



18 February 2020

The Manager  
Company Announcements Office  
Australia Securities Exchange

Dear Manager,

**HALF-YEAR REPORT TO 31 DECEMBER 2019**

In accordance with ASX Listing Rule 4.2A, attached is the 2020 Half-year Report (including Appendix 4D).

It is recommended that the report be read in conjunction with the Annual Financial Report of Wesfarmers Limited for the period ended 30 June 2019, together with any public announcements made by Wesfarmers Limited in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

An analyst briefing will be held at 10:00am AWST / 1:00pm AEDT on Wednesday 19 February 2020. This briefing will be webcast and is accessible via our website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au).

Yours faithfully,

A handwritten signature in black ink, appearing to be "A Spaseska".

**A Spaseska**  
Executive General Manager  
Company Secretariat & Group Risk

This announcement was authorised to be given to the ASX by the Wesfarmers Limited Board Sub-committee.

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# HALF-YEAR REPORT 2020

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## INCORPORATING APPENDIX 4D

### For the six months ended 31 December 2019

It is recommended that the 2020 Half-year Report is read in conjunction with the annual financial report of Wesfarmers Limited as at 30 June 2019 together with any public announcements made by Wesfarmers Limited and its controlled entities during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*

Wesfarmers Limited ABN 28 008 984 049

# The primary objective of Wesfarmers is to provide a satisfactory return to shareholders.

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

 <p>anticipating the needs of our customers and delivering competitive goods and services</p>	 <p>looking after our team members and providing a safe, fulfilling work environment</p>	 <p>engaging fairly with our suppliers, and sourcing ethically and sustainably</p>
 <p>supporting the communities in which we operate</p>	 <p>taking care of the environment</p>	 <p>acting with integrity and honesty in all of our dealings</p>

## About Wesfarmers

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies. With headquarters in Perth, Wesfarmers' diverse business operations cover: home improvement; apparel, general merchandise and office supplies; an Industrials division with businesses in chemicals, energy and fertilisers and industrial safety products. Wesfarmers is one of Australia's largest private sector employers with around 111,000 employees (including more than 2,000 Indigenous team members) and has approximately 480,000 shareholders.

## About this report

This Half-year Report is a summary of Wesfarmers' and its subsidiary companies' operations and financial positions as at 31 December 2019 and performance for the half-year ended on that date.

In this report references to 'Wesfarmers', 'the company', 'the Group', 'we', 'us' and 'our' refer to Wesfarmers Limited (ABN 28 008 984 049) unless otherwise stated.

References in this report to the 'half-year' are to the financial period 1 July 2019 to 31 December 2019 unless otherwise stated. The previous corresponding period (pcp) is the half-year ended 31 December 2018.

All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

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## APPENDIX 4D

*For the half-year ended 31 December 2019*

### Results for announcement to the market

Revenue from continuing operations	up 6.0% to \$15,249 million
Profit after tax attributable to members from continuing operations	up 4.4% to \$1,127 million
Net profit for the period attributable to members	\$1,210 million (2018: \$4,538 million)
Interim dividend (fully-franked) per share	75 cents (2018: 100 cents)
Record date for determining entitlements to the interim dividend	5.00pm (AWST) 25 February 2020
Payment date for interim dividend	31 March 2020
Net tangible assets per ordinary share <sup>1</sup>	\$4.81 (2018: \$6.41)
Operating cash flow per share	\$1.88 (2018: \$1.75)

<sup>1</sup> The calculation of net tangible assets per ordinary share at 31 December 2019 includes the right-of-use asset and lease liability.

### Dividend Investment Plan

The company operates a Dividend Investment Plan (the Plan) which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with Wesfarmers ordinary shares. The allocation price for shares under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers ordinary shares on each of the 15 consecutive trading days from and including the third trading day after the record date of 25 February 2020 for participation in the Plan, being 28 February to 19 March 2020.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (AWST) on 26 February 2020. The Directors have determined that no discount shall apply to the allocation price and the Plan will not be underwritten. It is the Company's expectation that shares to be allocated under the Plan will be acquired on-market and transferred to participations on 31 March 2020. A broker will be engaged to assist in this process.

### Further information

Further information to assist in the understanding of the above is provided throughout this Half-year Report.

# DIRECTORS' REPORT

Half-year Report for the six months ended 31 December 2019

The directors of Wesfarmers Limited submit their report for the half-year ended 31 December 2019.

## Directors

Except as otherwise stated below, the names of the directors in office during the half-year reporting period 1 July 2019 to 31 December 2019 and as at the date of this report are shown below.

M A Chaney AO	(Non-Executive Chairman)
R G Scott	(Group Managing Director)
S W English KNZM	(Non-Executive Director)
A J Howarth AO	(Non-Executive Director – retired 14 November 2019)
W G Osborn	(Non-Executive Director)
M Roche	(Non-Executive Director)
D L Smith-Gander AO	(Non-Executive Director)
V M Wallace	(Non-Executive Director)
S L Warburton	(Non-Executive Director – appointed 1 August 2019)
J A Westacott AO	(Non-Executive Director)

# DIRECTORS' REPORT

Review of results and operations

## OVERVIEW OF GROUP RESULTS

Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<i>Results from continuing operations</i>				
Revenue	15,249	15,249	14,388	6.0
EBIT	1,734	1,637	1,645	(0.5)
Interest expense on lease liabilities	(119)	-	-	n.m.
EBIT (after interest on lease liabilities)	1,615	1,637	1,645	(0.5)
NPAT	1,127	1,142	1,080	5.7
Basic earnings per share (cps)	99.6	101.0	95.5	5.7
<i>Results including discontinued operations<sup>b</sup></i>				
NPAT from discontinued operations	83	83	3,458	n.m.
NPAT	1,210	1,225	4,538	n.m.
Return on equity (R12, %) <sup>c</sup>	21.4	20.4	13.5	n.m.
Interim dividend (fully-franked) per share	\$0.75	\$0.75	\$1.00	(25.0)

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> Further detail on discontinued operations is set out on page 19.

<sup>c</sup> Excludes significant items. Further detail on significant items is set out on page 19.

*Note: The Group adopted AASB 16 Leases (AASB 16) from 1 July 2019. As permitted by AASB 16, comparative periods have not been restated. To facilitate a comparison to the prior corresponding period, pre AASB 16 financial information, a non-IFRS measure, has been presented in this Directors' Report and is the focus of performance commentary.*

Wesfarmers Limited has reported a net profit after tax (NPAT) of \$1,210 million for the half-year ended 31 December 2019. Excluding the impact of the new lease accounting standard and discontinued operations, Wesfarmers' NPAT increased 5.7 per cent to \$1,142 million.

