # | New Zealand | NZD | **100** | 100 |
| OAMPS (HK) Limited | Hong Kong | HKD | **100** | 100 |
| OAMPS (UK) Limited # | United Kingdom | GBP | **100** | 100 |
| OAMPS (UK) Underwriting Services Limited # | United Kingdom | GBP | **100** | 100 |
| OAMPS Agency Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Consulting Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Corporate Risk Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Credit Limited | Australia | AUD | **51** | 51 |
| OAMPS Gault Armstrong Pty Ltd | Australia | AUD | **100** | 100 |
| OAMPS Insurance Brokers (NZ) Limited | New Zealand | NZD | **100** | 100 |
| OAMPS Insurance Brokers Ltd + | Australia | AUD | **100** | 100 |
| OAMPS Life Solutions Ltd (formerly OAMPS Financial Management Ltd) | Australia | AUD | **100** | 100 |
| OAMPS Ltd + | Australia | AUD | **100** | 100 |
| OAMPS Special Risks Ltd # | United Kingdom | GBP | **100** | 100 |
| OAMPS Superannuation Ltd | Australia | AUD | **100** | 100 |
| OAMPS Superannuation Management Pty Ltd | Australia | AUD | **100** | 100 |
| Officeworks Businessdirect Pty Ltd | Australia | AUD | **100** | 100 |
| Officeworks Superstores NZ Limited | New Zealand | NZD | **100** | 100 |
| Officeworks Superstores Pty Ltd + | Australia | AUD | **100** | 100 |
| Offshore Market Placements Limited # | New Zealand | NZD | **100** | 100 |
| Oil & Hazardous Environmental Services Limited # | United Kingdom | GBP | **100** | 100 |
| OMP Insurance Brokers Ltd + | Australia | AUD | **100** | 100 |
| ORZO Pty Limited | Australia | AUD | **100** | 100 |
| Osmond Hotel Pty Ltd | Australia | AUD | **100** | 100 |
| Outfront Liquor Services Pty Ltd | Australia | AUD | **100** | 100 |
| Pacific Liquor Wholesalers Pty Ltd | Australia | AUD | **100** | 100 |
| Packaging House Limited # | New Zealand | NZD | **100** | 100 |
| Pailou Pty Ltd + | Australia | AUD | **100** | 100 |
| Parks Insurance Pty Ltd | Australia | AUD | **100** | 100 |
| Patrick Operations Pty Ltd | Australia | AUD | **100** | 100 |
| Penneys Pty Limited | Australia | AUD | **100** | 100 |
| Petersen Bros Pty Ltd | Australia | AUD | **100** | 100 |
| Pharmacy Direct Pty Limited | Australia | AUD | **–** | 100 |
| Philip Murphy Melbourne Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Niddrie Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Toorak Pty Ltd | Australia | AUD | **100** | 100 |
| Philip Murphy Wine & Spirits Pty Ltd | Australia | AUD | **100** | 100 |
| Powertrain Pty Limited | Australia | AUD | **100** | 100 |
| Premier Power Sales Pty Ltd | Australia | AUD | **100** | 100 |
| Price Point Pty Ltd | Australia | AUD | **100** | 100 |
| Procurement Online Pty Ltd | Australia | AUD | **100** | 100 |
| Protector Alsafe Pty Ltd + | Australia | AUD | **100** | 100 |
| Q.R.L. Insurance Finance Agency Pty Ltd | Australia | AUD | **50** | 50 |
| R & N Palmer Pty Ltd | Australia | AUD | **100** | 100 |

## 33: Subsidiaries (continued)

| | Country of incorporation | Functional currency | BENEFICIAL INTEREST 2009 % | 2008 % |
|---|---|---|---|---|
| Retail Australia Consortium Pty Ltd | Australia | AUD | **100** | 50 |
| Retail Investments Pty Ltd | Australia | AUD | **100** | 100 |
| Ronell Pty Ltd | Australia | AUD | **100** | 100 |
| Roval Lifting and Industrial Products Pty Limited | Australia | AUD | **100** | 100 |
| SBS Rural IAMA Pty Limited | Australia | AUD | **100** | 100 |
| Sellers (SA) Pty Ltd | Australia | AUD | **100** | 100 |
| Share Nominees Limited | Australia | AUD | **100** | 100 |
| Sorcha Pty Ltd | Australia | AUD | **100** | 100 |
| Sotico Pty Ltd | Australia | AUD | **100** | 100 |
| Sportsure Pty Ltd | Australia | AUD | **50** | 50 |
| StateWest Power Pty Ltd | Australia | AUD | **100** | 100 |
| Sydney Drug Stores Proprietary Limited | Australia | AUD | **–** | 100 |
| Target Australia Pty Ltd + | Australia | AUD | **100** | 100 |
| The Builders Warehouse Group Pty Limited | Australia | AUD | **100** | 100 |
| The Franked Income Fund | Australia | AUD | **100** | 100 |
| The Grape Management Pty Ltd + | Australia | AUD | **100** | 100 |
| Theo's Liquor Pty Ltd | Australia | AUD | **100** | 100 |
| Tickoth Pty Ltd | Australia | AUD | **100** | 100 |
| Tooronga Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Tooronga Shopping Centre Pty Ltd | Australia | AUD | **100** | 100 |
| Torque Underwriting Pty Ltd | Australia | AUD | **–** | 100 |
| TotalGuard Pty Limited | Australia | AUD | **100** | 100 |
| Tyremaster (Wholesale) Pty Ltd | Australia | AUD | **100** | 100 |
| Tyremaster Pty Ltd | Australia | AUD | **100** | 100 |
| Ucone Pty Ltd + | Australia | AUD | **100** | 100 |
| Universal Underwriting Services Pty Limited | Australia | AUD | **100** | 100 |
| Valley Investments Pty Ltd + | Australia | AUD | **100** | 100 |
| Vigil Underwriting Agencies Pty Ltd | Australia | AUD | **100** | 100 |
| Viking Direct Pty Limited | Australia | AUD | **100** | 100 |
| W F Broking (UK) Limited | United Kingdom | GBP | **100** | 100 |
| W4K.World 4 Kids Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Agribusiness Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Bangladesh Gas Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Bengalla Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Bioenergy Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Broking (NZ) Limited # | New Zealand | NZD | **100** | 100 |
| Wesfarmers Bunnings Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Char Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Coal Resources Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Curragh Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Energy (Gas Sales) Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Energy (Industrial Gas) Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Energy Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Federation Insurance Limited | Australia | AUD | **100** | 100 |
| Wesfarmers Fertilizers Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Finance Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Gas Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers General Insurance Limited (formerly Lumley General Insurance Limited) | Australia | AUD | **100** | 100 |
| Wesfarmers Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Industrial & Safety Holdings NZ Limited # | New Zealand | NZD | **100** | 100 |
| Wesfarmers Industrial & Safety NZ Limited # | New Zealand | NZD | **100** | 100 |
| Wesfarmers Industrial and Safety Pty Ltd @ | Australia | AUD | **100** | – |
| Wesfarmers Insurance Investments Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Insurance Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Investments Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Kleenheat Elpiji Limited < | Bangladesh | BDT | **69** | 58 |

## 33: Subsidiaries (continued)

| | Country of incorporation | Functional currency | Beneficial interest 2009 % | Beneficial interest 2008 % |
|---|---|---|---|---|
| Wesfarmers Kleenheat Gas Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers LNG Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers LPG Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Premier Coal Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Private Equity Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Provident Fund Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Railroad Holdings Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Resources Limited + | Australia | AUD | **100** | 100 |
| Wesfarmers Retail Holdings Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Retail Pty Ltd + | Australia | AUD | **100** | 100 |
| Wesfarmers Risk Management Limited # | Bermuda | AUD | **100** | 100 |
| Wesfarmers Risk Management (Singapore) Pte Ltd (formerly Sanco Insurance Pte Ltd) | Singapore | SGD | **100** | 100 |
| Wesfarmers Securities Management Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Sugar Company Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Superannuation Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Transport Indonesia Pty Ltd | Australia | AUD | **100** | 100 |
| Wesfarmers Transport Limited + | Australia | AUD | **100** | 100 |
| Weskem Pty Ltd | Australia | AUD | **100** | 100 |
| West Africa Power Company Pty Ltd | Australia | AUD | **100** | 100 |
| Westralian Farmers Co-operative Limited | Australia | AUD | **100** | 100 |
| Westralian Farmers Superphosphates Limited + | Australia | AUD | **100** | 100 |
| WFCL Investments Pty Ltd | Australia | AUD | **100** | 100 |
| Wideland Insurance Brokers Pty Ltd | Australia | AUD | **100** | 100 |
| Wideland Life Insurance Agency Pty Ltd | Australia | AUD | **100** | 100 |
| WIS Solutions Pty Ltd | Australia | AUD | **100** | 100 |
| Workplace Risk Solutions Limited # | New Zealand | NZD | **100** | 100 |
| WPP Holdings Pty Ltd | Australia | AUD | **100** | 50 |
| Wyper Brothers Pty Limited | Australia | AUD | **100** | 100 |
| X-WIS Pty Ltd (formerly Wesfarmers Industrial & Safety Pty Ltd) | Australia | AUD | **100** | 100 |
| XCC (Retail) Pty Ltd | Australia | AUD | **100** | 100 |
| ZIB Credit Trust | Australia | AUD | **51** | 51 |
| ZIB Group Holdings Company Limited + | Australia | AUD | **100** | 100 |
| ZIB Holdings Pty Limited + | Australia | AUD | **100** | 100 |
| ZIB Insurance Brokers Holding Limited + | Australia | AUD | **100** | 100 |
| ZIB Insurance Trust | Australia | AUD | **100** | 100 |

@ Entity acquired/incorporated during the year.

# Audited by firms of Ernst & Young International.

< Audited by other firms of accountants.

+ An ASIC approved deed of cross guarantee has been entered into by Wesfarmers Limited and these entities. Refer note 34 for further details.

Wesfarmers Limited, incorporated in Australia, is the ultimate Australian parent entity and the ultimate parent of the Group.

## 34: Deeds of cross guarantee

Pursuant to the Wesfarmers deed of cross guarantee ('the Deed') and in accordance with ASIC Class Order 98/1418, the subsidiaries identified with a '+' in note 33 are relieved from the requirements of the Corporations Act 2001 relating to the preparation, audit and lodgement of their financial reports.

The subsidiaries identified with a '+' in note 33 and Wesfarmers Limited, together referred to as the 'Closed Group', either originally entered into the Deed on 27 June 2008 or have subsequently joined the Deed by way of an assumption deed. The effect of the Deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the entities in the Closed Group. The entities joining the Closed Group by way of an assumption deed dated 25 June 2009 are:

Coles Group Finance Limited ACN 008 544 161

Eureka Operations Pty Ltd ACN 104 811 216

Lumley Finance Limited ACN 002 543 606

OMP Insurance Brokers Ltd ACN 052 366 900

On 16 July 2009 a revocation deed in respect of the Deed was executed and lodged with ASIC. Those entities that were removed as a party to the Deed will be released from their obligations under the Deed provided that none of the parties to the Deed are wound up and no winding up of any of those parties is commenced within six months after the revocation deed was lodged with ASIC. The entities removed from the Closed Group by way of a revocation deed are:

Fosseys (Australia) Pty Ltd ACN 000 142 665

HouseWorks Co Pty Ltd ACN 009 403 374

Katies Fashions (Aust.) Pty Limited ACN 008 545 917

Lawvale Pty Ltd ACN 007 120 603

Now.com.au Pty Ltd ACN 091 772 940

Tyremaster Pty Ltd ACN 008 606 577

The entities removed from the Deed do not have a material effect on the income statement and balance sheet of the Closed Group.

The consolidated income statement of the entities that are members of the Closed Group is as follows:

| | **New Deed 2009 $m** | Previous Deed 2008 $m |
|---|---|---|
| **Consolidated income statement** | | |
| Profit from continuing operations before income tax | **2,105** | 1,181 |
| Income tax expense | **(476)** | (304) |
| Net profit for the period | **1,629** | 877 |
| Retained earnings at the beginning of the year | **926** | 1,070 |
| Adjustment for companies transferred into/(out of) the Closed Group | **(138)** | 31 |
| Total available for appropriation | **2,417** | 1,978 |
| Dividends provided for or paid | **(1,487)** | (1,052) |
| Retained earnings at the end of the year | **930** | 926 |

## 34: Deeds of cross guarantee (continued)

The consolidated balance sheet of the entities that are members of the Closed Group is as follows:

| | New Deed 2009 $m | Previous Deed 2008 $m |
|---|---|---|
| **Consolidated balance sheet** | | |
| ASSETS | | |
| **Current assets** | | |
| Cash and cash equivalents | **2,108** | 512 |
| Trade and other receivables | **1,088** | 1,051 |
| Inventories | **4,573** | 4,373 |
| Derivatives | **50** | 119 |
| Other financial assets | **107** | 79 |
| **Total current assets** | **7,926** | 6,134 |
| **Non-current assets** | | |
| Receivables | **998** | 440 |
| Investments | **5,564** | 5,034 |
| Other financial assets | **1** | 1 |
| Investment in associates | **130** | 135 |
| Deferred tax assets | **731** | 345 |
| Property, plant and equipment | **6,774** | 6,196 |
| Intangible assets and goodwill | **20,228** | 20,206 |
| Derivatives | **147** | 149 |
| Other | **34** | 104 |
| **Total non-current assets** | **34,607** | 32,610 |
| **Total assets** | **42,533** | 38,744 |
| LIABILITIES | | |
| **Current liabilities** | | |
| Trade and other payables | **5,360** | 2,184 |
| Interest-bearing loans and borrowings | **494** | 1,003 |
| Income tax payable | **24** | 142 |
| Provisions | **853** | 803 |
| Derivatives | **572** | 48 |
| Insurance liabilities | **–** | 126 |
| Other | **334** | 248 |
| **Total current liabilities** | **7,637** | 4,554 |
| **Non-current liabilities** | | |
| Payables | **3,910** | 5,821 |
| Interest-bearing loans and borrowings | **5,537** | 7,902 |
| Deferred tax liabilities | **7** | – |
| Provisions | **1,051** | 628 |
| Derivatives | **153** | 58 |
| Insurance liabilities | **–** | 211 |
| Other | **146** | 210 |
| **Total non-current liabilities** | **10,804** | 14,830 |
| **Total liabilities** | **18,441** | 19,384 |
| **Net assets** | **24,092** | 19,360 |
| EQUITY | | |
| Contributed equity | **23,286** | 18,173 |
| Employee reserved shares | **(62)** | (76) |
| Retained earnings | **930** | 926 |
| Reserves | **(62)** | 337 |
| **Total equity** | **24,092** | 19,360 |

## 35: Related party transactions

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| **Subsidiaries** | | | | |
| Dividends received | **–** | – | **1,696** | 1,943 |
| Insurance premiums received | **–** | – | **178** | 22 |
| Interest received | **–** | – | **7** | 22 |
| Purchases of coal | **–** | – | **82** | 69 |
| Interest paid | **–** | – | **4** | 2 |
| Loans receivable | **–** | – | **25,416** | 25,635 |
| Loans payable | **–** | – | **31** | 1 |
| Current tax payable | **–** | – | **258** | 280 |
| Foreign exchange hedge receivables | **–** | – | **216** | 8 |
| Foreign exchange hedge payables | **–** | – | **50** | 91 |
| **Associates** | | | | |
| Management fees received | **7** | 7 | **–** | – |
| Profit on sale of rental properties | **1** | – | **–** | – |
| Operating lease rent paid | **70** | 63 | **–** | – |
| Nomination fees received | **–** | 3 | **–** | – |
| Financial advisory fees paid | **5** | 55 | **5** | 55 |
| Agreed reimbursement for completion of upgrades | **7** | 6 | **–** | – |
| Sale of gift cards on commercial terms | **36** | 31 | **–** | – |
| Payments for customer loyalty programmes | **35** | 21 | **–** | – |
| Loans receivable | **19** | 27 | **–** | – |

### Subsidiaries

Transactions by the parent entity within the wholly-owned group include investments in subsidiaries, and loans made to and received from subsidiaries, which are generally on interest-free terms and repayable on demand. Some loans, however, carry a commercial rate of interest.

