NEWS

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NON-TRADING ITEMS UPDATE FOR YEAR ENDED 30 JUNE 2014

Wesfarmers provides the following update regarding non-trading items expected to be included in its full-year results for the 2014 financial year (FY2014). These non-trading items, which include the profit on sale of the Insurance division, a revision to Target's carrying value and a provision for restructuring of Coles' Liquor business, are expected to result in a net gain of approximately $261 million to $301 million (pre-tax).

Profits on sale of insurance underwriting and broking/premium funding operations

Wesfarmers announced on 30 June 2014 that the sale of its insurance underwriting operations in Australia and New Zealand to Insurance Australia Group had been completed. Wesfarmers also announced on 16 June 2014 that the sale of its insurance broking and premium funding operations to Arthur J. Gallagher & Co had been completed. These sale transactions collectively constitute the entire business operations of Wesfarmers' Insurance division.

Wesfarmers expects to record a combined pre-tax profit on sale of approximately $1,035 million to $1,075 million. The final sale proceeds and profit impact of both transactions are subject to the finalisation of completion adjustments.

Target carrying value

Following completion of the Group's impairment testing process, Wesfarmers expects to recognise an impairment charge of approximately $680 million (pre-tax) associated with the Coles Group goodwill apportioned to Target on acquisition in 2007.

This impairment charge to goodwill represents 35.2 per cent of Target's carrying amount of allocated goodwill at 30 June 2013, and 4.5 per cent of the Group's carrying amount of goodwill at 30 June 2013 (excluding goodwill associated with the Insurance division). The impairment charge is non-cash in nature and largely reflects an increase in the risk-adjusted discount rate applied to Target's expected future cash flows.

Importantly, Wesfarmers has created substantial value across other Group divisions and notably across the portfolio of other acquired Coles Group businesses (Coles, Kmart and Officeworks) where overall the value created since the acquisition in 2007 significantly exceeds this impairment charge. The applicable accounting standards, under which Target's impairment charge has been made, do not allow Wesfarmers to recognise these increases in value in its accounts.

Wesfarmers Limited ABN 28 008 984 049
11th Floor, 40 The Esplanade, Perth, Western Australia 6000. GPO Box M978, Perth WA 6843.
www.wesfarmers.com.au

The Group's impairment testing process involves consideration of expected earnings[1] for FY2014, which for Target are expected to be in the range of $82 million to $88 million, 2015 financial year (FY2015) operating budgets and longer term divisional outlooks.

"Notwithstanding the revision to Target's carrying value, we are pleased with the progress that has been made over the last 12 months in materially strengthening Target's leadership team and we consider there to be many opportunities to significantly improve Target's performance," Wesfarmers Managing Director Richard Goyder said.

This non-cash impairment charge will have no impact on Wesfarmers' normal business operations and development.

Business restructuring – Coles division (Liquor)

The Coles division expects to raise a provision of $94 million (pre-tax) related to restructuring activities commenced within its Liquor business. As indicated at Wesfarmers' 2014 Strategy Briefing Day on 28 May 2014, the turnaround strategy of the Liquor business is focused on reshaping the store network, rationalising product ranges, improving the customer offer and increasing operational efficiency.

This provision relates to recently initiated activities to be implemented during FY2015 largely associated with store network restructuring, which will enable the Liquor business to improve the customer experience, increase store network productivity and establish a solid base for future growth.

Summary

The following table summarises these non-trading items expected to be included in the FY2014 full-year results.

Items	Pre-tax earnings inclusion in FY2014 results ($ million)
Profits on sale	
Insurance - Underwriting and Broking/Premium funding	1,035 - 1,075
Carrying value change	
Target	(680)
Provisioning	
Coles - Liquor business restructuring	(94)
Total	**261 - 301**

For further information:

Media
Cathy Bolt
Media & External Affairs Manager
+61 8 9327 4423 or +61 417 813 804

Investors
Mark Scatena
General Manager, Investor Relations & Planning
+61 8 9327 4416 or +61 439 979 398

[1] Earnings before interest and tax (EBIT)