The result was underpinned by the strong performance of the Group's largest businesses in Bunnings and Kmart, and solid ongoing performance in Chemicals, Energy and Fertilisers (WesCEF). Along with Officeworks, the majority of the Group's retail businesses delivered a pleasing trading performance, with sales growth increasing relative to the prior corresponding period. Strict working capital management and disciplined capital expenditure also resulted in strong cash flow generation across the Group's operating divisions.

In contrast to the rest of the Group, the Industrial and Safety result was disappointing and the performance of Target was below expectations. A number of initiatives are underway to address the underperformance of both businesses.

Pleasing progress continues on the Group's digital strategy, with a number of divisions successfully implementing initiatives in conjunction with the Advanced Analytics Centre. The Group's retail businesses also delivered further improvements in their respective e-commerce capabilities with strong growth in online sales of 35 per cent for the half. The enhancements in digital capability continue to complement existing store networks with sales density improving in the Group's retail divisions.

During the period, the Group completed the acquisition of Kidman Resources Limited (Kidman) and Catch Group Holdings Limited (Catch). While modest, both investments provide new growth platforms that will benefit from the Group's existing capabilities and support shareholder returns over the long term.

Reflecting the strong cash flow performance and disciplined capital investment, the Group retained a strong balance sheet with net financial debt of \$2,317 million at the end of the period.

The directors have declared a fully-franked ordinary interim dividend of \$0.75 per share, reflecting earnings from continuing operations and Wesfarmers' dividend policy, which takes into account available franking credits, the strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise.

## DIRECTORS' REPORT

### Review of results and operations

Following the payroll errors previously identified, Wesfarmers' businesses have conducted extensive reviews of their respective payroll systems and processes. As a result of these reviews, some additional payroll errors have been identified. Immediate steps are being taken to rectify identified issues, notify and repay affected team members, including interest, and ensure accuracy in the future through a robust program of auditing and monitoring.

The Group's first half results include the impact of the estimated payroll remediation costs and associated expenses. The remediation costs at Target and Industrial and Safety have been separately disclosed within the divisional results to outline the underlying performance of these businesses. The review did not identify any material errors in the remaining businesses.

## GROUP RESULTS SUMMARY

Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Key financials</b>				
<b>Results from continuing operations<sup>b</sup></b>				
Revenue	15,249	15,249	14,388	6.0
EBITDA	2,475	1,915	1,911	0.2
EBIT	1,734	1,637	1,645	(0.5)
Interest on lease liabilities	(119)	-	-	n.m.
EBIT (after interest on lease liabilities)	1,615	1,637	1,645	(0.5)
NPAT	1,127	1,142	1,080	5.7
Basic earnings per share (cps)	99.6	101.0	95.5	5.7
<b>Results including discontinued operations<sup>b</sup></b>				
NPAT from discontinued operations	83	83	3,458	n.m.
NPAT	1,210	1,225	4,538	n.m.
Return on equity (excluding significant items) <sup>c</sup> (R12, %)	21.4	20.4	13.5	n.m.
<b>Cash flow and dividends including discontinued operations</b>				
Operating cash flow	2,131	1,666	1,987	(16.2)
Operating cash flow (after lease cash flows)	1,666	1,666	1,987	(16.2)
Net capital expenditure	207	207	678	(69.5)
Free cash flow	1,039	574	2,393	(76.0)
Free cash flow (after lease cash flows)	574	574	2,393	(76.0)
Cash realisation ratio (excluding significant items) <sup>c,d</sup>	114.1	117.3	98.5	18.8 ppt
Interim ordinary dividend (cps)	75	75	100	(25.0)
Special dividend (cps)	-	-	100	n.m.
<b>Balance sheet</b>				
Net financial debt <sup>e</sup>	2,317	2,317	324	n.m.

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> Further detail on discontinued operations is set out on page 19.

<sup>c</sup> Further detail on significant items is set out on page 19.

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

<sup>e</sup> Interest bearing liabilities less cash at bank and on deposit, net of cross currency interest rate swaps and interest rate swap contracts. Excludes lease liabilities.

# DIRECTORS' REPORT

Review of results and operations

## DIVISIONAL EARNINGS SUMMARY

Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Earnings before tax (EBT)</b>				
Bunnings	938	961	932	3.1
Kmart Group – continuing operations <sup>b</sup>	343	345	383	(9.9)
WesCEF – continuing operations	173	174	185	(5.9)
Industrial and Safety <sup>c</sup>	7	6	42	(85.7)
Officeworks	82	79	76	3.9
<b>Divisional EBT</b>	<b>1,543</b>	<b>1,565</b>	<b>1,618</b>	<b>(3.3)</b>
Other	72	72	27	n.m.
Discontinued operations <sup>d</sup>	-	-	587	n.m.
Significant items <sup>e</sup>	-	-	3,250	n.m.
Group finance costs (excl. interest on lease liabilities)	(69)	(69)	(97)	(28.9)
<b>Group profit before tax</b>	<b>1,546</b>	<b>1,568</b>	<b>5,385</b>	<b>n.m.</b>

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> 2019 includes \$9 million of payroll remediation costs relating to Target.

<sup>c</sup> 2019 includes \$15 million of payroll remediation costs.

<sup>d</sup> Further detail on discontinued operations is set out on page 19.

<sup>e</sup> Further detail on significant items is set out on page 19.

### Presentation of divisional earnings performance under AASB 16

Wesfarmers has applied AASB 16 from 1 July 2019 using the 'modified retrospective approach', which does not require historical periods to be restated. Broadly, the adoption of AASB 16 results in a reduction of occupancy expenses which is offset by an increase in depreciation on the right-of-use asset, and an increase in interest on lease liabilities. In order to present divisional earnings performance on a comparable basis, divisional earnings is reported on an earnings before tax (EBT) basis. Divisional EBT does not include any allocation of Group finance costs.

## PERFORMANCE OVERVIEW – DIVISIONAL

### Bunnings

Revenue for Bunnings increased 5.3 per cent to \$7,276 million for the half, with earnings increasing 3.1 per cent to \$961 million. Excluding the net contribution from property, earnings increased 4.3 per cent on the previous corresponding period.

Solid earnings growth was achieved despite a lower net property contribution due to fewer property sales, underpinned by an ongoing focus on store cost control and continued growth in consumer and commercial markets across all major trading regions and in all product categories.

Bunnings continued to execute its strategic agenda and made significant improvements to the in-store and online customer experience during the period, including range expansion, the rollout of click and collect in Australia and the launch of Bunnings' online marketplace in November 2019, Bunnings MarketLink.

### Kmart Group

Kmart Group revenue increased 7.6 per cent to \$4,990 million for the half. Kmart sales increased \$241 million, more than offsetting a sales decline of \$67 million in Target. Earnings for the division of \$345 million were 9.9 per cent lower than the prior corresponding period. Excluding a provision for one-off payroll remediation costs recognised in Target during the half, earnings of \$354 million were 7.6 per cent lower than the prior corresponding period. The results for the half include Catch from 12 August 2019.