In addition the parent entity purchases coal from a subsidiary, rents office premises to another subsidiary, and incurs and recovers costs and charges in relation to various minor expenditure in the normal course of business and on normal terms and conditions. The parent entity also enters into back-to-back hedging contracts with subsidiaries and associates.

### Associates

Management fees have been paid by associated entities, Air Liquide WA Pty Ltd and Bunnings Warehouse Property Trust, to the consolidated entity on normal commercial terms and conditions for staff and other services provided to the associates.

Rent for retail warehouses has been paid by the consolidated entity to an associated entity, the Bunnings Warehouse Property Trust. During the year the Trust acquired rental properties from the consolidated entity and gains were made on disposal, a portion of which was eliminated in the consolidated accounts.

Mr Carter, a director of Wesfarmers, is a director and shareholder of Colin Carter & Associates. Colin Carter & Associates has provided consultancy services to Wesfarmers and was paid a fee of $25,000 (2008: Nil).

Mr Graham, a director of Wesfarmers, has a majority shareholding interest in a company which jointly owns Gresham Partners Group Limited on an equal basis with a wholly owned subsidiary of Wesfarmers. A partly owned subsidiary of Gresham Partners Group Limited has provided financial advisory services to Wesfarmers of $5 million (2008: $55 million).

Loans have been made to an associated entity. Loans are subordinated to a syndicate of project financing banks and neither is repayable nor interest-bearing until a number of financial covenants have been achieved.

Other minor loans have also been made to associates.

## 36: Auditor's remuneration

The auditor of Wesfarmers Limited is Ernst & Young (Australia).

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $000** | 2008 $000 | **2009 $000** | 2008 $000 |
| **Amounts received or due and receivable by Ernst & Young (Australia) for:** | | | | |
| – an audit or review of the financial report of the entity and any other entity in the consolidated group | **7,112** | 7,319 | **908** | 892 |
| – other services in relation to the entity and any other entity in the consolidated group | | | | |
| – tax compliance | **420** | 515 | **420** | 478 |
| – application for government tax concessions | **–** | – | **–** | – |
| – corporate finance advice | **–** | 214 | **–** | 3 |
| – assurance-related | **1,300** | 2,002 | **1,183** | 1,791 |
| – special audits required by regulators | **45** | 88 | **–** | – |
| – other | **51** | 195 | **–** | – |
| | **8,928** | 10,333 | **2,511** | 3,164 |
| **Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:** | | | | |
| – an audit or review of the financial report of subsidiaries | **736** | 570 | **–** | 7 |
| – other services in relation to the entity and any other entity in the consolidated group | | | | |
| – tax compliance | **58** | 137 | **58** | 113 |
| – other | **19** | – | **19** | – |
| | **813** | 707 | **77** | 120 |
| **Amounts received or due and receivable by non-Ernst & Young audit firms for:** | | | | |
| – an audit or review of the financial report of subsidiaries | | | | |
| – other | **233** | 158 | **–** | – |
| | **9,974** | 11,198 | **2,588** | 3,284 |

## 37: Share-based payment plans

The Group operates three share-based payment plans.

**Wesfarmers Employee Share Plan ('WESP')**

The WESP was approved by shareholders in April 1985, with the last issue under the plan being made in December 2004. Under the plan all permanent employees over 18 years of age continuously employed by the Group for a minimum period of one year were invited annually to apply for a specified number of fully paid ordinary shares in the Company, funded by a limited-recourse interest-free loan from the Group.

Under the plan, shares were allotted at the weighted average price of Wesfarmers Limited shares posted on the Australian Securities Exchange one week up to and including the day of allotment. The shares are not subject to any specific vesting conditions.

The employee's obligation for repayment of the loans is limited to the dividends declared and capital returns by the Company and in the event the employee ceases employment, the market price achieved on the sale of the shares held as security by the Company for the loans.

The plan is accounted for as an in-substance option plan, with the contractual life of each option equivalent to the estimated loan life and no maximum term. Repayment of the loan constitutes exercise of the option, with the exercise price being the remaining loan balance per share.

## 37: Share-based payment plans (continued)

### Wesfarmers Employee Share Plan ('WESP') (continued)

The following table sets out the number and weighted average exercise prices ('WAEP') of and movements in in-substance share options during the year:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number Thousands | WAEP | Number Thousands | WAEP |
| Outstanding and exercisable at the beginning of the year | **5,270** | **$14.37** | 6,426 | $17.30 |
| Exercised during the year | **(497)** | **$12.17** | (1,156) | $20.72 |
| Outstanding and exercisable at the end of the year | **4,773** | **$12.91** | 5,270 | $14.37 |
| Weighted average share price for Wesfarmers Limited | | **$22.18** | | $39.49 |
| The weighted average exercise prices (after reductions for dividends paid, returns of capital and voluntary payments) for in-substance options issued during the following years ended 30 June are: | | | | |
| 2000 | | **–** | | $3.36 |
| 2001 | | **$8.66** | | $16.81 |
| 2002 | | **$12.09** | | $14.90 |
| 2003 | | **$14.44** | | $17.42 |
| 2004 | | **$27.66** | | $30.51 |

### Wesfarmers Long Term Incentive Plan ('WLTIP')

The WLTIP was introduced in September 2005. Under the plan eligible senior employees are invited to receive fully paid ordinary shares in the Company subject to the achievement of a performance hurdle based on the Group achieving a benchmark return on equity performance against a comparative group of companies. Eligibility is dependent upon an in-service period with a participating division and being a permanent employee.

Shares may either be acquired on-market, issued by the parent or forfeited shares reissued. During the current financial year 3,321,844 shares were issued by the parent, 342,782 shares were acquired on market and 18,267 forfeited shares were reissued, with the cost being expensed over the vesting period from 1 July 2008 to 30 June 2009 and 1 July 2008 to 30 June 2010 for executive level employees. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares acquired on-market, issued or reissued.

The impact on the profit and loss is set out in note 4.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Shares acquired under the plan | **3,682,893** | 686,981 | **2,294,542** | 293,621 |
| Fair value per share | **$18.11** | $41.21 | **$18.11** | $41.21 |

### Wesfarmers Employee Share Ownership Plan ('WESOP')

The WESOP was also introduced in September 2005. Under the plan all eligible employees are invited to receive up to $1,000 of fully paid ordinary shares in the Company subject to the achievement of a performance hurdle based on the Group achieving a benchmark return on equity performance against a comparative group of companies. Eligibility 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 13A of the Income Tax Assessment Act 1936 (as amended) for Australian resident employees.

Shares may either be acquired on-market or issued by the parent. During the current financial year shares were issued by the parent, with the cost being expensed over the vesting period from 1 July 2008 to 31 December 2008. The fair value of the services received from employees and of the equity instruments granted was determined by the total cost to the Group of the shares issued.

The impact on the profit and loss is set out in note 4.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Shares acquired under the plan | **1,253,280** | 496,995 | **4,125** | 1,344 |
| Fair value per share | **$18.11** | $41.21 | **$18.11** | $41.21 |

## 38: Pension plan

The Group operated two defined benefit pension plans during the year, one within the Wesfarmers Superannuation Plan and the other within the Coles Group Superannuation Plan. On 1 June 2009 the Wesfarmers Superannuation Plan (including current life time pensioners) was transitioned into the Coles Group Superannuation Plan, with that plan renamed as the Wesfarmers Group Superannuation Plan (the 'Pension Plan'). The Wesfarmers Superannuation Plan was wound up on that date.

All active defined benefit members within the merged Pension Plan (other than existing pensioners) were converted, or are in the process of being converted, to accumulation arrangements on 30 June 2009. All new members joining the Pension Plan receive benefits on an accumulation basis. Therefore, as at 30 June 2009 there are no active defined benefit liabilities in the Pension Plan.

The Group has a legal obligation to ensure the Pension Plan remains in a satisfactory financial position but no legal right to benefit from any surplus, except to the extent a contribution holiday can be taken.

Actuarial gains and losses are recognised directly in retained earnings.

The following disclosure is for funds related to the defined benefit plans:

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| Changes in the present value of the defined benefit obligation are as follows: | | | | |
| Opening defined benefit obligation | **388** | 34 | **31** | 34 |
| Transfer opening balance Coles defined benefit obligation | **–** | 433 | **–** | – |
| Interest cost | **24** | 18 | **2** | 2 |
| Current service cost | **11** | 7 | **–** | – |
| Contributions by plan participants | **7** | 6 | **–** | – |
| Benefits paid | **(36)** | (29) | **(2)** | (2) |
| Transfers out | **(325)** | (34) | **–** | – |
| Actuarial (gains)/losses | **(20)** | (46) | **5** | (3) |
| Taxes paid on contributions | **(7)** | (1) | **–** | – |
| Curtailment gain | **(17)** | – | **–** | – |
| Conversion cost | **13** | – | **–** | – |
| Closing defined benefit obligation | **38** | 388 | **36** | 31 |
| Changes in the fair value of the defined benefits portion of plan assets are as follows: | | | | |
| Opening fair value of plan assets | **418** | 43 | **42** | 43 |
| Transfer opening balance Coles defined benefit plan assets | **–** | 474 | **–** | – |
| Expected return | **26** | 20 | **2** | 2 |
| Contributions by employer | **40** | 2 | **–** | – |
| Contributions by plan participants | **7** | 6 | **–** | – |
| Taxes paid on contributions | **(7)** | (1) | **–** | – |
| Benefits paid | **(36)** | (30) | **(2)** | (3) |
| Transfers out | **(325)** | (34) | **–** | – |
| Actuarial losses | **(80)** | (62) | **(1)** | – |
| Closing fair value of plan assets | **43** | 418 | **41** | 42 |

The fair value of fund assets do not include amounts relating to the Group's own financial instruments nor any property or other assets used by the Group.

## 38: Pension plan (continued)

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $m** | 2008 $m | **2009 $m** | 2008 $m |
| Net (surplus)/expense recognised in profit and loss: | | | | |
| Current service cost | **11** | 7 | **–** | – |
| Interest cost | **24** | 18 | **2** | 2 |
| Expected return on plan assets | **(26)** | (20) | **(2)** | (2) |
| Curtailment (gain)/loss | **(17)** | – | **–** | – |
| Conversion cost | **13** | – | **–** | – |
| Defined benefit plan expense | **5** | 5 | **–** | – |
| Amounts recognised in the statement of changes in equity: | | | | |
| Actuarial gain/(loss) on defined benefit plans | **(59)** | (18) | **(6)** | 2 |
| Income tax on actuarial gains | **18** | (3) | **2** | (3) |
| | **(41)** | (21) | **(4)** | (1) |
| Benefit asset/liability recognised in the balance sheets: | | | | |
| Defined benefit obligation | **(38)** | (388) | **(36)** | (31) |
| Fair value of plan assets | **43** | 418 | **41** | 42 |
| Net benefit asset | **5** | 30 | **5** | 11 |

The principal actuarial assumptions used in determining pension benefit obligations are:

| | **2009 %** | 2008 % |
|---|---|---|
| **Wesfarmers Superannuation Fund** | | |
| Discount rate | **5.50** | 6.60 |
| Expected rate of return on fund assets | **5.30** | 4.75 |
| Expected pension increase rate | **2.50** | 2.50 |
| **Coles Group Superannuation Plan** | | |
| Discount rate (active members) | **5.40** | 6.50 |
| Discount rate (pensioners) | **5.50** | 6.50 |
| Expected rate of return on fund assets (active members) | **N/A** | 6.50 |
| Expected rate of return on fund assets (pensioners) | **5.30** | 7.25 |
| Expected salary increase rate | **3.50** | 3.50 |
| Expected pension increase rate | **0.00** | 0.00 |

## 39: Director and executive disclosures

**Details of key management personnel during the year ended 30 June 2009**

### Non-executive directors

C B Carter
P A Cross
R L Every (appointed Chairman 13 November 2008)
J P Graham
A J Howarth
C Macek
D C White

### Executive directors

R J B Goyder, Group Managing Director
T J Bowen, Finance Director – appointed 1 May 2009, previously Finance Director, Coles division

### Senior executives

S A Butel, Managing Director, Resources division
J C Gillam, Managing Director, Home Improvement and Office Supplies division
K D Gordon, Director, Industrial divisions, appointed 1 July 2008 (previously Business Integration Director from 1 October 2007 and Managing Director CSBP prior to this date)
L K Inman, Managing Director, Target division
I J W McLeod, Managing Director, Coles division

### Former key management personnel and executives disclosed under the Corporations Act 2001

T R Eastwood (retired as Chairman and Director 13 November 2008)
R D Lester (retired as Director 30 June 2008)
G T Tilbrook (retired as Finance Director 1 May 2009)

**Compensation of key management personnel**

These remuneration disclosures are provided in sections one to six of the remuneration report on pages 157 to 173 of this annual report designated as audited and forming part of the directors' report.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Short-term | **19,133** | 18,958 | **19,133** | 18,958 |
| Post employment | **4,396** | 5,687 | **4,396** | 5,687 |
| Share-based payment | **15,577** | 5,024 | **15,577** | 5,024 |
| | **39,106** | 29,669 | **39,106** | 29,669 |

## 39: Director and executive disclosures (continued)

### Holdings of equity instruments in Wesfarmers Limited of key management personnel

**Wesfarmers Limited ordinary shares and partially protected ordinary shares**

| Shares – 30 June 2009 | Balance at beginning of year | Granted as remuneration | Net change other* | Balance at end of year |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| C B Carter | 17,543 | – | 8,820 | 26,363 |
| P A Cross | 8,204 | – | 7,233 | 15,437 |
| R L Every | 7,091 | – | 17,645 | 24,736 |
| J P Graham | 1,058,079 | – | 189,384 | 1,247,463 |
| A J Howarth | 3,933 | – | 4,529 | 8,462 |
| C Macek | 13,022 | – | 8,249 | 21,271 |
| D C White | 42,422 | – | 15,729 | 58,151 |
| **Executive directors** | | | | |
| R J B Goyder | 302,757 | 220,844 | 190,758 | 714,359 |
| T J Bowen | 40,495 | 265,013 | (4,500) | 301,008 |
| **Senior executives** | | | | |
| S A Butel | 44,622 | 53,830 | – | 98,452 |
| J C Gillam | 104,589 | 265,013 | (25,000) | 344,602 |
| K D Gordon | 45,394 | 178,884 | – | 224,278 |
| L K Inman | 3,496 | 157,351 | 17,933 | 178,780 |
| I J W McLeod | – | 44,168 | 18,929 | 63,097 |
| **Former KMP and executives disclosed under the Corporations Act 2001** | | | | |
| T R Eastwood (Chairman)[1] | 878,533 | – | – | 878,533 |
| G T Tilbrook[1] | 260,669 | 110,422 | (121,644) | 249,447 |
| | 2,830,849 | 1,295,525 | 328,065 | 4,454,439 |

1 Ceased to be non-executive director, executive director or key management personnel during the 2009 financial year.

* Includes shares acquired under the entitlement offer announced on 22 January 2009 and shares acquired under fee/salary sacrifice share plans.

| Shares – 30 June 2008 | Balance at beginning of year | Granted as remuneration | Net change other* | Balance at end of year |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| C B Carter | 4,096 | – | 13,447 | 17,543 |
| P A Cross | 3,500 | – | 4,704 | 8,204 |
| T R Eastwood (Chairman) | 878,694 | – | (161) | 878,533 |
| R L Every | 5,000 | – | 2,091 | 7,091 |
| J P Graham | 977,407 | – | 80,672 | 1,058,079 |
| A J Howarth | – | – | 3,933 | 3,933 |
| R D Lester | 45,691 | – | 11,436 | 57,127 |
| C Macek | 7,500 | – | 5,522 | 13,022 |
| D C White | 45,820 | – | (3,398) | 42,422 |
| **Executive directors** | | | | |
| R J B Goyder | 195,633 | 79,838 | 27,286 | 302,757 |
| G T Tilbrook | 191,412 | 40,040 | 29,217 | 260,669 |
| T J Bowen | 17,358 | 18,637 | 4,500 | 40,495 |
| **Senior executives** | | | | |
| S A Butel | 28,986 | 10,677 | 4,959 | 44,622 |
| J C Gillam | 79,837 | 24,752 | – | 104,589 |
| K D Gordon | 35,568 | 13,346 | (3,520) | 45,394 |
| L K Inman | – | – | 3,496 | 3,496 |
| I J W McLeod | – | – | – | – |
| **Former KMP and executives disclosed under the Corporations Act 2001** | | | | |
| P J C Davis | 85,204 | 17,715 | 7,047 | 109,966 |
| | 2,601,706 | 205,005 | 191,231 | 2,997,942 |

* Includes shares acquired under the entitlement offer

### Other transactions and balances with key management personnel

Refer to note 35 in relation to transactions with Colin Carter & Associates, of which C Carter is a director and shareholder.

