News Release

Wesfarmers

25 May 2016

Target and Curragh significant items expected in 2016 full-year results

Following a review by Directors of Wesfarmers' Strategic Plans for Department Stores and Curragh, and preliminary second half impairment testing results, Wesfarmers advises of a number of significant items now expected to be included in the Group's 2016 full-year (FY2016) financial results. These are:

- Restructuring costs and provisions of $145 million to significantly rebase Target and provide a stronger platform for the future; this is in addition to an expected underlying earnings before interest and tax (EBIT) loss in Target for FY2016 of approximately $50 million, due to high seasonal clearance activity and lower gross margins.

- Non-cash impairment of $1,100 million to $1,300 million pre-tax ($1,083 million to $1,283 million post-tax) to be recorded in Target, mainly against its historic share of the Coles Group goodwill.

- Non-cash impairment of $600 million to $850 million pre-tax ($420 million to $600 million post-tax) to be recorded in Curragh; Curragh's recoverable value remains very sensitive to future currency and export coal price assumptions, and low cost production provides scope for improvement in financial performance should coal revenues improve.

The accounting impairments in Target and Curragh, which will be finalised as part of the Group's FY2016 annual accounts, are non-cash in nature, have no effect on current trading and will not impact the Group's compliance with its banking covenants. It is intended that the Group's final dividend for FY2016 will be determined based on the Group's net profit after tax (NPAT) excluding the above impairment charges, and will be made in accordance with Wesfarmers' existing dividend policy.

Wesfarmers Managing Director Richard Goyder said "In Wesfarmers, we firmly believe in doing what's right for the long term future of our businesses, and we have never shied away from taking tough action in the short term if that is what is required. The decisions which we have outlined today reflect more difficult market conditions in both Target and Curragh, but we remain confident that operationally we have the right plans to improve future performances over time".

"Whilst Target has made operational progress in recent years, market competition and disruption has continued to accelerate, including from the very strong performance of Kmart. Within this context, the Group created the new Department Stores division with a mandate to deliver a higher long term earnings outcome for the overall division. Under Guy Russo's leadership, the new management team has completed a detailed assessment of business opportunities and begun revising strategic plans, which will include greater property coordination as well as accelerating activity in Target to ensure that it has the best foundation possible on which to build future success.

Update on Target restructuring costs to be expensed in the second half of FY2016 and underlying earnings outlook

Having undertaken a comprehensive review of all aspects of the business, Target's management team is now taking decisive steps to reduce the cost base and reset the business to create a stronger platform for the future. Up-front costs associated with this activity, together with difficult trading conditions in the second half of FY2016, are expected to result in restructuring costs and provisions of approximately $145 million, in addition to an underlying FY2016 EBIT loss for Target of approximately $50 million.

Restructuring activities include:

- Restructuring of the store support centre, including the costs of approximately 240 redundancies already made to create a leaner business for the future, with stated plans announced to move the Target Store Support Centre from its longstanding location in Geelong to a more suitable modern facility west of the Westgate Bridge (approximately $30 million);

- Accelerating the streamlining of Target's supply chain, including provisions to exit surplus offsite facilities (approximately $35 million); and

- Resetting Target's inventory, including clearance costs and provisions associated with accelerating range rationalisation plans and exit of slow moving categories and deleted product across the network (approximately $80 million).

Target's underlying earnings in the second half of FY2016, as outlined in Wesfarmers FY2016 third quarter retail sales announcement, reflect lower gross margins, including from a lower Australian dollar, and high levels of seasonal stock clearance, in part due to unseasonal weather conditions.

Department Stores Chief Executive Guy Russo said that Target is operating in an increasingly competitive landscape and therefore needs to clear quickly any obstacles to its program of rebuilding the business.

"Since February, Target's new management team and I have acted promptly to clearly understand both the short and longer term opportunities for performance improvement," Mr Russo said. "Through this process I am very confident that, over time, there can be a great future for both Target and Kmart as parallel but differentiated brands in the market place."

Target non-cash impairment charge

An impairment in the carrying value of Target of approximately $1,100 million to $1,300 million pre-tax ($1,083 million to $1,283 million post-tax) is expected to be recorded in FY2016. This considers current trading performance and short-term outlook, as well as changes to its strategic plan within the new Department Stores division. This non-cash impairment will be recorded as a write-down of Target's share of goodwill arising on the acquisition of the Coles Group, as well as selected individual store based assets. In total, the allocated goodwill in Target will be reduced by between $1,042 million and $1,242 million.

The accounting standards under which Target's impairment charge is required do not allow Wesfarmers to recognise in its accounts the substantial increase in value made across the other Coles Group businesses since acquisition, which would significantly exceed Target's impairment. This means that the strong performance of Kmart is not reflected in the carrying value of the overall Department Stores division.

Curragh non-cash impairment charge

Curragh's recoverable value is highly sensitive to export coal price forecasts and long-term exchange rate assumptions.

In a difficult industry environment, where global coal supply has proven to be more resilient than generally expected, Wesfarmers expects to recognise a non-cash impairment in the carrying value of Curragh in its FY2016 accounts of between $600 million to $850 million pre-tax ($420 million to $600 million post-tax). This mainly reflects a slower forecast recovery in long term export coal prices and higher volatility (including in exchange rates). The effect of this impairment charge will be to write down the depreciable and amortisable assets of Curragh.

Notwithstanding challenging market conditions, Curragh has maintained its relative low cost position and very strong safety record, and will continue to seek to deliver further benefits in these areas.

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