# DIRECTORS' REPORT

## Review of results and operations

Following strong sales growth, Kmart's earnings increased compared to the prior corresponding period despite unfavourable foreign exchange rate impacts and higher team member wages. Earnings growth was underpinned by a continued focus on lowest price positioning, strong operational execution and an enhanced product range delivering growth across all categories.

While Target remained profitable, earnings were below expectations and decreased significantly compared to the prior corresponding period due to a reduction in customer transactions and poor performance in key apparel categories.

Kmart Group continued to invest in technology and digital capabilities throughout the half. The acquisition of Catch has strengthened the digital expertise in the Kmart Group and will help drive improvements in online execution and innovation.

### Industrials

WesCEF continued its solid performance with revenue increasing 1.7 per cent to \$889 million, as Chemicals and Fertilisers growth offset a decline in Energy due to lower prices. Earnings of \$174 million were 5.9 per cent lower than the prior corresponding period, impacted by a decline in Energy revenue, customers rolling on to new pricing under long-term contracts in the ammonium nitrate (AN) business and work to refine the AN emulsion product.

Industrial and Safety revenue declined by 2.1 per cent to \$858 million, while earnings excluding payroll remediation costs were \$21 million. Earnings were impacted by the disappointing performance in Blackwoods and a weaker performance from Workwear Group.

### Officeworks

Officeworks' revenue increased 11.9 per cent to \$1,231 million, with earnings of \$79 million up 3.9 per cent on the prior corresponding period.

Strong revenue growth was delivered in both stores and online as a result of continued investment in the customer experience, with pleasing momentum maintained in the business-to-business segment. Earnings growth was impacted by continued price investment and higher sales of lower-margin products.

### Other businesses

Other businesses and corporate overheads reported a profit of \$72 million compared to a profit of \$27 million in the prior corresponding period.

Earnings from this segment benefitted from a full period contribution from Wesfarmers' 15 per cent share of Coles Group Limited's (Coles) NPAT following the demerger of the business, property revaluations in the Bunnings Warehouse Property Trust, and also included \$9 million from the value sharing arrangement entered into as part of the sale of the Curragh coal mine.

### Discontinued operations and significant items

Post-tax significant items of \$83 million were recorded during the half, which primarily relate to the recognition of tax losses following the divestment of the Bunnings United Kingdom and Ireland (BUKI) business in June 2018.

### Cash flows, financing and dividends

Strict working capital management and disciplined capital expenditure resulted in a strong cash flow performance with divisional cash generation of 126 per cent, an 11 percentage point improvement on the prior corresponding period. The Group's cash realisation ratio also increased 19 percentage points during the half to 117 per cent, reflecting strong divisional cash generation and higher dividends from associates, including Coles.

The Group's operating cash flows decreased relative to the prior corresponding period which included operating cash flows from Coles and other discontinued operations.

Gross capital expenditure in continuing operations of \$455 million was in line with the prior corresponding period. Lower capital expenditure in Kmart Group due to the timing of store refurbishments was offset by increased investment in the Bunnings digital offer as well as higher capital expenditure in WesCEF relating to the Covalent Lithium joint venture.

## DIRECTORS' REPORT

### Review of results and operations

Free cash flows also decreased on the prior corresponding period primarily due to the acquisitions of Kidman and Catch during the half, while the prior period included proceeds from the divestment of the Bengalla Coal Mine (Bengalla), Quadrant Energy and Tyre and Auto Pty Ltd (KTAS) as well as the operating cash flows from the divested businesses and Coles.

The directors have declared a fully-franked ordinary interim dividend of \$0.75 per share, reflecting earnings from continuing operations and Wesfarmers' dividend policy, which takes into account available franking credits, the strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise.

## OUTLOOK

Following a period of significant change, the Group's portfolio of cash-generative businesses with leading market positions is well-placed to deliver satisfactory shareholder returns over the long term. Given Wesfarmers' commitment to maintaining a strong balance sheet, and the diversity and resilience of the Group's portfolio, it remains well-positioned for a range of economic conditions.

The Group's retail divisions will remain steadfast in their focus on customers and will continue to invest in their offers to deliver even greater value, quality and convenience. Bunnings, Kmart Group and Officeworks will continue to enhance their digital offers to meet the changing needs of customers while expanding addressable markets and improving operating efficiencies.

The performance of the Group's industrial businesses will continue to be subject to international commodity prices, exchange rates, competitive factors and seasonal outcomes. While demand from key end-markets is expected to remain robust, earnings in the WesCEF business are expected to be impacted by an oversupply of explosive grade ammonium nitrate (EGAN) in the Western Australian market.

The Group's operating divisions are assessing the impact of the coronavirus outbreak, including the impact on supplier operations in affected regions. At this stage, the outbreak has not had a significant impact on the Group's businesses but the situation is being monitored closely.

All of the Group's divisions will remain focused on managing their businesses for long-term success and value creation, while the Group will accelerate plans to address unsatisfactory returns in Industrial and Safety, and Target.

The Group will continue to develop and enhance its portfolio of businesses, building on its unique capabilities and platforms to take advantage of growth opportunities within existing businesses, recently acquired investments and to pursue transactions that create value for shareholders over the long term.

# DIRECTORS' REPORT

Divisional performance overview

## BUNNINGS AUSTRALIA AND NEW ZEALAND



Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Revenue</b>	<b>7,276</b>	<b>7,276</b>	<b>6,909</b>	<b>5.3</b>
EBITDA	1,316	1,059	1,027	3.1
Depreciation and amortisation	(321)	(98)	(95)	(3.2)
<b>EBIT</b>	<b>995</b>	<b>961</b>	<b>932</b>	<b>3.1</b>
Interest on lease liabilities	(57)	-	-	n.m.
<b>EBT</b>	<b>938</b>	<b>961</b>	<b>932</b>	<b>3.1</b>
Net property contribution <sup>b</sup>	22	42	51	(17.6)
<b>EBT (excluding net property contribution)</b>	<b>916</b>	<b>919</b>	<b>881</b>	<b>4.3</b>
EBT margin excluding property (%)	12.6	12.6	12.8	
RoC <sup>c</sup> (R12, %)	51.5	52.2	50.2	
Safety (R12, TRIFR)	10.4	10.4	12.0	
Total store sales growth <sup>d</sup> (%)	5.8	5.8	5.5	
Store-on-store sales growth <sup>d</sup> (%)	4.7	4.7	4.0	

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> Due to the adoption of AASB 16, the 2019 net property contribution is \$20 million lower due to a change in the recognition of gains on sale and leaseback transactions. The lower gain on sale will be offset through lower depreciation over the life of the relevant lease.