Refer to note 35 in relation to transactions with Gresham Partners Group Limited, of which J P Graham is a director.

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

The information appearing on pages 2 to 70 forms part of the directors' report for the financial year ended 30 June 2009 and is to be read in conjunction with the following information:

## Results and dividends

| Year ended 30 June | 2009 $m | 2008 $m |
|---|---|---|
| **Profit** | | |
| Profit attributable to members of the parent entity | **1,535** | 1,063 |
| **Dividends** | | |
| The following dividends have been paid by the Company or declared by the directors since the commencement of the financial year ended 30 June 2009: | | |
| a) out of the profits for the year ended 30 June 2008 on the fully-paid ordinary shares and partially protected shares: | | |
| (i) fully franked final dividend of 135 cents per share paid on 6 October 2008 (as disclosed in last year's directors' report) | **1,079** | 543 |
| b) out of the profits for the year ended 30 June 2009 and retained earnings on the fully-paid ordinary shares and partially protected shares: | | |
| (i) fully franked interim dividend of 50 cents per share paid on 31 March 2009 | **408** | 454 |
| (ii) fully franked final dividend of 60 cents per share to be paid on 1 October 2009* | **694** | 1,079 |

* Date of payment is subject to change.

## Principal activities

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

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

There have been no significant changes in the nature of these activities during the year.

## Directors

### Information on directors

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

- Robert (Bob) Every (Chairman from 13 November 2008)
- Richard Goyder (Managing Director)
- Terry Bowen (Finance Director from 1 May 2009)
- Colin Carter
- Patricia Cross
- James Graham
- Anthony (Tony) Howarth
- Charles Macek
- Diane Smith-Gander (director from 27 August 2009)
- David White

All directors served on the Board for the period from 1 July 2008 to 30 June 2009, except for Terry Bowen who was appointed on 1 May 2009 and Diane Smith-Gander who was appointed on 27 August 2009.

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

The following directors resigned or retired during the year:

- Trevor Eastwood retired as a director and as Chairman on 13 November 2008 (appointed as a director in 1994).
- Gene Tilbrook retired as a director on 1 May 2009 (appointed as a director in 2002).

### Directors' shareholdings

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

| | Bunnings Warehouse Property Trust (Units) | Wesfarmers Limited (Shares) |
|---|---|---|
| T J Bowen | | 301,008 |
| C B Carter | | 26,363 |
| P A Cross | | 16,437 |
| R L Every | | 24,736 |
| R J B Goyder* | | 714,359 |
| J P Graham | 9,334 | 1,237,094 |
| A J Howarth | | 10,462 |
| C Macek | | 20,571 |
| D Smith-Gander | | 11,618 |
| D C White | | 13,157 |

* R J B Goyder also holds 100,000 performance rights. The performance rights were issued pursuant to the Group Managing Director Long Term Incentive Plan. Each performance right is a right to acquire a fully paid ordinary share subject to satisfaction of a performance condition which is based on return on equity. For further details, please see the remuneration report on pages 154 to 173 of this Annual Report.

T R Eastwood resigned on 13 November 2008. At the date of his resignation he had 878,533 Wesfarmers Limited shares and no Bunnings Warehouse Property Trust units.

G T Tilbrook resigned on 1 May 2009. As at the date of his resignation, he had 249,447 Wesfarmers Limited shares and 22,779 Bunnings Warehouse Property Trust units.

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2009 and the number of meetings attended by each director:

| | Board | | Audit Committee | | Remuneration Committee | | Nomination Committee | | Gresham Mandate Review Committee | | Accelerated Non-Renounceable Entitlement Offer Due Diligence Committee[2] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (A)[1] | (B)[1] | (A) | (B) | (A) | (B) | (A) | (B) | (A) | (B) | (A) | (B) |
| **Current directors** | | | | | | | | | | | | |
| T J Bowen[3] | 1 | 1 | | | | | | | | | | |
| C B Carter | 14 | 14 | | | 4 | 4 | 2 | 2 | 2 | 0 | | |
| P A Cross | 14 | 14 | | | 4 | 4 | 2 | 2 | 2 | 2 | | |
| R L Every[4] | 14 | 14 | 6 | 5 | 4 | 4 | 2 | 2 | | | 3 | 3 |
| R J B Goyder | 14 | 14 | | | | | | | | | 3 | 3 |
| J P Graham[5] | 14 | 14 | 4 | 4 | 3 | 3 | 2 | 2 | | | | |
| A J Howarth | 14 | 14 | 10 | 10 | | | 2 | 2 | | | | |
| C Macek | 14 | 14 | 10 | 10 | | | 2 | 2 | 2 | 2 | | |
| D Smith-Gander[6] | 0 | 0 | | | | | | | | | | |
| D C White | 14 | 14 | 10 | 10 | | | 2 | 2 | 2 | 2 | | |
| **Previous directors** | | | | | | | | | | | | |
| T R Eastwood[7] | 6 | 6 | | | | | | | | | | |
| G T Tilbrook[8] | 13 | 13 | | | | | | | | | 3 | 3 |

Notes:

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

2 The Accelerated Non-Renounceable Entitlement Offer Due Diligence Committee was established as a special purpose Board committee in January 2009.

3 T J Bowen was only eligible to attend one meeting of the Board (joining the Board on 1 May 2009).

4 R L Every was only eligible to attend six meetings of the Audit Committee (joining the Committee from 1 January 2009).

5 J P Graham was only eligible to attend four meetings of the Audit Committee (retiring from the Committee from 1 January 2009).

6 D L Smith-Gander was appointed as a director on 27 August 2009 and did not attend any Board meetings during the 2008/09 financial year.

7 T R Eastwood resigned as a director on 13 November 2008.

8 G T Tilbrook resigned as a director on 1 May 2009.

## Insurance and indemnification of directors and officers

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

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

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

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

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

## Indemnification of auditors

The Company's auditor is Ernst & Young.

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

During the financial year:

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

## Directors' and other officers' remuneration

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and Company performance are contained in the remuneration report on pages 154 to 173 of this Annual Report.

## Options

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

## Company Secretary

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

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

## Review of results and operations

The operations of the consolidated entity during the financial year and the results of those operations are reviewed on pages 2 to 56 of this Annual Report and in the accompanying financial statements. This review includes information on the financial position of the consolidated entity and its business strategies and prospects for future financial years. In the opinion of the directors, disclosure of further material relating to those matters is likely to result in unreasonable prejudice to the interests of the Company and the consolidated entity. That material has therefore been omitted from the review.

## Significant changes in the state of affairs

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

- revenue up from $33,584 million to $50,982 million
- profit for the year up from $1,063 million to $1,535 million
- dividends per share down from $2.00 to $1.10
- total assets up from $37,178 million to $39,295 million
- shareholders' equity up from $19,598 million to $24,252 million
- net borrowings down from $9,276 million to $4,435 million
- net cash flows from operating activities up from $1,451 million to $3,044 million

## Significant events after balance date

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

- on 20 August 2009, a fully franked final dividend of 60 cents per share resulting in a dividend payment of $694 million was declared for payment on 1 October 2009 (the date of payment is subject to change); and
- on 4 September 2009, Wesfarmers announced the issue of $400 million of unsecured fixed rate medium term notes maturing in September 2014, with pricing of 260 bps over the five year mid swap rate, and $100 million of unsecured floating rate medium term notes maturing in September 2014, with pricing of 260 bps over the average mid three month Bank Bill Reference Rate (BBSW). Settlement on the transactions occurred on 11 September 2009.

## Likely developments and expected results

Likely developments in, and expected results of, the operations of the consolidated entity in subsequent years are referred to elsewhere in this report, particularly on pages 10 to 56 of this Annual Report. In the opinion of the directors, disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the Company and the consolidated entity. That material has therefore been omitted from the directors' report.

## Non-audit services

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2009 and received, or is due to receive, the following amounts for the provision of these services:

| | $000 |
|---|---|
| Tax compliance | 478 |
| Corporate finance advice | 0 |
| Assurance related | 1,300 |
| Other | 70 |
| Total | 1,848 |

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

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

- the non-audit services provided do not involve reviewing or auditing the auditor's own work or acting in a management or decision-making capacity for the Company;
- all non-audit services were subject to the corporate governance procedures and policies adopted by the Company and have been reviewed by the Audit Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- there is no reason to question the veracity of the auditor's independence declaration (a copy of which has been reproduced on page 153).

## Auditor Independence

The directors received the following declaration from Ernst & Young:

ERNST & YOUNG

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

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

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

In relation to our audit of the financial report of Wesfarmers Limited for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz
Partner
Perth
15 September 2009



## Environmental regulations and performance

The activities of the consolidated entity are subject to environmental regulation by various authorities throughout Australia and New Zealand.

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

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

## Proceedings on behalf of the company

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

## Corporate governance

In recognising the need for high standards of corporate behaviour and accountability, the directors of Wesfarmers Limited support and have adhered to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (which were issued in 2007). The company's corporate governance statement is on pages 62 to 70 of this Annual Report.

## Corporate information

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

## Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

# Remuneration snapshot 2009

## 2009 remuneration report summary

During the 2009 financial year, the Wesfarmers Board worked closely with management to conduct a complete review of the senior executive remuneration structure and plans in light of the 'no' vote on the 2008 remuneration report. It has also redesigned this year's report with the aim of increasing transparency and making it easier to read and understand.

Given the challenging economic environment and a high level of public interest in the issue of executive remuneration, the Board and management have responded by taking appropriate steps including:

- conducting a detailed review of the long-term incentive metric. In the context of the acquisition of the Coles group and our focus on improving the performance of those businesses, it has been determined that growth in return on equity remains the most relevant primary financial metric to measure Wesfarmers' long-term success and drive enhanced shareholder returns, and will be the basis for senior executive long-term incentives, noting that the Coles senior executive special purpose long-term incentive plan remains unchanged with specific targets around the five year turnaround plan;
- disclosing the minimum return on equity hurdle applicable to the Group Managing Director's long-term incentive plan, which remains unchanged at 12.5 per cent, notwithstanding the material effect of the capital raising on this target;
- implementing a freeze on fixed remuneration increases for senior executives and fees for non-executive directors for the 2010 financial year;
- announcing that annual incentive payments for the 2009 financial year to executive directors and senior executives were limited to payments in relation to achievement of financial and divisional targets only, with no payment for the individual performance objectives element, resulting in a reduction of between 20 and 40 per cent of the maximum annual incentive payable;
- introducing mandatory deferral of above-target annual incentive payments into shares for senior executives for the 2010 financial year, with trading restrictions and forfeiture conditions that will apply to these shares; and
- closing the retention plan in early 2009 (which provided for a benefit on termination), with no new executives participating in this programme in the future.

Further detail on these and other changes for the 2009 and 2010 financial years are highlighted throughout the remuneration snapshot and the formal remuneration report. In addition, we have altered the format of the report to make as clear as possible the core aims which underpin the remuneration policies and practices, how they are aligned with the corporate objectives and performance and how the performance for the 2009 financial year has resulted in particular remuneration outcomes. The remuneration snapshot provides an overview of key information, with the required statutory audited information included in the detailed remuneration report. The audited remuneration table can be found on page 171 of this report.

Wesfarmers' remuneration framework remains focused on maintaining a performance culture by driving and rewarding executive performance for the achievement of the Company's short-term and long-term strategy and business objectives and, ultimately, growth in shareholder wealth. The presentation of these details this year is designed to assist your understanding of the remuneration policy objectives and outcomes.

## Remuneration snapshot 2009 (continued)

### Remuneration policy and principles

Wesfarmers' remuneration policy for senior executives is based on the following key principles:

– **be market competitive** – to attract and retain the best people for the job, Wesfarmers positions fixed remuneration and incentives at the market median of executives in the top 25 ASX-listed companies, with an opportunity for highly competitive total remuneration for superior performance;

– **be performance-linked** – a significant proportion of an executive's remuneration is dependent upon Wesfarmers' success and individual performance; and

– **be shareholder value-aligned** – measures used in the performance incentive plans have been chosen to ensure there is a strong link between remuneration paid and the achievement of performance that results in a satisfactory return to our shareholders.

These principles drive our remuneration framework and each of the components of executive remuneration.

### Overview of remuneration framework

**Market competitive** | **Performance-linked** | **Shareholder value-aligned**

**TOTAL REMUNERATION**

**FIXED COMPONENT**
**Between 20 – 42% of total target annual remuneration**

**Fixed Annual Remuneration**
– comprising salary, superannuation and packaged benefits
– positioned at market median for comparable companies

**AT-RISK COMPONENTS**
**Between 58 – 80% of total target annual remuneration**

**Annual incentive plan**
Targets linked to:
– individual;
– divisional; and
– Group performance

**Long-term incentive plan**
– performance hurdle for Wesfarmers executives based on return on equity
– separate plan for select Coles executives

The graph below shows the break-down between the fixed and at-risk components of Wesfarmers' senior executive remuneration framework (as a percentage of the total target annual remuneration) for each of the executives disclosed in the remuneration report.

The remuneration of Mr McLeod, the Managing Director of the Coles division, includes a separate long-term incentive plan that links rewards to challenging annual performance targets specific to the Coles division over its five year turnaround period. Further detail is provided on page 167 of this report.