<sup>c</sup> Pre AASB 16 RoC is calculated as EBIT / capital employed. Post AASB 16 RoC is calculated as EBT / capital employed, where capital employed excludes right-of-use assets and lease liabilities.

<sup>d</sup> See Additional Disclosures (page 43) for relevant retail calendars.

### Performance review

Operating revenue for Bunnings increased 5.3 per cent to \$7,276 million for the half, with earnings increasing 3.1 per cent to \$961 million. Excluding the net contribution from property, earnings increased 4.3 per cent on the previous corresponding period.

Total store sales in the first half increased 5.8 per cent<sup>1</sup>, with store-on-store sales increasing 4.7 per cent.

Performance during the half was underpinned by continued growth in consumer and commercial markets across all major trading regions and in all product categories.

Earnings growth was achieved by solid execution of Bunnings' strategic agenda, including an ongoing focus on store cost control and operating model efficiencies. Despite continued strong property divestment outcomes, the net property contribution was lower than last year due to fewer property sales. Disciplined capital management supported an increase in return on capital to 52.2 per cent.

The rollout of click and collect was completed in Australia during the half. A click and deliver service is now available at over 100 Australian stores and will continue to be rolled out as the offer is tested and refined. Bunnings' new online marketplace, Bunnings MarketLink, was launched in November 2019. Additional operating costs of approximately \$10 million associated with the development of the digital offer were incurred relative to the prior corresponding period.

Growth in the commercial business reflected the diversity of Bunnings' trade customer base and resilience of its product offering, despite lower housing construction activity. The PowerPass program now has over 700,000 active members and continues to grow. Bunnings' focus remains on deepening relationships with trade customers through an expanded product offering and improved service.

During the half, Bunnings opened eight new trading locations, including one replacement. In addition, a decision was made to close three underperforming small format stores in New Zealand in need of significant capital investment. At the end of the period, there were 273 warehouses, 74 smaller format stores and 31 trade centres in the Bunnings network and a further 13 stores under construction.

<sup>1</sup> See footnotes within Additional Disclosures (page 43) for relevant retail calendars.

## **DIRECTORS' REPORT**

### **Divisional performance overview**

#### **Outlook**

Moderated trading conditions are expected to continue in the second half as customers are expected to remain cautious while significant weather events and bushfires continue to impact communities around Australia.

Bunnings remains well-positioned for continued growth with a focus on broadening commercial markets, investment in digital platforms, increased use of data analytics, price investment and network expansion.

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# DIRECTORS' REPORT

Divisional performance overview

## KMART GROUP



Half-year ended 31 December (\$m) <sup>a</sup>	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>b</sup>
<b>Revenue</b>	<b>4,990</b>	<b>4,990</b>	<b>4,639</b>	<b>7.6</b>
EBITDA	687	453	480	(5.6)
Depreciation and amortisation	(292)	(108)	(97)	(11.3)
<b>EBIT</b>	<b>395</b>	<b>345</b>	<b>383</b>	<b>(9.9)</b>
Interest on lease liabilities	(52)	-	-	n.m.
<b>EBT</b>	<b>343</b>	<b>345</b>	<b>383</b>	<b>(9.9)</b>
Payroll remediation costs <sup>c</sup>	(9)	(9)	-	n.m.
<b>EBT excluding payroll remediation costs<sup>c</sup></b>	<b>352</b>	<b>354</b>	<b>383</b>	<b>(7.6)</b>
EBT margin excluding payroll remediation costs <sup>c</sup> (%)	7.1	7.1	8.3	
RoC <sup>d</sup> (R12, %)	25.1	25.2	33.9	
Safety (R12, TRIFR)	16.0	16.0	21.0	
<b>Kmart</b>				
- Total sales growth <sup>e</sup> (%)	7.6	7.6	1.0	
- Comparable store sales growth <sup>e</sup> (%)	5.5	5.5	(0.6)	
<b>Target</b>				
- Total sales growth <sup>e</sup> (%)	(4.3)	(4.3)	0.3	
- Comparable store sales growth <sup>e</sup> (%)	(2.3)	(2.3)	0.5	

n.m. = not meaningful

<sup>a</sup> 2019 includes Catch from 12 August 2019. 2018 excludes KTAS trading performance & gain on disposal of KTAS.

<sup>b</sup> Variance calculated on pre AASB 16 results.

<sup>c</sup> 2019 payroll remediation costs relate to Target.

<sup>d</sup> Pre AASB 16 RoC is calculated as EBIT / capital employed. Post AASB 16 RoC is calculated as EBT / capital employed, where capital employed excludes right-of-use assets and lease liabilities.

<sup>e</sup> Excludes Catch. See Additional Disclosures (page 43) for relevant retail calendars.

### Performance review

Kmart Group delivered revenue of \$4,990 million for the half, up 7.6 per cent on the prior corresponding period. Kmart sales increased \$241 million, more than offsetting a sales decline of \$67 million in Target. Earnings of \$345 million, which included a one-off provision of \$9 million for payroll remediation in Target, were 9.9 per cent lower than the prior corresponding period. Excluding this one-off cost, earnings were 7.6 per cent below the prior corresponding period. The results for the half include Catch since its acquisition on 12 August 2019.

Kmart's total sales increased 7.6 per cent for the half<sup>2</sup>, with comparable sales increasing by 5.5 per cent. The sales performance for the half reflected the continued focus on lowest price positioning, stronger operational execution and an enhanced product range delivering growth across all categories, particularly womenswear and home.

Target's total sales decreased 4.3 per cent for the half<sup>2</sup>, with comparable sales decreasing by 2.3 per cent. The sales decline was driven by a reduction in customer transactions, with key categories in apparel performing poorly.

Catch generated revenue of \$155 million in the period under Wesfarmers' ownership, with gross transaction value increasing 21.4 per cent on the prior corresponding period. Catch has strengthened the digital expertise in the Kmart Group and will help drive improvements in online execution and innovation. Since acquisition, Catch has also implemented a number of customer-driven initiatives such as enhancing the Club Catch offer and offering Click and Collect in some Target stores.

Kmart delivered strong growth in earnings, in line with sales growth, despite unfavourable foreign exchange rate impacts and higher team member wages following the implementation of the new enterprise agreement. This result reflects Kmart's strong market position and improved execution of its strategy.

<sup>2</sup> See footnotes within Additional Disclosures (page 43) for relevant retail calendars.

## DIRECTORS' REPORT

### Divisional performance overview

Target's earnings for the half were below expectations. Earnings remained positive but decreased significantly relative to the prior corresponding period, primarily due to the weaker sales performance. During the half, Kmart Group earnings also reflected investment of approximately \$15 million associated with the development of its retail technology and digital capabilities, including investment in Anko.

Kmart Group continues to optimise the store network across Kmart and Target. During the half, Kmart opened five new stores (including one replacement) and completed 10 store refurbishments, while Target closed four stores as it continued to reposition its store network. There were 521 stores across Kmart Group as at 31 December 2019.

### Outlook

Kmart is well-positioned in the market and is expected to continue to offset the cost impacts from lower exchange rates and higher team member wages through operational and productivity improvements.

Target's trading results are unlikely to improve materially in the near term. Target will continue to focus on reducing costs by further leveraging the Kmart Group, improving the offer in destination categories and accelerating the optimisation of the property portfolio to further reduce lease commitments.

Kmart Group will increase its investment in digital capability, including through Catch, to meet evolving customer expectations and shopping behaviours. The investment in Catch remains focused on growing gross transaction value.

Kmart Group is closely monitoring the coronavirus outbreak and its potential impact on product availability. While its impact is currently minor, the outbreak remains a dynamic situation which is progressing daily.

# DIRECTORS' REPORT

Divisional performance overview

## INDUSTRIALS

### CHEMICALS, ENERGY AND FERTILISERS



Half-year ended 31 December (\$m) <sup>a</sup>	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>b</sup>
<b>Revenue<sup>c</sup></b>				
Chemicals	510	510	502	1.6
Energy	219	219	233	(6.0)
Fertilisers	160	160	139	15.1
<b>Total</b>	<b>889</b>	<b>889</b>	<b>874</b>	<b>1.7</b>
EBITDA	214	212	221	(4.1)
Depreciation and amortisation	(41)	(38)	(36)	(5.6)
<b>EBIT</b>	<b>173</b>	<b>174</b>	<b>185</b>	<b>(5.9)</b>
Interest on lease liabilities	-	-	-	<i>n.m.</i>
<b>EBT</b>	<b>173</b>	<b>174</b>	<b>185</b>	<b>(5.9)</b>
External sales volumes <sup>d</sup> ('000 tonnes)				
Chemicals	568	568	546	4.0
LPG	75	75	75	-
Fertilisers	324	324	301	7.6
RoC <sup>e</sup> (R12, %)	26.7	26.7	29.4	
Safety (R12, TRIFR)	3.1	3.1	5.3	

n.m. = not meaningful

<sup>a</sup> 2019 includes Australian Light Minerals, the holding company for WesCEF's 50 per cent interest in the Covalent Lithium joint venture, from 23 September 2019. 2018 excludes Quadrant Energy.

<sup>b</sup> Variance calculated on pre AASB 16 results.

<sup>c</sup> Excludes intra-division sales.

<sup>d</sup> External sales exclude AN volumes transferred between Chemicals and Fertilisers business segments.

<sup>e</sup> Pre AASB 16 RoC is calculated as EBIT / capital employed. Post AASB 16 RoC is calculated as EBT / capital employed, where capital employed excludes right-of-use assets and lease liabilities.

#### Performance review

Revenue of \$889 million was 1.7 per cent above the prior corresponding period, with Chemicals and Fertilisers contributing to revenue growth. Energy recorded a 6.0 per cent decrease in revenue due to a lower Saudi CP (the international benchmark indicator for LPG price) and flat sales volumes.

Earnings of \$174 million were 5.9 per cent lower than the prior corresponding period. The result included expenses associated with ongoing management of the lithium assets and exploration costs following the acquisition of Kidman in September 2019.

An ongoing focus on safety, particularly high potential incidents, has seen the total recordable injury frequency rate (TRIFR) decrease to 3.1 compared to 5.3 in the prior corresponding period.

#### Chemicals

Chemicals earnings were broadly in line with the prior corresponding period. The ammonium nitrate (AN) business experienced robust demand for explosive grade ammonium nitrate (EGAN) as a result of continued unplanned disruptions at the competing Burrup AN plant. Demand from the mining sector remains strong, particularly in iron ore due to replacement mines and higher strip ratios. AN earnings were lower than the prior corresponding period as a result of some customers rolling on to new pricing under long-term contracts and work to refine the emulsion product offering.

Earnings from the ammonia business increased, despite a planned maintenance shutdown of a key customer facility during the period, while the sodium cyanide business benefitted from strong plant production performance and robust demand from the gold mining sector.

Earnings from QNP and Australian Vinyls remained broadly in line with the prior period.

# DIRECTORS' REPORT

## Divisional performance overview

### **Energy**

Kleenheat earnings declined compared to the prior corresponding period, primarily due to a lower Saudi CP. Sales volumes remained stable. Kleenheat's natural gas retailing business also maintained sales volumes in line with the previous period but invested in customer value as the Western Australian market remained competitive.

### **Fertilisers**

While the first half of the financial year is not as material as the second half due to seasonality, Fertiliser earnings were broadly in line with the prior corresponding period. The business continued to invest in data and digital capabilities to enhance its service activities and customer experience.

### **Outlook**

Production and demand for products are expected to remain stable. The AN business is expected to be impacted by the likely recommencement of commercial production from the competing Burrup plant in the second half. Following this, AN earnings are expected to be adversely affected by an oversupply of EGAN in the Western Australian market in the short to medium term. The business remains focused on securing contracted offtake as key end-markets remain robust and demand continues to grow.

Kleenheat's earnings will remain dependent upon international LPG prices and LPG content in the Dampier to Bunbury natural gas pipeline. The natural gas retailing business remains focused on growing its presence in the Western Australian market, but earnings are likely to be impacted by continued competition.

Farmer sentiment in Western Australia is expected to remain cautious following the lower harvest overall for calendar year 2019. Second half earnings will remain dependent upon the timing and extent of the seasonal break in autumn.

Overall earnings for Chemicals, Energy and Fertilisers will continue to be impacted by international commodity prices (in particular, ammonia and Saudi CP), exchange rates, competitive factors and seasonal outcomes.

# DIRECTORS' REPORT

Divisional performance overview

## INDUSTRIAL AND SAFETY

Blackwoods NZ Safety Blackwoods WORKWEAR coregas GREENCAP

Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Revenue</b>	<b>858</b>	<b>858</b>	<b>876</b>	<b>(2.1)</b>
EBITDA	46	25	61	(59.0)
Depreciation and amortisation	(36)	(19)	(19)	-
<b>EBIT</b>	<b>10</b>	<b>6</b>	<b>42</b>	<b>(85.7)</b>
Interest expense on leases	(3)	-	-	n.m.
<b>EBT</b>	<b>7</b>	<b>6</b>	<b>42</b>	<b>(85.7)</b>
Payroll remediation costs	(15)	(15)	-	n.m.
<b>EBT excluding payroll remediation costs</b>	<b>22</b>	<b>21</b>	<b>42</b>	<b>(50.0)</b>
EBT margin excluding payroll remediation costs (%)	2.6	2.4	4.8	
RoC <sup>b</sup> (R12, %)	3.4	3.4	7.5	
Safety (R12, TRIFR)	4.1	4.1	7.3	

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> Pre AASB 16 RoC is calculated as EBIT / capital employed. Post AASB 16 RoC is calculated as EBT / capital employed, where capital employed excludes right-of-use assets and lease liabilities.