**Total target annual remuneration**

## Remuneration snapshot 2009 (continued)

### Group Managing Director

Mr Goyder's total reported remuneration for the 2009 financial year is $8,126,075, as shown in the table on page 171. This comprises fixed remuneration (cash salary), non-monetary benefits and post employment benefits (including superannuation) of $3,380,155 and an annual incentive of $1,100,943, totalling $4,481,098.

Mr Goyder's reported remuneration included an annual accounting expense amount of $3,644,977, recognised for his participation in the Group Managing Director Long Term Incentive Plan and the 2007 and 2008 awards under the Wesfarmers Long Term Incentive Plan.

In line with a decision of the Board, Mr Goyder's fixed remuneration (together with that of all senior executives) has been frozen for the 2010 financial year. Mr Goyder's annual incentive payment was limited to the achievement of financial targets only, with no payment for the individual performance objectives element. This has resulted in a reduction in Mr Goyder's potential annual incentive by in excess of $1.5 million for the 2009 financial year.

In relation to Mr Goyder's long-term incentive of 100,000 performance rights allocated in September 2008, no change has been made to the performance hurdle of a return on equity performance of 12.5 per cent per annum which must be achieved in two consecutive years. Actual return on equity performance for the year was 7.4 per cent. In addition to the performance hurdle under the plan being more challenging than before, the maximum number of additional performance rights available to Mr Goyder under his September 2008 grant, should return on equity performance exceed 12.5 per cent per annum, was capped at 400,000 during the year. Delivery of this benefit would require a 16.5 per cent per annum return on equity performance for two consecutive years prior to the end of the 2014 financial year.

### Other senior executives

The Company's overall financial performance in the 2009 financial year and that of a number of the businesses did not achieve the target level set by the Board and, accordingly, annual incentives were greatly reduced or not paid at all. While the annual incentive plan delivered above target bonuses for senior executives with annual incentives linked to the Coles division and Target division (which both exceeded their financial targets) and at-target bonuses for senior executives in the Resources division and Bunnings division (which performed at or around target for the year), no payment was made in relation to the individual performance objectives element of the plan. This resulted in a reduction of between 20 and 40 per cent of the maximum annual incentive payable.

Senior executives received an annual allocation of shares (which are restricted for three years) under the Wesfarmers Long Term Incentive Plan during the year. For a select number of senior executives multi-year grants, equal to three years' worth of shares, were made in November 2008 under the plan. Further detail is provided on page 165 of the remuneration report.

The Company has accrued an amount of approximately $1.53 million in respect of the award to the Managing Director, Coles division, under the Coles Long Term Incentive Plan for the financial year. This is the direct result of the significant performance targets being met for the 2009 financial year, notably growth in Coles division earnings before interest and tax to $830.6 million, achieving revenue (excluding fuel sales) in excess of $23,037 million and a return on capital employed in the Coles division in excess of 5.0 per cent for the year. This award is subject to ongoing service with the Coles division and, in general, no part of the award is payable prior to 30 June 2011 (and then only a part of the award will be paid) with the balance paid in further annual instalments between 30 June 2011 and 30 June 2013.

# Remuneration report 2009 (audited)

## Overview of remuneration components

| Remuneration component | | Participants: Non-executive directors | Participants: Group Managing Director | Participants: Finance Director/ senior executives | Participants: Coles executives |
|---|---|---|---|---|---|
| **Fixed** | Fixed Annual Remuneration | | ✓ (page 161) | ✓ (page 161) | ✓ (page 161) |
| | Fees | ✓ (page 158) | | | |
| **Annual incentive** | | | ✓ (page 161) | ✓ (page 161) | ✓ (page 161) |
| **Long-term incentive** | | | ✓ (page 164) | ✓ (page 165) | ✓ (page 167) |
| **Post employment (termination) arrangements** | Superannuation | ✓ (page 158) | ✓ (page 161) | ✓ (page 161) | ✓ (page 161) |
| | Retention plan | | ✓ (page 169) | ✓ (page 169) | |

## SECTION 1: KEY MANAGEMENT PERSONNEL (KMP)

KMP encompasses all directors (executive and non-executive) as well as those executives who have authority and responsibility for planning, directing and controlling the activities of a major revenue-generating division of Wesfarmers. In this report, the terms:

– 'executive directors' refers to the Group Managing Director (GMD) and Finance Director; and

– 'senior executives' refers to the KMP, excluding the directors.

The following table lists all KMP referred to in this report, including the five highest remunerated executives of the Company and the Group.

| Executive directors | |
|---|---|
| R J B Goyder | Group Managing Director |
| T J Bowen | Finance Director – appointed 1 May 2009 (previously Finance Director Coles) |
| G T Tilbrook | Finance Director – retired 1 May 2009 |
| **Senior executives** | |
| S A Butel | Managing Director, Resources division |
| J C Gillam | Managing Director, Home Improvement and Office Supplies division |
| K D Gordon | Director, Industrial divisions |
| L K Inman | Managing Director, Target division |
| I J W McLeod | Managing Director, Coles division |

| Non-executive directors | |
|---|---|
| R L Every | Chairman (non-executive) – appointed 13 November 2008 (previously director) |
| T R Eastwood | Chairman (non-executive) – retired 13 November 2008 |
| C B Carter | Director (non-executive) |
| P A Cross | Director (non-executive) |
| J P Graham | Director (non-executive) |
| A J Howarth | Director (non-executive) |
| C Macek | Director (non-executive) |
| D L Smith-Gander | Director (non-executive) – appointed 27 August 2009 |
| D C White | Director (non-executive) |

## Remuneration report 2009 (audited) (continued)

## SECTION 2: NON-EXECUTIVE DIRECTORS

### Policy

The key principle underpinning non-executive director remuneration is the need to attract and retain the best directors available to direct the large and diverse business that is the Wesfarmers Group through the current economic environment and into the future.

**NEW DEVELOPMENTS: 2009/10**

**Freeze on non-executive director fees**

(ie no increase at annual review in January 2010).

The Wesfarmers Board (Board) periodically reviews its approach to non-executive director remuneration and seeks independent advice to ensure it remains in line with general industry practice and best practice principles of corporate governance. Following independent advice, to ensure fees maintain a market median positioning within the comparator benchmark group (top 25 ASX-listed companies), fees paid to non-executive directors (excluding the Chairman) were increased effective 1 January 2009. The Board has decided that no increases will be made to fees in the 2009/10 financial year.

To preserve the independence and impartiality of the non-executive directors, no element of their remuneration is linked to the performance of the Company. However, to create alignment with shareholders' interests, the Fee Sacrifice Plan was established in 2006 to enable non-executive directors to forego a portion of their fees and in return be allocated restricted Wesfarmers shares at market value. Further details regarding the Fee Sacrifice Plan are set out on page 160 of this report.

The Company makes superannuation contributions equal to nine per cent of fees for each of the non-executive directors and each director may, in addition, sacrifice part of their fee in return for a further superannuation contribution by the Company. No additional benefits are paid to non-executive directors upon retirement from office.

### Non-executive director fees

Total fees, including committee fees, are set within the maximum aggregate amount approved by shareholders at the 2007 Annual General Meeting – being $3,000,000. The table below summarises the current and previous Board and committee fees. Members of the Nomination Committee do not receive additional fees.

| | **2009 $** | 2008 $ |
|---|---|---|
| **Main Board** | | |
| Chairman | **540,000** | 540,000 |
| Member | **170,000** | 164,500 |
| **Audit Committee** | | |
| Chairman | **50,000** | 50,000 |
| Member | **30,000** | 30,000 |
| **Remuneration Committee** | | |
| Chairman | **30,000** | 25,000 |
| Member | **15,000** | 12,500 |

## Remuneration report 2009 (audited) (continued)

### Remuneration for 2009

The fees received by the non-executive directors in the 2009 financial year are set out below:

| Non-executive director | | Fees and allowances $ | Short-term benefits[1] $ | Post employment benefits – superannuation and other[2] $ | Total $ |
|---|---|---|---|---|---|
| C B Carter | **2009** | **167,255** | **11,272** | **13,745** | **192,272** |
| | 2008 | 144,681 | 9,904 | 20,369 | 174,954 |
| P A Cross | **2009** | **131,806** | **17,384** | **49,194** | **198,384** |
| | 2008 | 148,383 | 9,904 | 16,667 | 174,954 |
| T R Eastwood[3] | **2009** | **147,818** | **3,181** | **110,861** | **261,860** |
| | 2008 | 418,661 | 9,904 | 88,489 | 517,054 |
| R L Every[3] | **2009** | **382,472** | **33,893** | **56,145** | **472,510** |
| | 2008 | 135,786 | 9,904 | 52,597 | 198,287 |
| J P Graham[4] | **2009** | **281,550** | **8,538** | **0** | **290,088** |
| | 2008 | 274,216 | 9,904 | 0 | 284,120 |
| A J Howarth | **2009** | **158,683** | **8,538** | **53,567** | **220,788** |
| | 2008 | 143,739 | 9,904 | 33,435 | 187,078 |
| C Macek | **2009** | **160,997** | **14,241** | **36,253** | **211,491** |
| | 2008 | 177,258 | 9,904 | 16,542 | 203,704 |
| D C White | **2009** | **176,662** | **14,425** | **25,588** | **216,675** |
| | 2008 | 159,822 | 9,904 | 43,978 | 213,704 |
| **Former non-executive director** | | | | | |
| R D Lester[5] | **2009** | **0** | **0** | **0** | **0** |
| | 2008 | 93,800 | 9,904 | 100,000 | 203,704 |
| **Total** | **2009** | **1,607,243** | **111,472** | **345,353** | **2,064,068** |
| | 2008 | 1,696,346 | 89,136 | 372,077 | 2,157,559 |

1 The benefits included in this column are director and officer insurance, travel and entertainment expenses.
2 Superannuation contributions are made on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations. This includes any part of a non-executive director's fees which have been sacrificed into superannuation. The cost to the Company of T R Eastwood's retirement gift of $49,158 is also included in this column.
3 T R Eastwood retired as Chairman and director on 13 November 2008. R L Every was appointed as Chairman on 13 November 2008.
4 J P Graham's fees are paid to Gresham Partners Limited for participation on the boards of Wesfarmers Limited, Wesfarmers Insurance Limited and Wesfarmers General Insurance Limited. Of the fees above, $198,288 (2008: $193,704) relate to the parent company.
5 R D Lester retired on 30 June 2008, therefore remuneration details are shown for comparative purposes only.

## Remuneration report 2009 (audited) (continued)

**Fee Sacrifice Plan for non-executive directors**

Prior to the 2009 Federal Government's Budget announcement, shares were acquired under the Fee Sacrifice Plan by the plan trustee on behalf of the non-executive director, with the shares being restricted until the earlier of:

- the date the relevant director ceases to hold office; or
- the tenth anniversary of the allocation date of the shares.

The Board may, in response to a request from a non-executive director after the third anniversary of the allocation date of the shares, exercise its discretion to lift the restrictions on those shares.

The plan enables non-executive directors to forego a portion of their fees to acquire Wesfarmers shares. The shares are issued or purchased at market value and are subject to forfeiture and trading restrictions.

As a result of uncertainty regarding the tax treatment of participating in the Fee Sacrifice Plan following the Government's recently announced changes to the taxation of such plans, the Board has suspended the plan indefinitely. Accordingly, no allocations will be made under the Fee Sacrifice Plan in the 2010 financial year. A decision regarding whether the plan will operate in the future and be re-submitted for shareholder approval will be made once the implications of the new tax laws are known.

Allocations made under the Fee Sacrifice Plan during the 2009 financial year are set out in the table below.

**NEW DEVELOPMENTS: 2009/10**

**Fee Sacrifice Plan suspended**

As a result of uncertainty regarding proposed changes to employee share schemes announced in the 2009 Federal Budget, the Board has determined to suspend the Fee Sacrifice Plan.

| Non-executive director | Date allocated | Price[1] $ | Number allocated | Value at allocation date $ | Total allocated |
|---|---|---|---|---|---|
| C Macek | 28 August 2008 | 31.8179 | 611 | 19,440.74 | |
| | 23 February 2009 | 16.8650 | 1,164 | 19,630.86 | 1,775 |
| P A Cross | 28 August 2008 | 31.8179 | 1,112 | 35,381.50 | |
| | 23 February 2009 | 16.8650 | 2,131 | 35,939.32 | 3,243 |
| C B Carter | 28 August 2008 | 31.8179 | 2,503 | 79,640.20 | |
| | 23 February 2009 | 16.8650 | 2,362 | 39,835.13 | 4,865 |
| A J Howarth | 28 August 2008 | 31.8179 | 765 | 24,340.69 | |
| | 23 February 2009 | 16.8650 | 1,417 | 23,897.71 | 2,182 |
| R L Every | 23 February 2009 | 16.8650 | 1,744 | 29,412.56 | 1,744 |

1 The weighted average of the prices of Wesfarmers shares traded on the ASX during the one week period up to and including the share allocation date.

## SECTION 3: EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

**Remuneration policy and principles**

In the interests of creating shareholder wealth, the purpose of Wesfarmers' remuneration strategy is to attract, retain and motivate the very best executive talent. Given the diversified nature of the business, it is essential to have a remuneration framework in place which both reflects this diversity and is appropriately structured to reward executives for performance not only at Group level, but also for divisional executives at a divisional level.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on remuneration policies for the Group including, in particular, the policies governing key management personnel. The Remuneration Committee seeks independent advice in setting the structure and levels of remuneration. Further information regarding the objectives and role of the Remuneration Committee is contained in its Charter, a summary of which is available in the Corporate Governance section of the Company's website at www.wesfarmers.com.au

Wesfarmers' remuneration policy for senior executives is guided by the following key principles:

- **be market competitive** – to attract and retain the best people for the job, Wesfarmers positions fixed remuneration and incentives at the market median of executives in the top 25 ASX-listed companies, with an opportunity for highly competitive total remuneration for superior performance;
- **be performance linked** – a significant proportion of an executive's remuneration is dependent upon Wesfarmers' success and their individual performance; and
- **be shareholder value-aligned** – measures used in the performance incentive plans have been chosen to ensure there is a strong link between remuneration paid and the achievement of performance that results in a satisfactory return to shareholders.

## Remuneration report 2009 (audited) (continued)

The Board, upon the recommendation of the Remuneration Committee, has developed an executive remuneration structure driven by these key principles which consists of:

- base pay (called Fixed Annual Remuneration or 'FAR') that represents between 20 and 42 per cent of the target remuneration; and
- incentive or 'at-risk' components that represent between 58 and 80 per cent of the target remuneration. These take the form of:
  (1) annual incentives, which are heavily weighted to return and earnings based measures, and are designed to reward executives for meeting financial and non-financial goals which seek to promote our corporate objectives; and
  (2) long-term incentives, which have a performance hurdle based on growth in return on equity (ROE) in order to ensure a strong link with the creation of shareholder value. Wesfarmers operates a specific plan for the GMD and for select Coles executives, which allows those participants to focus on specific goals set by the Board and are rewarded if those objectives are achieved.

Specific developments in relation to each component of executive remuneration during the 2009 financial year are highlighted below.

### Fixed Annual Remuneration

Fixed Annual Remuneration (FAR) consists of base salary and statutory superannuation contributions.

The amount of FAR for each executive director and senior executive is approved annually by the Board with consideration given to business and individual performance as well as market relativity. It is generally set at the median of salaries for executives in comparable companies – the primary comparator group used for benchmarking is a group of 25 top ASX-listed companies.

**NEW DEVELOPMENTS: 2009/10**

**Freeze on Fixed Annual Remuneration**

(ie no increase in FAR for senior executives continuing in their current roles at annual review in October 2009).

Additional sector-specific data for some senior executives based on major industry sector/particular employment markets is also analysed to capture specific industry trends.

Executive directors and senior executives may also elect to have a combination of benefits provided out of their FAR, including additional superannuation and the provision of a motor vehicle. The value of any non-cash benefits provided to them includes the costs of any fringe benefits tax payable by Wesfarmers as a result of providing the benefit.

### Annual incentives

**NEW DEVELOPMENTS:**

**2008/09: Annual incentive payments were limited to payments in relation to achievement of financial and divisional targets only, with no payment for the individual performance objectives element**

**2009/10: Mandatory deferral of a portion of the annual incentive into shares introduced**

**2009/10: Wesfarmers Salary Sacrifice Share Plan (WSSSP) suspended**

Following the proposed changes to Australian tax laws announced in the 2009 Federal Budget, voluntary sacrifice of incentive into shares under the WSSSP is suspended for 2009. A decision regarding whether the plan will operate in the future will be made once the implications of the new tax laws are known.

### Annual incentive – actual performance 2009 financial year

The Company's overall financial performance in the 2009 financial year and that of a number of the businesses did not achieve the target level set by the Board and, accordingly, annual incentives were greatly reduced or not paid at all. While the annual incentive plan delivered above target bonuses for senior executives with annual incentives linked to the Coles division and Target division (which both exceeded their financial targets) and at target bonuses for senior executives in the Resources division and Bunnings division (which performed at or around target for the year), no payment was made in relation to the individual performance objectives element of the plan, resulting in a reduction of between 20 and 40 per cent of the maximum annual incentive payable. This was a decision made by the Board in response to the current economic climate and not a reflection of senior executive performance.

Specific information relating to the actual annual incentive paid, the percentage of total annual incentive paid and the percentage forfeited by executives is set out in the table on page 170.

| | |
|---|---|
| What is the annual incentive and who participates? | The annual incentive is a cash award paid to executive directors and senior executives, subject to the satisfaction of performance conditions.<br>Participants in the annual incentive include:<br>– GMD – under the Group Managing Director's Annual Incentive Plan; and<br>– Finance Director and senior executives – under the Wesfarmers Senior Executive Incentive Plan (WSEIP) |

## Remuneration report 2009 (audited) (continued)

**What is the maximum amount that the executive can earn?**

Target – award equivalent to 60 per cent of FAR (100 per cent of FAR for the GMD)

Maximum – award equivalent to 120 per cent of FAR

**What are the annual performance conditions for the 2009 financial year?**

**GMD**

| Financial (60 per cent) | Non-financial (40 per cent) |
|---|---|
| – Group Net Profit after Tax (NPAT) with a Group ROE hurdle gate<br>– Coles group turnaround (ie EBIT, return on capital and relative comparative store growth) | – individual objectives (ie agreed objectives and safety measures) |

**Senior executives**

| Financial (48 to 80 per cent) | Non-financial (20 to 52 per cent) |
|---|---|
| For Group executives:<br>– Group NPAT<br>For divisional executives:<br>– divisional EBIT<br>– divisional return on capital (ROC) | For divisional executives:<br>– divisional specific objectives<br>For Group and divisional executives:<br>– individual objectives (ie agreed objectives and safety measures) |

In addition to the annual incentive under the WSEIP, in recognition of the increased contribution provided by the Resources division to the Group in the 2009 financial year, a special incentive based upon the divisional EBIT performance was made available to the Managing Director, Resources division for the 2009 financial year.

Details of annual incentives awarded for the 2009 financial year are set out on page 170.

**Why were these performance conditions chosen?**

These performance measures were chosen principally because of their impact on ROE, which is a key measure of annual achievement of satisfactory return to shareholders of the Wesfarmers Group.

In addition, due to the significant turnaround effort required, the GMD has a separate performance condition which is dependent on the performance of the Coles division.

**When are the performance conditions tested?**

Incentive payments are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the GMD (and in the case of the GMD, by the Board).

Payments of annual incentives are generally made in September, after the reviews are completed.

**How much does the executive receive for target and maximum performance?**

**GMD**

| % of FAR received | % of target performance |
|---|---|
| 0% | ≤ 92.5% |
| 100% | 100% |
| 120% | ≥ 110% |
| Pro-rata between these points | |

**Senior executives**

| % of FAR received | % of target performance |
|---|---|
| 0% | ≤ 92.5% |
| 60% | 100% |
| 120% | ≥ 110 – 120% |
| Pro-rata between these points | |

## Remuneration report 2009 (audited) (continued)

| | |
|---|---|
| Are there any arrangements to sacrifice cash incentive into shares? | **2008 annual incentive**<br>Under the Wesfarmers Salary Sacrifice Share Plan (WSSSP), the executive directors and senior executives had the ability to sacrifice a proportion of their annual incentive on a voluntary pre-tax basis into restricted Wesfarmers shares.<br>Shares acquired under the WSSSP are subject to a disposal restriction until 30 June following the date of acquisition (ie 30 June 2009). Participants are entitled to dividend and voting rights during the restriction period.<br>If the participating executive leaves during the restriction period, the shares will be transferred to them unless their employment has been terminated due to fraud, theft or other gross misconduct.<br>There is no additional cost from a Company perspective by the election to salary sacrifice incentive into shares, as any shares are allocated at market value at the time.<br>**2009 annual incentive**<br>As a result of the proposed changes to Australian tax laws, Wesfarmers has determined that for the 2008/09 plan year, the WSSSP be suspended pending legislative changes and consideration of the impact of those changes. Accordingly, executive directors and senior executives were unable to sacrifice a proportion of their 2009 annual incentive into restricted Wesfarmers shares under the WSSSP.<br>As stated in the ASX announcement in September 2008, it was Mr Goyder's intention to voluntarily salary sacrifice any incentive into Wesfarmers shares for the 2008/09 plan year. Following the Federal Government's announced changes to the taxation of such plans and the Company's decision to suspend the WSSSP, Mr Goyder is unable to sacrifice his 2009 annual incentive into restricted Wesfarmers shares and the annual incentive payment has been paid in cash.<br>**2010 annual incentive**<br>The Board has determined that, for the 2009/10 plan year, a portion of the incentive (ie any payment above 60 per cent of FAR for senior executives and the GMD) will be mandatorily deferred into shares. The shares will be subject to a three year trading restriction while the executive remains an employee of Wesfarmers and subject to forfeiture if the executive resigns employment within one year of the share allocation. The Board has, following a review of market practice, determined this enhancement to link annual incentive payments to sustainable longer term performance. |

### Long-term incentive plans
**Summary of plans**

| Plan | Participants | Performance Period | Discussion |
|---|---|---|---|
| Group Managing Director Long Term Incentive Plan (Rights Plan) | GMD | 3 to 6 years | page 164 |
| Wesfarmers Long Term Incentive Plan (WLTIP) | Finance Director and senior executives<br>Select senior executives | Yearly grant – 5 years (plus a 3 year restriction)<br>Multi-year grant – 5 years (with an additional 3 year performance and restriction) | page 165 |
| Coles Senior Executive Long Term Incentive Plan (CLTIP) | Managing Director, Coles division<br>Select Coles executives | 5 years | page 167 |

## Remuneration report 2009 (audited) (continued)

### Group Managing Director Long Term Incentive Plan (Rights Plan)

**RIGHTS PLAN – ACTUAL PERFORMANCE 2009 FINANCIAL YEAR**

The return on equity (ROE) generated by the Wesfarmers Group for the 2009 financial year was 7.4 per cent. This did not meet the 12.5 per cent ROE performance condition for the financial year.

**NEW DEVELOPMENTS: 2009/10**

Cap on maximum number of additional performance rights available to the GMD.

Otherwise no changes to the performance rights granted to the GMD, including the ROE hurdle, notwithstanding the dilutive impact of the capital raising undertaken in early 2009.

| | |
|---|---|
| **Key features** | – Long-term incentive plan for GMD only<br>– Reward for exceptional long-term performance (3 to 6 year performance period)<br>– Performance rights that vest based on sustained ROE<br>– ROE hurdle drives creation of shareholder value |
| What is the Rights Plan and who participates? | The Rights Plan links reward with ongoing creation of shareholder value through the grant of performance rights.<br>Each performance right granted will entitle the GMD to one ordinary share in the Company, subject to satisfaction of performance conditions. |
| How is the amount of the grant determined? | Designed to be approximately 33 per cent of the GMD's total remuneration or 100 per cent of FAR at target.<br>100,000 performance rights were granted on 30 September 2008, as the initial grant.<br>An additional 100,000 performance rights (up to a maximum of 400,000) will be granted for each one per cent that actual ROE exceeds the initial stretch hurdle during the performance period and that is sustained for two consecutive years. That is, Wesfarmers ROE must equal or exceed 16.5 per cent in two consecutive years (prior to 30 June 2014) for the maximum number of performance rights to be granted to and vest to the GMD.<br>Details of the grant for the 2009 financial year are set out in the table on page 172. |
| What are the key terms of the performance rights? | Performance rights are granted to the GMD at no cost.<br>Grants under the plan are tested at the end of the 2011, 2012, 2013 and 2014 financial years.<br>If the relevant performance conditions are satisfied, the performance rights will vest and shares in the Company will be allocated.<br>Performance rights are not transferable and the GMD is prohibited from entering into hedging arrangements in respect of the rights.<br>The GMD does not have any rights to dividends, voting or to participate in any share issue in respect of his performance rights. |
| What is the performance period? | 1 July 2008 to 30 June 2014.<br>The earliest vesting point is 30 June 2011. |
| What are the performance conditions for the 2009 financial year? | For the initial grant of performance rights to vest, ROE for the Group must exceed 12.5 per cent per annum sustained over a two year period during the performance period. |
| Why were these performance conditions chosen? | The Board selected ROE as a performance hurdle for vesting of performance rights on the basis that it:<br>– is a key driver of Wesfarmers' long-term business success and creation of shareholder value;<br>– is the best internal measure of growth in shareholder returns and avoids the unintended consequences of share market volatility; and<br>– creates alignment between GMD and senior executives, as the WLTIP (in which the executives participate) is also measured against ROE hurdles. |
| Are the shares granted upon vesting of performance rights subject to restrictions? | Shares allocated upon vesting of performance rights will be unrestricted, and will carry full dividend and voting rights from the date of allocation.<br>The shares allocated will be held in trust on behalf of the GMD for up to 10 years. The GMD may apply to the Board to have the shares released from the trust at any time. While the shares remain in trust, they are subject to forfeiture. |

## Remuneration report 2009 (audited) (continued)

| | |
|---|---|
| What happens in the event of a change of control of Wesfarmers? | The Board has discretion to determine the extent of vesting in the event of a change of control. |
| What happens if the GMD ceases employment during the performance period? | Where the GMD ceases employment due to death, bona fide redundancy, disablement or other reason with approval of the Board, the Board may, in its discretion, determine the extent to which any unvested performance rights vest. Any performance rights which so vest must be exercised within 12 months of ceasing employment, otherwise they will lapse.<br>If the GMD ceases employment for any other reason, all unvested performance rights lapse. |

### Wesfarmers Long Term Incentive Plan (WLTIP)

**2008 WLTIP – ACTUAL PERFORMANCE (FOR SHARES ALLOCATED IN NOVEMBER 2008)**

Wesfarmers' five year rolling average ROE performance was 22.3 per cent for the year ended 30 June 2008. This exceeded the 50th percentile of the 50 largest companies in the S&P/ASX 100 Index, which was 17.8 per cent. Accordingly the performance hurdle, requiring the Company's ROE to outperform the peer group was achieved and 100 per cent of the WLTIP was delivered to the executives in shares (with no amount being forfeited). For the 2009 WLTIP, the performance hurdle is a relative compound annual growth in the Company's ROE.

**NEW DEVELOPMENTS: 2009/10**

As foreshadowed last year, WLTIP allocations are based on a forward-looking performance hurdle that requires relative compound annual growth in the company's ROE to exceed the S&P/ASX 50 Index over a three year period before shares will vest.

Certain senior executives received multi-year grants under the WLTIP, equal to three years' worth of WLTIP shares. The Board approved these allocations as a retention strategy, to assist in attracting new executives and to provide meaningful equity in the Group and alignment with the Group's objectives.

WLTIP allocations were made in November 2008 and are set out in the table on page 172 of this report.

| | |
|---|---|
| **Key features** | – Long-term incentive plan designed to reward and motivate Group executives<br>– Shares allocated upon achieving five year rolling ROE hurdle<br>– Shares allocated are restricted for three years and subject to forfeiture conditions<br>– ROE hurdle drives creation of shareholder value |
| What is the WLTIP and who participates? | The WLTIP links reward with ongoing creation of shareholder value through the annual allocation of shares, subject to performance conditions to executive directors, executives and managers of the Group.<br>Shares allocated under WLTIP based on performance are restricted for three years (ie subject to a trading restriction).<br>Participants in WLTIP include:<br>– Finance Director;<br>– senior executives; and<br>– other nominated executives.<br>As discussed in the 2008 Annual Report, the GMD participated in the 2008 WLTIP as it provided a long-term incentive between the closure of the Award Determination Plan (30 June 2007) and the introduction of the Rights Plan (September 2008). The Managing Director, Coles division participated in the 2008 WLTIP as it formed part of his incentive to join, but he will not participate in this plan in future years.<br>Certain senior executives received a multi-year grant of shares under WLTIP, equal to three years' worth of WLTIP shares. The Board approved these allocations as a retention strategy, to assist in attracting new executives and to provide meaningful equity in the Group and alignment with the Group's objectives. It is intended that these executives will not receive full allocations under WLTIP until 2011, but may receive smaller 'top-up' long-term incentive awards to allow for salary increases, increased performance or adjustments to remain market competitive. |
| When are the shares under WLTIP granted? | In general, participants in WLTIP receive one grant annually after having satisfied the performance hurdle. Shares for the 2008 WLTIP allocation were granted in November 2008. |
| How is the amount of the grant determined? | WLTIP annual grant:<br>– Target – award equivalent to 80 per cent of FAR<br>– Maximum – award equivalent to 160 per cent of FAR<br>Multi-year grant:<br>– Senior executives who received a multi-year grant were allocated shares equal in value to three years' participation in WLTIP.<br>The quantum of shares allocated reflects Wesfarmers' policy for paying long-term incentive awards at market median of comparative companies for target performance. |