### Performance review

The performance of the Industrial and Safety business was below expectations primarily due to the disappointing performance in Blackwoods.

Industrial and Safety revenue of \$858 million was 2.1 per cent below the prior corresponding period, primarily driven by Blackwoods and Workwear Group. Excluding one-off payroll remediation costs, earnings of \$21 million were significantly below the prior corresponding period.

The earnings decline in Blackwoods was primarily driven by lower revenue as sales growth from strategic customers and the Western Australian region was offset by sales declines in other segments. Earnings were also impacted by continued investment in customer service as well as investment in digital capabilities including the enterprise resource planning (ERP) system and the business-to-business website.

During the period, a new regional leadership structure was implemented in Blackwoods. This new structure supports customer facing teams to deliver an improved end-to-end customer experience while merchandising, supply chain and support functions remain national functions. Since implementation of the new structure, service metrics including customer feedback and net promoter scores has improved.

Workwear Group earnings declined due to lower revenue, the impact of foreign exchange on sourcing costs, and the prior corresponding period benefitting from one-off insurance proceeds. Coregas' earnings were slightly lower primarily due to higher raw material and freight costs.

Safety and injury management remains a core focus. Pleasingly, the total reportable injury frequency rate declined significantly to 4.1.

### Outlook

Blackwoods is focused on improving the customer experience through the implementation of a new regional sales structure, as well as continued investment in data, digital and the ERP system. While there has been some positive customer feedback and improvement in service metrics, a material improvement in Blackwoods' performance is not expected until these initiatives are complete.

Workwear Group will continue to invest in its digital offer and operating efficiencies to meet competitive challenges. Coregas earnings are expected to be impacted by competitive pressure and higher input and distribution costs.

# DIRECTORS' REPORT

Divisional performance overview

## OFFICEWORKS



Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Revenue</b>	<b>1,231</b>	<b>1,231</b>	<b>1,100</b>	<b>11.9</b>
EBITDA	137	94	90	4.4
Depreciation and amortisation	(48)	(15)	(14)	(7.1)
<b>EBIT</b>	<b>89</b>	<b>79</b>	<b>76</b>	<b>3.9</b>
Interest expense on leases	(7)	-	-	n.m.
<b>EBT</b>	<b>82</b>	<b>79</b>	<b>76</b>	<b>3.9</b>
EBT margin (%)	6.7	6.4	6.9	
RoC <sup>b</sup> (R12, %)	17.2	16.9	17.2	
Safety (R12, TRIFR)	7.1	7.1	11.0	
Total sales growth <sup>c</sup> (%)	11.5	11.5	8.2	

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> Pre AASB 16 RoC is calculated as EBIT / capital employed. Post AASB 16 RoC is calculated as EBT / capital employed, where capital employed excludes right-of-use assets and lease liabilities.

<sup>c</sup> See Additional Disclosures (page 43) for relevant retail calendars.

### Performance review

Officeworks' revenue increased 11.9 per cent to \$1,231 million. Earnings of \$79 million were 3.9 per cent higher than the prior corresponding period.

Customers continued to respond positively to Officeworks' every-channel offer with sales growth of 11.5 per cent delivered for the half<sup>3</sup>, underpinned by robust transaction growth. Strong sales growth was delivered in both stores and online as a result of continued investment in the customer experience. Pleasing momentum was maintained in the business-to-business segment.

Providing an easy and engaging experience for customers remained a key focus throughout the half. Sales growth was underpinned by new and expanded product ranges, the early launch of the back-to-school program and a continued focus on providing low prices across the widest range of products, accompanied by great service.

Earnings growth was impacted by continued price investment to maintain customer trust and higher sales of lower-margin products. Productivity improvements helped to partially offset increased cost pressures due to higher team member wages, as well as facilitate investment in long-term growth.

Return on capital was 16.9 per cent, down 0.3 percentage points on last year as the business focused on investing in long-term growth initiatives, including the acquisition of Geeks2U in March 2019 and enhancing the back-to-school offer. Officeworks continues to maintain a disciplined approach to capital management.

There were no stores opened or closed during the half, resulting in 167 stores across Australia as at 31 December 2019.

### Outlook

Officeworks will continue to drive long-term growth and productivity by executing its strategic agenda. Earnings growth in the second half will be moderated by continued investment in price, team and technology.

<sup>3</sup> See footnotes within Additional Disclosures (page 43) for relevant retail calendars.

# DIRECTORS' REPORT

Divisional performance overview

## OTHER

Half-year ended 31 December (\$m)	Holding %	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Share of profit of associates and joint ventures</b>					
Coles	15	73	73	23	<i>n.m.</i>
BWP Trust	25	34	34	20	70.0
Other associates and joint ventures <sup>b,c</sup>	Various	27	27	22	22.7
<b>Sub-total share of profit of associates and joint ventures</b>		<b>134</b>	<b>134</b>	<b>65</b>	<b><i>n.m.</i></b>
Interest revenue <sup>d</sup>		4	4	9	(55.6)
Other <sup>c,e</sup>		2	2	27	(92.6)
Corporate overheads		(68)	(68)	(74)	(8.1)
<b>Total Other</b>		<b>72</b>	<b>72</b>	<b>27</b>	<b><i>n.m.</i></b>

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

<sup>b</sup> Includes investments in Gresham, flybuys, Wespine and BPI.

<sup>c</sup> 2018 includes \$42 million gain on the Group's investment in Barminco following its purchase by Ausdrill. \$9 million of this gain relates to the Group's indirect interest held in Other associates and joint ventures. The remaining \$33 million is recognised in Other.

<sup>d</sup> 2018 excludes interest revenue from Quadrant Energy loan notes.

<sup>e</sup> 2019 includes \$9 million from the Curragh coal mine value sharing arrangement.  
2018 includes \$16 million from the Curragh coal mine value sharing arrangement.

### Performance review

Other businesses and corporate overheads reported a profit of \$72 million compared to a profit of \$27 million in the prior corresponding period.

Earnings from the Group's associates and joint ventures increased by \$69 million, benefitting from a full period of earnings from the 15 per cent share of Coles' net profit after tax and property revaluations in the Bunnings Warehouse Property Trust.

Other corporate earnings of \$2 million were recorded, compared to \$27 million in the prior period. The decrease was primarily due to the gain on purchase of Barminco by Ausdrill of \$33 million recognised in other corporate earnings in the prior corresponding period and a reduction of \$7 million in the value share received from the arrangement entered into as part of the sale of the Curragh coal mine. Corporate overheads reduced by \$6 million to \$68 million.