## Remuneration report 2009 (audited) (continued)

| | |
|---|---|
| What are the key terms of awards under WLTIP? | Shares are allocated to participating executives, at no cost, based on achievement of the performance conditions.<br>Shares allocated to executives are held in trust subject to a three year restriction period whilst the executive is employed by Wesfarmers (ie until 21 November 2011). At the end of the restriction period (and subject to shares not being forfeited) the shares vest and the executive is free to sell or transfer the shares.<br>If shares remain in the trust after the restriction period, the shares may be forfeited if the employment of the executive is terminated because of fraud, theft or other gross misconduct. |
| What are the key terms of the multi-year grants under WLTIP? | One-third of the multi-year grants are on the same terms as an annual grant under WLTIP (ie subject to forfeiture until 30 June 2010 and then subject to a trading restriction until 21 November 2011).<br>The other two-thirds of the grants are subject to a three year performance hurdle (measured from 1 July 2008 to 30 June 2011). This performance hurdle requires Wesfarmers' compound annual growth rate (CAGR) in ROE over the performance period to exceed the 50th percentile of the CAGR in ROE of the S&P/ASX 50 Index before those shares vest. As remuneration is paid at market median of comparative companies, the median of the comparator growth is used to determine whether target performance is achieved rather than vesting on a sliding scale. |
| What are the performance conditions applicable to the annual grants made under WLTIP? | Wesfarmers must achieve a ROE at or above the 50th percentile of the peer group's five year rolling average performance as explained below. Based on this performance, it is determined whether shares will be allocated each year. That is, the ROE target provides a gateway hurdle which determines whether an award is made under the WLTIP in a particular year. As remuneration is paid at market median of comparative companies, the median of the comparator growth is used to determine whether target performance is achieved rather than vesting on a sliding scale.<br>The peer group is the 50 largest companies by market capitalisation in the S&P/ASX 100 Index, as at 30 June 2008 (for the allocation made during the 2009 financial year). |
| Why were these performance conditions chosen? | The Board selected at that time a five year rolling average ROE as a performance hurdle for allocation of shares under the 2008 WLTIP on the basis that it:<br>– is a key driver of Wesfarmers' long-term business success and creation of shareholder value;<br>– is the best internal measure of total shareholder return and avoids the unintended consequences of share market volatility; and<br>– creates alignment between GMD and senior executives, as the Rights Plan (in which the GMD participates) is also measured against ROE hurdles. |
| Is there any retesting of performance conditions? | There is no retesting of performance conditions. |
| What happens in the event of a change of control of Wesfarmers? | The Board has discretion to lift trading restrictions in the event of a change of control. |
| What happens if the executive ceases employment during the performance period? | Senior executives who receive yearly grants are subject to a forfeiture period until 30 June in the second year after allocation (ie 30 June 2010 for the 2008 WLTIP allocation).<br>For yearly grants, if an executive ceases employment during the forfeiture period:<br>– by reason of redundancy, ill health, death or normal retirement, the shares will vest free from further restrictions; or<br>– for any other reason, the executive will forfeit their shares.<br>For multi-year grants, if an executive ceases employment prior to the end of the forfeiture period (ie 21 November 2011):<br>– by reason of ill health, death or normal retirement, the shares will vest free from further restrictions;<br>– by reason of redundancy, one-third of the shares will vest immediately and the remaining two-thirds of the shares will vest on a pro-rata basis, based on the length of time employed during the restriction period and subject to the achievement of the general share plan hurdle for that financial year. Vested shares will be free from further restrictions. Any shares that do not vest are forfeited;<br>– for any other reason prior to 30 June 2010, the executive will forfeit all their shares; or<br>– for any other reason after 30 June 2010, one-third of the shares will vest immediately and the executive will forfeit the remaining two-thirds of the total share award. |

## Remuneration report 2009 (audited) (continued)

### 2009 WLTIP allocation (to be made during the 2010 financial year)

The Board has approved the making of a 2009 grant under the WLTIP. It is intended that the 2009 allocation will made be in November. In general, this grant will be made to Group executives who did not receive a multi-year grant in 2008. The shares allocated will be subject to forfeiture until 30 June 2011 and subject to a trading restriction until November 2012. The November grant will be subject to a performance condition on the same terms as the multi-year grant made to select senior executives in 2008, with a three year forward-looking performance period requiring Wesfarmers' CAGR in ROE over that period to exceed the 50th percentile of the CAGR in ROE of the S&P/ASX 50 Index before those shares vest.

### Coles Long Term Incentive Plan (CLTIP)

**CLTIP AWARD – ACTUAL PERFORMANCE 2009 FINANCIAL YEAR**

The amount of the award that the Company has accrued in respect of the 2009 financial year (being the first year of operation of CLTIP) and the level of performance achieved by the Coles division to this award was as follows:

Mr McLeod – 2009 award accrual – $1.53 million.

This was achieved on the basis of the Coles division EBIT of $830.6 million for the 2009 financial year exceeding the gateway target and the achievement of the following performance conditions:

- Coles division revenue (excluding fuel sales) in excess of $23,037 million;
- ROC in relation to the Coles division in excess of 5.0 per cent; and a
- health of business rating of 100 per cent.

| | |
|---|---|
| **Key features** | – Plan to incentivise and reward Coles' Managing Director and a small number of executives for implementing turnaround strategies designed to generate significant returns to Wesfarmers and its shareholders<br>– Annual awards over a five year performance period<br>– No part of the award is payable until 30 June 2011 (at the earliest) and then annually to the end of 30 June 2013, provided Mr McLeod remains employed by the Coles division<br>– Annual gateway EBIT targets for the Coles division must be exceeded prior to any entitlement being awarded<br>– Actual awards then determined by reference to Coles' division revenue, return on capital and health of business |
| What is the CLTIP and who participates? | Wesfarmers' primary objective is to deliver satisfactory returns to shareholders. The Board, as part of its planning process, approves long-term business plans established by each division to achieve this objective. The long-term business plan set for Coles requires a significant turnaround to be achieved which will in turn create significant value for Wesfarmers and its shareholders.<br>The CLTIP is a special purpose incentive plan which potentially provides above average incentives to a small number of executives within the Coles division (including the Coles division Managing Director) in return for achieving challenging performance hurdles relative to the long-term business plan for that division. |
| What is the performance period? | Five years (for the initial participants this is 1 July 2008 to 30 June 2013).<br>This performance period is aligned to the long-term business plan approved by the Board for the Coles division.<br>As the plan is intended to reward longer term performance designed around the five year turnaround plan for the Coles division, the Board has retained discretion to review and, where appropriate, amend the applicable performance targets to take account of changed circumstances. |

## Remuneration report 2009 (audited) (continued)

| | |
|---|---|
| What are the performance conditions for the awards granted in the 2009 financial year? | The individual entitlement of a CLTIP participant is conditional on achieving an annual EBIT threshold and the following performance conditions applicable to each year of the plan:<br>**Financial (80 per cent)**<br>– annual growth in Coles revenue (excluding fuel sales) against targets<br>– return on capital invested by Wesfarmers against targets<br>**Non-financial (20 per cent)**<br>– health of Coles business in areas such as customer and employee satisfaction, on-shelf availability, delivery of new stores and succession planning<br>Actual performance against these measures for the 2009 financial year is outlined above. |
| Is there an additional performance condition for future financial years? | An additional performance condition applies to the 2012 and 2013 financial years. This condition is for the development of a management succession plan that is acceptable to the Board in each of these financial years. If the Board does not approve the succession plan in either year, no award accrues for that year. |
| How is the maximum award determined for each year? | The actual amount available to participants in each financial year is determined by reference to the Coles division's actual EBIT performance for that year against the agreed business plan.<br>If EBIT performance for a year is below a threshold level of EBIT approved by the Board (which is set at an average of 94 per cent of the long-term business plan EBIT target over the duration of the plan), no award pool will be available for that year.<br>If actual EBIT performance is equal to or exceeds this threshold EBIT target, an award pool will be made available.<br>The size of the available pool increases as the Coles division's actual EBIT increases beyond that threshold up to the EBIT target (based on achieving 100 per cent of the annual EBIT target set by the Board in the long-term business plan).<br>In order to encourage exceptional performance, the award pool continues to increase, at a pre-determined rate, should the Coles division's actual EBIT exceed the annual EBIT target set by the Board. |
| What level of awards are available in future years? | Over the next four years of the plan, Mr McLeod's potential award pool is an average of $2.5 million per annum if the Coles division meets the threshold EBIT performance target.<br>If the EBIT target is achieved (ie 100 per cent of the long-term business plan EBIT target) the award pool increases to an average of $6 million per annum over the four years of the plan.<br>Mr McLeod's actual annual entitlement out of the available pool will be determined by performance against the individual performance conditions outlined above and will be reduced where he does not attain the required standard of performance.<br>In order to reward exceptional performance, Mr McLeod's annual award pool will increase where the Coles division's actual EBIT exceeds the annual long-term business plan EBIT target in any year of the plan.<br>The individual entitlements of the other participants in the plan out of the available annual award pool are determined by reference to the level of satisfaction of the individual performance conditions outlined above. |
| When do these awards become payable? | No cash payment will be made prior to 30 June 2011. At that time, 40 per cent of any accrued awards may be paid, 60 per cent of any accrued awards (cumulatively) may be paid from 30 June 2012 with the balance from 30 June 2013.<br>Accrued awards after 30 June 2010 may also be taken in the form of Wesfarmers shares which will generally remain subject to forfeiture in specified circumstances until 30 June 2013.<br>Up to a maximum of 50 per cent of the award for the relevant financial year can be received in shares, with the remainder awarded in cash. |

## Remuneration report 2009 (audited) (continued)

| | |
|---|---|
| Why were these performance conditions chosen? | The plan has been designed to provide for challenging performance targets for the Coles division over the term of the plan linked to the Coles division achieving target levels of performance consistent with the long-term business plan for Coles approved by the Board. The Board has selected the specific performance targets on the basis that:<br>– sustainable profit growth of the Coles division is a key driver of Wesfarmers' total shareholder return;<br>– maximising revenue growth in the competitive retail markets in which Coles operates is a key indicator of the market attractiveness of, and the quality of management of, Coles' offer which in turn is a key contributor to satisfactory future profitability;<br>– achieving a satisfactory return on capital invested in the Coles business should form the basis of satisfactory returns to shareholders over time; and<br>– while the turnaround of the Coles division is a long-term project, the expectation is for a significant turnaround over the first five years of Wesfarmers ownership, which will require exceptional performance. |
| When is performance determined? | Performance against each of the financial targets (including EBIT, revenue growth and ROC performance of the Coles division) is determined by the Board after preparation of the financial statements each year.<br>The Board will also assess each participant's performance against the non-financial performance conditions in August or September of each year, at which time the Board makes a determination of the actual award due to each participant. |
| What happens in the event of a change of control of Wesfarmers or the sale of the Coles division? | The Board may determine that the restrictions applicable under CLTIP do not apply in the event of a change of control. If so, the accrued awards under CLTIP up to the time of the change of control vest.<br>In the event of the sale of the Coles division, the Board also has discretion to vest all or part of the award for the year in which the sale occurs. |
| What happens if the executive ceases employment during the performance period? | No amount is payable under CLTIP if a participant ceases employment prior to 30 June 2011.<br>After this date, if Wesfarmers terminates a participant's employment (other than for cause) all accrued awards vest at that time (ie those referable to earlier years performance). If the participant resigns after 30 June 2011 but before 30 June 2012, the executive will receive 40 per cent of any accrued awards. If the resignation occurs between 30 June 2012 and 30 June 2013, the executive will receive 60 per cent of any accrued awards. |
| What are the specific targets under the CLTIP for future years? | The financial targets for the Coles division are commercially sensitive, as they are aligned to the five year turnaround of this business and therefore, disclosure of such targets would be of great benefit to major competitors. It is not common practice for other companies to release sensitive internal financial targets until after the financial results for that year have been audited and released to the market. |

**Retention arrangements**

Historically, retention arrangements were established to retain certain key Group executives. The applicable retention payment accrued over the first five years of a participant's employment. Payment was not subject to performance, only continued service and is only payable on termination. This retention programme has been closed to all new executives effective from February 2009, and no participants in CLTIP are eligible to receive a retention payment.

**NEW DEVELOPMENTS: 2009/10**

This plan has been closed – no new executives will be participating in the retention payment programme.

The retention payment payout factor increases proportionately from 0.2 after one year to 1.0 after five years. This is multiplied, in the case of the GMD by FAR, and in the case of other executives by total target remuneration, which comprises FAR plus target annual incentive (60 per cent of FAR) plus target annual long-term incentive (80 per cent of FAR).

While the entitlement accrues annually over the first five years of service, the retention arrangement is only payable on termination of employment.

An executive forfeits his or her entitlement to a retention payment where he or she breaches a material provision of his or her service agreement, is summarily dismissed or breaches applicable post-employment restraints.

## Remuneration report 2009 (audited) (continued)

## SECTION 4: SERVICE AGREEMENTS

The remuneration and other terms of employment for the executive directors and senior executives are covered in formal employment contracts. Each of these includes provisions for a fixed remuneration component, performance-related cash incentive awards (as described above), other benefits, and participation, where eligible, in long-term incentive and retention incentive arrangements (as described above).

All service agreements are for unlimited duration, except for Mr McLeod who is employed under a service agreement with a duration of five years (expiring 30 June 2013). Details of awards under the relevant incentive plans are set out earlier in this report.

| Name | Notice periods |
|---|---|
| R J B Goyder | 12 months<br>May be terminated immediately for serious misconduct, breach of contract, bankruptcy or mental incapacity |
| I J W McLeod | 12 months by either party except during the final year of his contract, in which case, notice is for the balance of the contract<br>In addition to notice, Mr McLeod is entitled to a payment equal to his FAR plus target annual incentive<br>If terminated by the Company between 1 July 2011 and 30 June 2013, this termination payment is reduced by an amount equal to any accrued entitlement under CLTIP<br>May be terminated immediately for serious misconduct |
| T J Bowen<br>Other senior executives | Three months by both parties<br>Six months in the case of redundancy<br>May be terminated immediately for serious misconduct |

## SECTION 5: REMUNERATION TABLES AND DATA

**Cash payments under the annual incentive plans**

| | Actual incentive payment | Actual incentive payment as a % of maximum | |
|---|---|---|---|
| | $ paid | % paid[1] | % forfeited |
| **Executive directors** | | | |
| R J B Goyder | 1,100,943 | 29.1% | 70.9% |
| T J Bowen | 855,693 | 62.0% | 38.0% |
| G T Tilbrook[2] | 0 | 0% | 100.0% |
| **Senior executives** | | | |
| S A Butel | 353,118 | 42.6% | 57.4% |
| J C Gillam | 740,970 | 55.1% | 44.9% |
| K D Gordon | 169,200 | 15.0% | 85.0% |
| L K Inman | 927,000 | 77.3% | 22.7% |
| I J W McLeod | 1,488,161 | 62.0% | 38.0% |

1 Annual incentive payments for the 2009 financial year to executive directors and senior executives were limited to payments in relation to achievement of financial and divisional targets only, with no payment for the individual performance objectives element, resulting in a reduction of between 20 and 40 per cent of the maximum annual incentive payable.

2 G T Tilbrook retired on 1 May 2009 and was eligible for a pro-rata incentive payment for the period of the plan year worked, however no incentive payment was made in September 2009, as the Group NPAT hurdle was not met and the individual performance objectives element for senior executives was not paid.

In addition, in recognition of the increased contribution of the Resources division to the Group in the 2009 financial year, SA Butel, the Managing Director of the Resources division, was eligible for a special incentive dependent on divisional EBIT performance, paid on a pro-rata basis for performance between target (achievement of budget) and maximum (achievement of budget plus 10 per cent). Mr Butel earned $250,000 pursuant to this special incentive, being 50 per cent of the maximum entitlement.

## Remuneration report 2009 (audited) (continued)

### Remuneration of the key management personnel disclosed in the 2009 remuneration report

| | Short-term benefits | | | | Post employment benefits | | Share based payments[1] | | Termination benefits | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cash salary $ | Short-term incentive $ | Non-monetary benefits[3] $ | Other[3] $ | Super-annuation $ | Other benefits[4] $ | Cash settled awards $ | Value of shares $ | Termination payments $ | Total $ | Percentage performance related[2] % |
| **Executive directors** | | | | | | | | | | | |
| R J B Goyder (Group Managing Director) | | | | | | | | | | | |
| 2009 | 2,974,457 | 1,100,943 | 156,660 | 8,538 | 38,000 | 202,500 | 0 | 3,644,977 | 0 | 8,126,075 | 58.4% |
| 2008 | 2,730,707 | 0 | 116,063 | 9,904 | 38,000 | 525,000 | 0 | 1,644,981 | 0 | 5,064,655 | 32.5% |
| T J Bowen[5] (Finance Director – appointed 1 May 2009 previously Finance Director, Coles division) | | | | | | | | | | | |
| 2009 | 1,030,833 | 855,693 | 94,774 | 340,391 | 40,000 | 893,359 | 0 | 2,127,995 | 0 | 5,383,045 | 55.4% |
| 2008 | 894,065 | 900,000 | 17,065 | 164,281 | 44,091 | 750,781 | 0 | 383,997 | 0 | 3,154,280 | 40.7% |
| **Senior executives** | | | | | | | | | | | |
| S A Butel (Managing Director, Resources division) | | | | | | | | | | | |
| 2009 | 537,041 | 603,118 | 61,895 | 8,538 | 99,453 | 377,312 | 0 | 707,481 | 0 | 2,394,838 | 54.7% |
| 2008 | 483,740 | 702,000 | 44,582 | 9,904 | 100,000 | 395,255 | 0 | 219,989 | 0 | 1,955,470 | 47.1% |
| J C Gillam (Managing Director, Home Improvement and Office Supplies division) | | | | | | | | | | | |
| 2009 | 1,040,547 | 740,970 | 29,102 | 113,716 | 49,453 | 306,667 | 0 | 2,253,988 | 0 | 4,534,443 | 66.0% |
| 2008 | 912,500 | 905,900 | 108,858 | 9,904 | 50,000 | 785,000 | 0 | 509,990 | 0 | 3,282,152 | 43.1% |
| K D Gordon (Director, Industrial divisions) | | | | | | | | | | | |
| 2009 | 841,885 | 169,200 | 64,546 | 8,538 | 49,453 | 1,036,423 | 0 | 1,452,181 | 0 | 3,622,226 | 44.8% |
| 2008 | 528,750 | 1,080,000 | 38,322 | 9,904 | 50,000 | 582,274 | 0 | 274,981 | 0 | 2,564,231 | 52.8% |
| L K Inman[6] (Managing Director, Target division) | | | | | | | | | | | |
| 2009 | 854,915 | 927,000 | 25,341 | 208,538 | 99,453 | 525,598 | 0 | 1,035,496 | 0 | 3,676,341 | 53.4% |
| 2008 | 463,045 | 1,043,280 | 15,714 | 608,825 | 50,618 | 260,384 | 0 | 0 | 0 | 2,441,866 | 42.7% |
| I J W McLeod[7] (Managing Director, Coles division) | | | | | | | | | | | |
| 2009 | 1,941,710 | 1,488,161 | 164,677 | 81,002 | 13,745 | 33,333 | 1,530,000 | 0 | 0 | 5,252,628 | 57.5% |
| 2008 | 203,202 | 0 | 10,820 | 1,200,974 | 1,343 | 0 | 0 | 800,000 | 0 | 2,216,339 | 36.1% |
| **Former KMPs and senior executives disclosed under the Corporations Act 2001** | | | | | | | | | | | |
| P J C Davis[8] (Chief Operating Officer, Home Improvement and Office Supplies division) | | | | | | | | | | | |
| 2008 | 732,500 | 800,002 | 3,322 | 9,904 | 50,000 | 672,840 | 0 | 365,000 | 0 | 2,633,568 | 44.2% |
| G T Tilbrook[9] (Finance Director – retired 1 May 2009) | | | | | | | | | | | |
| 2009 | 864,657 | 0 | 69,103 | 7,134 | 87,321 | 198,711 | 0 | 2,824,980 | 0 | 4,051,906 | 69.7% |
| 2008 | 927,163 | 1,380,000 | 97,616 | 9,904 | 99,600 | 860,000 | 0 | 824,984 | 0 | 4,199,267 | 52.5% |
| **Total** | | | | | | | | | | | |
| **2009** | **10,086,045** | **5,885,085** | **666,098** | **776,395** | **476,878** | **3,573,903** | **1,530,000** | **14,047,098** | **0** | **37,041,502** | |
| 2008 | 7,875,672 | 6,811,182 | 452,362 | 2,033,504 | 483,652 | 4,831,534 | 0 | 5,023,922 | 0 | 27,511,828 | |

1 Share based payments: Refer to pages 163 to 169 for detailed disclosures under the various long-term incentive plans.
2 Percentage performance related is the sum of the short-term incentive and long-term incentive (share based payments) divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year, as compared to the target percentage of remuneration at risk shown on page 155.
3 Short term benefits, Non-monetary benefits includes the cost to the Company of providing parking, vehicle, tax advice, health insurance, life insurance, travel and entertainment.
Short term benefits, Other includes the cost of director and officer insurance, relocation assistance, housing allowance and living away from home allowance.
4 Post employment benefits, Other benefits includes long service leave accrual for the year, retention plan accrual from last year to this year (described on page 169), and the cost to the Company of G T Tilbrook's retirement gift of $13,720. The retention plan accrual from last year to this year is impacted by any FAR increases as a result of a promotion, or if the executive is still accruing a benefit within the five year service period eg T J Bowen and K D Gordon.
5 T J Bowen – Short term benefits, Other includes amounts paid on relocation from Melbourne to Perth.
6 L K Inman – Short term benefits, Other includes a carry over retention payment of $200,000 paid in July 2008, to honour previous contractual obligations with the Coles group. L K Inman was appointed on 23 November 2007, which impacts her 2008 financial year remuneration figures shown above.
7 I J W McLeod was appointed on 26 May 2008, which impacts his 2008 financial year remuneration figures above.
8 P J C Davis was not a KMP for the 2009 financial year, therefore only 2008 remuneration details are shown for comparative purposes only.
9 G T Tilbrook – Share based payments, Value of shares includes the full expensing of the 2008 WLTIP in the 2009 financial year, which vested on retirement as per the plan rules.

## Remuneration report 2009 (audited) (continued)

### Shares allocated under the long-term incentive plans

The table below sets out shares allocated to executive directors and senior executives during the 2009 financial year (WLTIP 2008 allocation) and in the 2008 financial year (WLTIP 2007 allocation).

| Name | Date allocated | Number allocated | Share price at allocation date $ | Value at allocation date $ | Plan |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| R J B Goyder | 21 November 2008 | 220,844 | 18.11 | 3,999,992 | 2008 WLTIP annual grant[1] |
| | 23 November 2007 | 79,838 | 41.21 | 3,289,962 | 2007 WLTIP annual grant[2] |
| T J Bowen | 21 November 2008 | 265,013 | 18.11 | 4,799,994 | 2008 WLTIP multi-year performance grant[3] |
| | 23 November 2007 | 18,637 | 41.21 | 767,993 | 2007 WLTIP annual grant[2] |
| G T Tilbrook | 21 November 2008 | 110,422 | 18.11 | 1,999,996 | 2008 WLTIP annual grant[1] |
| | 23 November 2007 | 40,040 | 41.21 | 1,649,967 | 2007 WLTIP annual grant[2] |
| **Senior executives** | | | | | |
| S A Butel | 21 November 2008 | 53,830 | 18.11 | 974,985 | 2008 WLTIP annual grant[1] |
| | 23 November 2007 | 10,677 | 41.21 | 439,978 | 2007 WLTIP annual grant[2] |
| J C Gillam | 21 November 2008 | 265,013 | 18.11 | 4,799,994 | 2008 WLTIP multi-year performance grant[3] |
| | 23 November 2007 | 24,752 | 41.21 | 1,019,980 | 2007 WLTIP annual grant[2] |
| K D Gordon | 21 November 2008 | 178,884 | 18.11 | 3,240,000 | 2008 WLTIP multi-year performance grant[3] |
| | 23 November 2007 | 13,346 | 41.21 | 549,962 | 2007 WLTIP annual grant[2] |
| L K Inman | 21 November 2008 | 157,351 | 18.11 | 2,849,988 | 2008 WLTIP multi-year performance grant[3] |
| I J W McLeod | 21 November 2008 | 44,168 | 18.11 | 799,984 | 2008 WLTIP annual grant[4] |

1 50 per cent of the value is shown under Share based payments as the 2008 WLTIP annual grant commenced vesting from 1 July 2008, and is subject to forfeiture if the executive resigns prior to 30 June 2010, as described on pages 165 to 166.

2 50 per cent of the value is shown under Share based payments as the 2007 WLTIP annual grant commenced vesting from 1 July 2007 and is subject to forfeiture if the executive resigns prior to 30 June 2009. The terms of the 2007 WLTIP grant are similar to the 2008 WLTIP. Further details were set out in the Wesfarmers 2008 Annual Report. For accounting purposes the 2007 WLTIP is now fully expensed, however the shares are still subject to the three year trading restriction.

3 36.3 per cent of the value is shown under Share based payments as the 2008 WLTIP multi-year performance grant is subject to a performance period from 1 July 2008 to 21 November 2011, as described on pages 165 to 166.

4 I J W McLeod's 2008 WLTIP is not reflected in Share based payments in the 2009 remuneration table on page 171, as it was fully disclosed in the 2008 Annual Report, as it formed part of Mr McLeod's incentive to join.

### Rights granted to the Group Managing Director

Under the GMD Long Term Incentive Plan (Rights Plan), the Company granted performance rights during the year to the GMD as set out below.

As the performance rights are not tested until 2011, there has been no movement in the number of performance rights granted to Mr Goyder (ie 100,000 performance rights remain on issue as at 30 June 2009).

| Executive director | Number of rights granted[1] | Grant date | Value of grant[2] | Vested | | Forfeited | |
|---|---|---|---|---|---|---|---|
| | | | | No. | % | No. | % |
| R J B Goyder | 100,000 | 30 September 2008 | – | – | – | – | – |

1 The grants made to the GMD constituted 100 per cent of the grants available for the year. As the performance rights only vest on satisfaction of performance conditions which are to be tested in future financial periods, none of the performance rights set out above vested or were forfeited during the year.
Performance rights granted in 2008 can vest in 2011 (three years after the grant date) subject to the achievement of performance conditions. Unvested performance rights will expire if it has been determined that the performance conditions were not met. Details of the relevant performance condition are set out on pages 164.

2 The Rights Plan is subject to achievement of a stretch ROE hurdle and expensed over the period from 30 September 2008 to 30 June 2013. Based on the probability of reaching the ROE hurdle of 12.5 per cent, no accrual has been recognised in the 2009 financial year.

## Remuneration report 2009 (audited) (continued)

## SECTION 6: OTHER INFORMATION

### Share trading policy

Wesfarmers' share trading policy prohibits all employees and directors of the Group from entering into transactions or arrangements which transfer the risk of any fluctuation in the value of shares obtained under an employee share plan for so long as the shares remain subject to a restriction on disposal under the plan. Strict compliance with the share trading policy is a condition of employment. Breaches of the policy are subject to disciplinary action, which may include termination of employment.

In May 2008 the Company's share trading policy was amended to require Wesfarmers directors and executives to advise the Company Secretary if they intend to enter into, or have entered into, a margin lending or other security arrangements affecting the Company's securities. The Company Secretary, in consultation with the Chairman, determines if such arrangements are material and require disclosure to the market.

### Company performance – statutory requirement

The table below summarises details of Wesfarmers' earnings (shown in the form of earnings per ordinary share and NPAT) and the consequences of that performance on shareholder wealth for the financial year and the previous four financial years in the form of dividends, changes in share price, any returns of capital and return on equity (in accordance with the requirements of the Corporations Act).

| Financial year ended 30 June | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Net profit after tax (NPAT) ($m) | 702 | 869[+] | 786 | 1,063[@] | **1,535** |
| Dividends per share (cents) | 180 | 215 | 225 | 200 | **110** |
| Closing share price ($ as at 30 June) | 40.01 | 35.33 | 45.73 | 37.30 | **22.76*** |
| Earnings per ordinary share (cents)[#] | 178.3 | 218.5 | 195.2 | 174.2 | **160.0** |
| Return on equity (rolling 12) | 25.4 | 31.1[+] | 25.1 | 8.6 | **7.4** |
| Capital returns per share (cents) | 100 | – | – | – | **–** |

+ Excludes earnings from the sale of ARG.
@ Restated for finalisation of Coles acquisition accounting.
* Weighted average closing share price as at 30 June 2009 (WES $22.65, WESN $23.50).
# 2005 to 2008 earnings per share restated for the entitlement offers.
Information is presented in accordance with International Financial Reporting Standards (IFRS), which were effective from 1 July 2005.

## Independent audit of remuneration report

Required disclosures pursuant to AASB 124: Related Party Disclosures, included in this remuneration report have been audited by Ernst & Young. Please see page 175 of this Annual Report for Ernst & Young's report on the remuneration report.

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

**R L Every**
Chairman

**R J B Goyder**
Managing Director

Perth, 15 September 2009

# 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 of the company and the consolidated entity are in accordance with the Corporations Act 2001, including:
      a) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
      b) complying with Accounting Standards and the Corporations Regulations 2001; and
   1.2. 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 2009.

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 33 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 34.

On behalf of the Board:

**R L Every**
Chairman

**R J B Goyder**
Managing Director

Perth, 15 September 2009

# Independent auditor's report

to the members of Wesfarmers Limited

### Report on the Financial Report

We have audited the accompanying financial report of Wesfarmers Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Auditor's opinion

In our opinion:

1. The financial report of Wesfarmers Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the financial position of Wesfarmers Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 157 to 173 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's opinion

In our opinion the Remuneration Report of Wesfarmers Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

**Ernst & Young**

**G H Meyerowitz**
Partner

Perth, 15 September 2009

# Annual statement of coal resources and reserves

as at 30 June 2009

## Coal resources

The table below details the coal resources for the Wesfarmers Group, as at 30 June 2009:

| Mine | Ownership | Beneficial interest | Location of tenements | Likely mining method | Coal type | Coal resources tonnes (millions) Measured | Indicated | Inferred | Total | Resource quality Ash (%) | CV (MJ/kg) | Sulphur (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Premier** | Wesfarmers Premier Coal Limited | 100% | Collie, Western Australia | Open cut | Steaming | 287 | 52 | 7 | 346 | 7.1 | 20.0 | 0.60 |
| **Curragh** | Wesfarmers Curragh Pty Ltd | 100% | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 388 | 134 | 167 | 689 | 15.9 | 29.0 | 0.55 |
| **Bengalla** | Wesfarmers Bengalla Limited | 40% | Hunter Valley, New South Wales | Open cut and underground | Steaming | 30 | 81 | 59 | 170 | 20.6 | 25.1 | 0.60 |

Resource notes:

1 Premier's resource quality is on a 25 per cent moisture basis.

2 Premier's minimum seam thickness for resources is 0.35 metres.

3 Curragh's insitu resource quality is on an air-dried basis.

4 Bengalla's coal resources are **in addition** to coal reserves.

5 Curragh and Premier's coal resources **are inclusive** of coal reserves.

6 Bengalla's insitu resource quality is on an air-dried basis.

7 Bengalla's resources as stated incorporate 100 per cent of the site resources, with Wesfarmers Bengalla Limited's beneficial interest being 40 per cent.