# DIRECTORS' REPORT

Divisional performance overview

## DISCONTINUED OPERATIONS AND SIGNIFICANT ITEMS

Half-year ended 31 December (\$m)	2019 Pre AASB 16	2018 Reported	Variance %
<b>EBIT</b>			
Coles <sup>a</sup> (demerged 28 November 2018)	-	478	<i>n.m.</i>
Bengalla (40% interest sold 3 December 2018)	-	95	<i>n.m.</i>
KTAS (sold 1 November 2018)	-	10	<i>n.m.</i>
Quadrant Energy (13.2% indirect interest sold 27 November 2018)	-	4	<i>n.m.</i>
<b>EBIT (excluding significant items)</b>	<b>-</b>	<b>587</b>	<b><i>n.m.</i></b>
<b>Significant items (pre-tax)</b>			
Gain on sale of Bengalla	-	679	<i>n.m.</i>
Gain on sale of KTAS	-	267	<i>n.m.</i>
Gain on sale of Quadrant Energy	-	138	<i>n.m.</i>
Provision for supply chain automation in Coles	-	(146)	<i>n.m.</i>
Gain on demerger of Coles	-	2,312	<i>n.m.</i>
<b>Total post-tax significant items</b>	<b>-</b>	<b>3,250</b>	<b><i>n.m.</i></b>
<b>Significant items (post-tax)</b>			
Gain on sale of Bengalla	-	583	<i>n.m.</i>
Gain on sale of KTAS	-	219	<i>n.m.</i>
Gain on sale of Quadrant Energy	-	107	<i>n.m.</i>
Provision for supply chain automation in Coles	-	(102)	<i>n.m.</i>
Gain on demerger of Coles	-	2,252	<i>n.m.</i>
Recognition of capital losses in BUKI	84	-	<i>n.m.</i>
Adjustment to tax base in Coles on demerger	10	-	<i>n.m.</i>
Tax expense on sale of Bengalla	(11)	-	<i>n.m.</i>
<b>Total post-tax significant items</b>	<b>83</b>	<b>3,059</b>	<b><i>n.m.</i></b>

n.m. = not meaningful

<sup>a</sup> 2018 excludes \$146 million provision for supply chain modernisation, reported as a significant item.

### Discontinued operations and significant items

Post-tax significant items of \$83 million recorded during the half relate to discontinued operations and primarily comprise the recognition of tax losses relating to the Bunnings United Kingdom and Ireland business which was divested in June 2018. Following finalisation of the tax cost base of Coles on demerger, the Group also recognised an adjustment to tax expense on demerger in Coles, partially offset by an additional expense associated with the sale of Bengalla, on completion of the Group's income tax return.

# DIRECTORS' REPORT

Divisional performance overview

## CASH FLOW, FINANCING AND DIVIDENDS

Half-year ended 31 December (\$m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance % <sup>a</sup>
<b>Cash flow (including discontinued operations)</b>				
Operating cash flows	2,131	1,666	1,987	(16.2)
Operating cash flows (after lease cash flows)	1,666	1,666	1,987	(16.2)
Gross capital expenditure	455	455	955	(52.4)
Net capital expenditure	207	207	678	(69.5)
Free cash flow	1,039	574	2,393	(76.0)
Free cash flow (after lease cash flows)	574	574	2,393	(76.0)
Cash realisation ratio (excluding significant items) <sup>b,c</sup> (%)	114.1	117.3	98.5	18.8 ppt
<b>Balance sheet</b>				
Net financial debt <sup>d</sup>	2,317	2,317	324	n.m.
Other finance costs	69	69	97	(28.9)
Effective cost of debt (%)	4.78	4.78	4.90	(0.12 ppt)
<b>Dividends per share (cents per share)</b>				
Interim ordinary dividend	75	75	100	(25.0)
Special dividend	-	-	100	n.m.

n.m. = not meaningful

<sup>a</sup> Variance calculated on pre AASB 16 results.

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

<sup>c</sup> Further detail on significant items is set out on page 19.

<sup>d</sup> Interest bearing liabilities less cash at bank and on deposit, net of cross currency interest rate swaps and interest rate swap contracts. Excludes lease liabilities.

## CASH FLOW

Strict working capital management and disciplined capital expenditure resulted in a strong cash flow performance with divisional cash generation of 126 per cent, an 11 percentage point improvement on the prior corresponding period. The Group's cash realisation ratio also increased 19 percentage points during the half to 117 per cent, reflecting strong divisional cash generation and higher dividends from associates, including Coles.

The Group's total operating cash flows decreased relative to the prior corresponding period which included operating cash flows from Coles and other discontinued operations.

Gross capital expenditure in continuing operations of \$455 million was in line with the prior corresponding period. Lower capital expenditure in Kmart Group due to the timing of store refurbishments was offset by increased investment in the Bunnings digital offer as well as higher capital expenditure in WesCEF relating to the Covalent Lithium joint venture.

Free cash flows also decreased on the prior corresponding period primarily due to the acquisitions of Kidman and Catch during the half, while the prior period included proceeds from the divestment of Bengalla, Quadrant Energy and KTAS as well as the operating cash flows from the divested businesses and Coles.

# DIRECTORS' REPORT

Divisional performance overview

## FINANCING

Net financial debt at the end of the period, comprising interest bearing liabilities, excluding lease liabilities, net of cross currency swap assets and cash at bank and on deposit, was \$2,317 million, an increase of \$1,993 million on 31 December 2018 and \$201 million above the balance at 30 June 2019. The increase in net financial debt reflects the acquisitions of Kidman and Catch, as well as payment of the special dividend in April 2019.

Finance costs decreased 28.9 per cent to \$69 million, reflecting a decrease in the effective cost of debt.

The Group's strong credit ratings remained unchanged during the half, with a rating from Moody's Investors Services of A3 (stable) and rating of A- (stable) from Standard and Poor's.

## IMPACT OF AASB 16 LEASING STANDARD

Wesfarmers has applied AASB 16 from 1 July 2019 using the 'modified retrospective approach', which does not require historical periods to be restated. On application of the standard, the Group recorded on its balance sheet right-of-use assets of \$6,352 million and lease liabilities of \$7,275 million with a net impact of \$518 million recognised directly in equity as a leasing reserve.

Broadly, the adoption of AASB 16 results in a reduction of occupancy expenses which is offset by an increase in depreciation on the right-of-use asset, and an increase in interest on lease liabilities. The adoption of AASB 16 also results in a reclassification of cash flows from operating cash flows (rental payments) to financing cash flows (repayment of lease liabilities). There is no net impact on reported total net cash flows from the adoption of AASB 16.