## Coal reserves

The table below details the coal reserves for the Wesfarmers Group, as at 30 June 2009:

| Mine | Ownership | Beneficial interest | Location of tenements | Likely mining method | Coal type | Coal reserves tonnes (millions) Proved | Probable | Total | Reserve quality inclusive of loss and dilution Ash (%) | CV (MJ/kg) | Sulphur (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Premier** | Wesfarmers Premier Coal Limited | 100% | Collie, Western Australia | Open cut | Steaming | 94 | 22 | 116 | 8.0 | 19.3 | 0.62 |
| **Curragh** | Wesfarmers Curragh Pty Ltd | 100% | Bowen Basin, Queensland | Open cut | Metallurgical and steaming | 221 | 2 | 223 | 19.9 | 25.5 | 0.53 |
| **Bengalla** | Wesfarmers Bengalla Limited | 40% | Hunter Valley, New South Wales | Open cut | Steaming | 91 | 81 | 172 | 26.5 | 23.0 | 0.60 |

Reserve notes:

1 Premier's reserve qualities are on a 26.5 per cent moisture basis.

2 Curragh reserve quality ash is on an as-received basis.

3 Curragh reserve quality Calorific Value (CV) and sulphur is on an air-dried basis.

4 Bengalla's reserve qualities are on an air-dried basis.

5 Bengalla's reserves as stated incorporate 100 per cent of the site reserves, with Wesfarmers Bengalla Limited's beneficial interest being 40 per cent.

6 Reserve qualities are inclusive of mining loss and out-of-seam dilution.

## Characteristics of coal reserves and resources

### Premier

The coal is sub-bituminous and is used in the domestic market both as steaming coal and in industrial processes. The resource is contained in 65 seams of varying coal quality characteristics. Coal is currently produced from 13 of these seams. Coal is extracted by open cut methods, currently to depths less than 145 metres below the ground surface.

### Curragh

The coal is bituminous and is used for power generation (principally domestic) and metallurgical processes (primarily steel production overseas). The resource is contained in five seams of varying thickness and quality characteristics. Coal is produced from all of these seams. Coal is extracted by open cut methods and processed through a wash plant using dense medium cyclones and froth flotation.

### Bengalla

The coal is bituminous and used in domestic and export markets for power generation. Coal is extracted from up to eight seams ranging in thickness from 1.5 metres up to 13 metres. These seams produce high yielding, high energy, generally low sulphur coals which are well suited to export and domestic power generation. The seams occur at relatively shallow depths and dip gently to the west. Coal is extracted by open cut methods.

## JORC code compliance

The statement of coal resources and reserves presented in this report has been produced in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, December 2004 (the 'JORC Code').

The information in this report relating to coal resources and reserves is based on information compiled by Competent Persons (as defined in the JORC Code, and listed below). All Competent Persons have at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

All of the coal resource information is inclusive of coal reserves unless otherwise stated.

## Competent Persons

**Premier**

Mr Damien Addison, a full time employee of Wesfarmers Premier Coal Limited, a wholly owned subsidiary of Wesfarmers Limited.
Member AIG

Mr Johan Ballot, a full time employee of Wesfarmers Premier Coal Limited, a wholly owned subsidiary of Wesfarmers Limited.
Member AusIMM

**Curragh**

Mr Paul O'Loughlin, a full time employee of Curragh Queensland Mining Pty Ltd, a wholly owned subsidiary of Wesfarmers Curragh Pty Ltd.
Member AusIMM

Mr Barry Lay, a full time employee of Curragh Queensland Mining Pty Ltd, a wholly owned subsidiary of Wesfarmers Curragh Pty Ltd.
Member AusIMM

**Bengalla**

Mr Gregor Carr, a full time employee of Rio Tinto Coal Australia Pty Limited.
Member AusIMM

Mr Ken Preston, a full time employee of Rio Tinto Coal Australia Pty Limited.
Member AusIMM

# Shareholder information

Wesfarmers Limited and its controlled entities

## Substantial shareholders

As at the date of this report no person held a substantial shareholding in the company for the purpose of Part 6C.1 of the Corporations Act 2001.

## Voting rights

Wesfarmers fully paid ordinary shares carry voting rights of one vote per share.

Wesfarmers partially protected shares carry voting rights of one vote per share.

## Distribution of members and their holdings

| Size of holdings | Wesfarmers fully paid ordinary shares number of shareholdings | Wesfarmers partially protected shares number of shareholdings |
|---|---|---|
| 1 – 1,000 | 411,691 | 300,618 |
| 1,001 – 5,000 | 82,215 | 9,031 |
| 5,001 – 10,000 | 9,139 | 561 |
| 10,001 – 100,000 | 4,912 | 236 |
| 100,001 – and over | 210 | 56 |

There were 16,623 holders holding less than a marketable parcel of Wesfarmers fully paid ordinary shares.

There were 8,655 holders holding less than a marketable parcel of Wesfarmers partially protected shares.

Less than 1.13 per cent of shareholders have registered addresses outside Australia.

## Twenty largest shareholders

**Fully paid ordinary shares**

The 20 largest shareholders of ordinary shares on the Company's register as at 15 September 2009 were:

| Name | Number of shares | % of issued capital |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 139,263,569 | 13.86 |
| J P Morgan Nominees Australia Limited | 134,589,496 | 13.39 |
| National Nominees Limited | 98,498,195 | 9.80 |
| Citicorp Nominees Pty Limited | 27,775,990 | 2.76 |
| ANZ Nominees Limited (Cash Income A/C) | 12,561,536 | 1.25 |
| Cogent Nominees Pty Limited | 12,256,576 | 1.22 |
| Queensland Investment Corporation | 12,239,904 | 1.22 |
| Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fund A/C) | 10,575,694 | 1.05 |
| AMP Life Limited | 8,226,707 | 0.82 |
| Australian Foundation Investment Company Limited | 6,165,951 | 0.61 |
| Citicorp Nominees Pty Limited (CFS WSLE Imputation Fnd A/C) | 4,936,140 | 0.49 |
| CPU Share Plans Pty Limited (WES WLTIP Control A/C) | 4,437,047 | 0.44 |
| ARGO Investments Limited | 4,215,376 | 0.42 |
| Perpetual Trustee Company Limited | 3,819,424 | 0.38 |
| M F Custodians Ltd | 3,797,610 | 0.38 |
| Citicorp Nominees Pty Limited (CFS Imputation Fnd A/C) | 3,488,937 | 0.35 |
| UBS Wealth Management Australia Nominees Pty Ltd | 3,220,156 | 0.32 |
| RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C) | 3,154,571 | 0.31 |
| Citicorp Nominees Pty Limited (CFS WSLE Aust Share Fnd A/C) | 2,468,300 | 0.25 |
| Cogent Nominees Pty Limited (SMP Accounts) | 2,415,439 | 0.24 |

The percentage holding of the 20 largest shareholders of Wesfarmers fully paid ordinary shares was 49.56.

## Twenty largest shareholders (continued)

### Partially protected shares

The 20 largest shareholders of partially protected shares on the Company's register as at 15 September 2009 were:

| Name | Number of shares | % of issued capital |
|---|---|---|
| J P Morgan Nominees Australia Limited | 19,401,471 | 12.77 |
| National Nominees Limited | 16,952,969 | 11.16 |
| HSBC Custody Nominees (Australia) Limited | 11,788,223 | 7.76 |
| M F Custodians Ltd | 4,239,478 | 2.79 |
| HSBC Custody Nominees (Australia) Limited – A/C 3 | 3,579,622 | 2.36 |
| AMP Life Limited | 2,820,296 | 1.86 |
| Citicorp Nominees Pty Limited | 2,384,422 | 1.57 |
| Australian Reward Investment Alliance | 1,960,326 | 1.29 |
| Australian Foundation Investment Company Limited | 1,400,120 | 0.92 |
| Brispot Nominees Pty Ltd (House Head Nominee No 1 A/C) | 1,133,038 | 0.75 |
| Cogent Nominees Pty Limited (SMP Accounts) | 1,074,628 | 0.71 |
| Cogent Nominees Pty Limited | 1,046,382 | 0.69 |
| ANZ Nominees Limited (Cash Income A/C) | 875,367 | 0.58 |
| Mr Peter Alexander Brown | 684,454 | 0.45 |
| UBS Nominees Pty Ltd | 662,166 | 0.44 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 643,795 | 0.42 |
| ANZ Nominees Limited (Income Reinvest Plan A/C) | 562,162 | 0.37 |
| Citicorp Nominees Pty Limited (CFS WSLE Imputation Fnd A/C) | 559,221 | 0.37 |
| UBS Wealth Management Australia Nominees Pty Ltd | 545,442 | 0.36 |
| Credit Suisse Securities (Europe) Ltd (Collateral A/C) | 500,000 | 0.33 |

The percentage holding of the 20 largest shareholders of Wesfarmers partially protected shares was 47.95.

# Five year financial history

Wesfarmers Limited and its controlled entities

| All figures in $m unless shown otherwise | | 2009 | 2008 [1] | 2007 | 2006 [2] | 2005 |
|---|---|---|---|---|---|---|
| SUMMARISED PROFIT AND LOSS | | | | | | |
| Sales revenue | | **50,641** | 33,301 | 9,667 | 8,818 | 8,101 |
| Other operating revenue | | **341** | 283 | 87 | 41 | 58 |
| Operating revenue | | **50,982** | 33,584 | 9,754 | 8,859 | 8,159 |
| Operating profit before depreciation and amortisation, net interest paid and income tax | | **3,629** | 2,660 | 1,566 | 1,597 | 1,223 |
| Depreciation and amortisation | | **(1,024)** | (660) | (345) | (283) | (189) |
| Net interest paid | | **(591)** | (571) | (116) | (82) | (67) |
| Income tax expense | | **(479)** | (366) | (319) | (363) | (265) |
| Operating profit after income tax attributable to members of Wesfarmers Limited | | **1,535** | 1,063 | 786 | 869 | 702 |
| CAPITAL AND DIVIDENDS | | | | | | |
| Ordinary shares on issue (number) 000's | | **1,157,072** | 799,438 | 388,069 | 378,042 | 378,042 |
| Paid up ordinary capital | | **23,286** | 18,173 | 2,256 | 1,902 | 1,901 |
| Dividend per ordinary share | | **110** | 200 | 225 | 215 | 180 |
| FINANCIAL PERFORMANCE | | | | | | |
| Earnings per ordinary share (weighted average)* | cents | **160.0** | 174.2 | 195.2 | 218.5 | 178.3 |
| Earnings per ordinary share growth | | **(8.2%)** | (10.8%) | (10.7%) | 22.5% | 26.8% |
| Return on average ordinary shareholders' funds | | **7.4%** | 8.6% | 25.1% | 31.1% | 25.4% |
| Net interest cover – cash basis (times) | | **5.3** | 4.9 | 8.7 | 13.8 | 12.4 |
| Income tax expense (effective rate) | | **23.8%** | 25.6% | 28.8% | 29.4% | 27.4% |
| FINANCIAL POSITION AS AT 30 JUNE | | | | | | |
| Total assets | | **39,295** | 37,178 | 12,076 | 7,430 | 7,153 |
| Total liabilities | | **15,043** | 17,580 | 8,573 | 4,264 | 4,411 |
| Net assets | | **24,252** | 19,598 | 3,503 | 3,166 | 2,742 |
| Net tangible asset backing per ordinary share | | **$3.14** | ($1.36) | $2.11 | $4.59 | $3.47 |
| Net financial debt to equity | | **18.3%** | 47.3% | 143.6% | 46.1% | 62.9% |
| Total liabilities/total assets | | **38.3%** | 47.3% | 71.0% | 57.4% | 61.6% |
| Stock market capitalisation as at 30 June | | **26,337** | 29,819 | 17,746 | 13,356 | 15,125 |

1 Restated for finalisation of Coles acquisition accounting.

2 Excludes earnings from the sale of ARG.

* 2005 to 2008 earnings per share restated for the entitlement offers.

# Corporate directory

Wesfarmers Limited ABN 28 008 984 049

**Registered office**

Level 11, Wesfarmers House
40 The Esplanade, Perth,
Western Australia 6000

| | |
|---|---|
| Telephone: | (+61 8) 9327 4211 |
| Facsimile: | (+61 8) 9327 4216 |
| Website: | www.wesfarmers.com.au |
| Email: | info@wesfarmers.com.au |

**Executive directors**

Richard Goyder
*Managing Director and Chief Executive Officer*

Terry Bowen
*Finance Director*

**Non-executive directors**

Bob Every Chairman
Colin Carter OAM
Patricia Cross
James Graham AM
Tony Howarth AO
Charles Macek
Diane Smith-Gander
David White

**Company Secretary**

Linda Kenyon

**Share registry**

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth, Western Australia 6000

Telephone

| | |
|---|---|
| Australia: | 1300 558 062 |
| International: | (+61 3) 9415 4631 |

Facsimile

| | |
|---|---|
| Australia: | (03) 9473 2500 |
| International: | (+61 3) 9473 2500 |
| Email: | web.queries@computershare.com.au |
| Website: | www.computershare.com.au |

**Financial calendar+**

| | |
|---|---|
| Record date for final dividend | 31 August 2009 |
| Final dividend paid | 1 October 2009 |
| Annual General Meeting | 10 November 2009 |
| Half-year end | 31 December 2009 |
| Half-year profit announcement | February 2010 |
| Record date for interim dividend | February 2010 |
| Interim dividend payable | March 2010 |
| Year-end | 30 June 2010 |

\+ Timing of events is subject to change

**Annual General Meeting**

The 28th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention Centre, Mounts Bay Road, Perth, Western Australia on Tuesday, 10 November 2009 at 2.00pm (Perth time).

**Website**

To view the 2009 Annual Report, shareholder and company information, news announcements, background information on Wesfarmers' businesses and historical information, visit Wesfarmers' website at www.wesfarmers.com.au

**Glossary**

| | |
|---|---|
| $ | Australian dollars being the currency for the Commonwealth of Australia |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| ASX Principles | ASX Corporate Governance Principles and Recommendations (Second Edition) |
| Board | Board of Directors of Wesfarmers Limited |
| Coles group | Includes Coles food and liquor, fuel and convenience businesses, Target, Kmart, Officeworks and Harris Technology |
| EBIT | Earnings before interest and tax |
| Group | Wesfarmers Limited and its subsidiaries |
| IFRS | International Financial Reporting Standards |
| LNG | Liquefied natural gas |
| LPG | Liquefied petroleum gas |
| WESOP | Wesfarmers Employee Share Ownership Plan |
| WESP | Wesfarmers Employee Share Plan |
| WLTIP | Wesfarmers Long Term Incentive Plan |
| WSSSP | Wesfarmers Salary Sacrifice Share Plan |

Designed and produced by Ross Barr & Associates Pty Limited

The cover and pages 1 through to 72 are printed on Monza Recycled which contains 55 per cent recycled fibre (25 per cent post consumer and 30 per cent pre consumer) and FSC Certified pulp, which ensures that all virgin pulp is derived from well-managed forests and controlled sources. It is manufactured by an ISO 14001 certified mill. Monza Recycled is an FSC Mixed Sources Certified paper.

Pages 73 through to 180 are printed on Precision which is PEFC Certified and made from elemental chlorine free bleached pulp sourced from sustainably managed forests and non controversial sources. It is manufactured by an ISO 14001 certified mill using renewable energy sources.

www.wesfarmers.com.au