Further information on the impact of AASB 16 is provided in the Half-year Financial Report and in the management presentation accompanying this report.

## DIVIDENDS

The directors have declared a fully-franked ordinary interim dividend of \$0.75 per share, reflecting earnings from continuing operations and Wesfarmers' dividend policy, which takes into account available franking credits, the strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise.

The interim dividend will be paid on 31 March 2020 to shareholders on the company's register on 25 February 2020, the record date for the interim dividend.

Given the preference of many shareholders to receive dividends in the form of equity, the directors have decided to continue the operation of the Dividend Investment Plan (the 'Plan'). The allocation price for shares issued under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 15 consecutive trading days from and including the third trading day after the record date, being 28 February 2020 to 19 March 2020.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (AWST) on 26 February 2020. The Directors have determined that no discount shall apply to the allocation price and the Plan will not be underwritten. It is the Company's expectation that shares to be allocated under the Plan will be acquired on-market and transferred to participations on 31 March 2020. A broker will be engaged to assist in this process.

# DIRECTORS' REPORT

## Auditor's independence declaration

The auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is provided below and forms part of this report.



Building a better  
working world

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

## Auditor's Independence Declaration to the Directors of Wesfarmers Limited

As lead auditor for the review of the half-year financial report of Wesfarmers Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Wesfarmers Limited and the entities it controlled during the financial period.

Ernst & Young

T S Hammond  
Partner  
18 February 2020

## ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars unless otherwise stated (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which the instrument applies.

Signed in accordance with a resolution of the directors.

M A Chaney AO  
Chairman  
Perth, 18 February 2020

# FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

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2. Basis of preparation and accounting policies	4. Revenue and expenses	8. Equity	13. Acquisitions		16. Contingent liabilities
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# INCOME STATEMENT

For the half-year ended 31 December 2019

	Note	Consolidated	
		December 2019 \$m	December 2018 \$m
<b>Continuing operations</b>			
Revenue	4	15,249	14,388
<b>Expenses</b>			
Raw materials and inventory		(9,523)	(8,864)
Employee benefits expense	4	(2,418)	(2,291)
Freight and other related expenses		(197)	(182)
Occupancy-related expenses <sup>1</sup>	4	(233)	(751)
Depreciation and amortisation <sup>1</sup>	4	(741)	(266)
Impairment expenses	4	(6)	(3)
Other expenses	4	(599)	(607)
<b>Total expenses</b>		<b>(13,717)</b>	<b>(12,964)</b>
Other income	4	60	149
Share of net profits of associates and joint ventures	12	142	72
		<b>202</b>	<b>221</b>
<b>Earnings before finance costs and income tax expense</b>		<b>1,734</b>	<b>1,645</b>
Interest on lease liabilities <sup>1</sup>		(119)	-
Other finance costs	4	(69)	(97)
<b>Profit before income tax expense</b>		<b>1,546</b>	<b>1,548</b>
Income tax expense	5	(419)	(468)
<b>Profit after tax from continuing operations</b>		<b>1,127</b>	<b>1,080</b>
<b>Discontinued operations</b>			
Profit after tax from discontinued operations		83	3,458
<b>Profit attributable to members of the parent</b>		<b>1,210</b>	<b>4,538</b>
<b>Earnings per share attributable to ordinary equity holders of the parent from continuing operations</b>			
Basic earnings per share		99.6	95.5
Diluted earnings per share		99.6	95.3
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
Basic earnings per share	9	106.9	401.2
Diluted earnings per share		106.9	400.5

<sup>1</sup> The comparative period has not been restated for the adoption of AASB 16 Leases. Refer to note 2(b) for further information.

# STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	Note	Consolidated	
		December 2019 \$m	December 2018 \$m
<b>Profit attributable to members of the parent</b>		<b>1,210</b>	4,538
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
<b>Foreign currency translation reserve</b>			
Exchange differences on translation of foreign operations		1	10
<b>Cash flow hedge reserve</b>	11		
Unrealised gains on cash flow hedges		48	115
Realised losses transferred to net profit		-	2
Realised gains transferred to non-financial assets		(120)	(109)
Transfer of hedges to Coles on demerger		-	(22)
Share of associates and joint ventures reserves		-	3
Tax effect		21	3
<i>Items that will not be reclassified to profit or loss:</i>			
<b>Financial assets reserve</b>			
Changes in the fair value of financial assets designated at fair value through other comprehensive income		8	(13)
Tax effect		(2)	4
<b>Retained earnings</b>			
Remeasurement loss on defined benefit plan		-	(1)
Tax effect		-	-
<b>Other comprehensive loss for the year, net of tax</b>		<b>(44)</b>	(8)
<b>Total comprehensive income for the year, net of tax, attributable to members of the parent arising from:</b>			
Continuing operations		1,083	1,072
Discontinued operations		83	3,458
		<b>1,166</b>	4,530

# BALANCE SHEET

As at 31 December 2019

	Note	Consolidated		
		December 2019 \$m	June 2019 \$m	December 2018 \$m
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	436	795	2,942
Receivables - trade and other		949	1,027	998
Inventories		4,578	4,246	4,374
Derivatives		58	101	137
Other		182	181	155
<b>Total current assets</b>		<b>6,203</b>	<b>6,350</b>	<b>8,606</b>
<b>Non-current assets</b>				
Investments in associates and joint ventures	12	3,398	3,393	3,267
Deferred tax assets <sup>1</sup>		452	194	240
Property		730	819	923
Plant and equipment		3,189	3,059	3,042
Mineral rights		801	-	-
Right-of-use assets <sup>1</sup>		6,664	-	-
Goodwill		3,224	3,090	3,071
Intangible assets		1,061	986	973
Derivatives		346	393	431
Other		11	49	32
<b>Total non-current assets</b>		<b>19,876</b>	<b>11,983</b>	<b>11,979</b>
<b>Total assets</b>		<b>26,079</b>	<b>18,333</b>	<b>20,585</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		4,130	3,620	4,108
Interest-bearing loans and borrowings	7	873	356	600
Lease liabilities <sup>1</sup>		995	-	-
Income tax payable		164	222	209
Provisions <sup>1</sup>		789	851	839
Derivatives		37	7	5
Other		239	160	214
<b>Total current liabilities</b>		<b>7,227</b>	<b>5,216</b>	<b>5,975</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	7	2,079	2,673	2,878
Lease liabilities <sup>1</sup>		6,626	-	-
Provisions <sup>1</sup>		329	381	351
Derivatives		4	1	-
Other		90	91	89
<b>Total non-current liabilities</b>		<b>9,128</b>	<b>3,146</b>	<b>3,318</b>
<b>Total liabilities</b>		<b>16,355</b>	<b>8,362</b>	<b>9,293</b>
<b>Net assets</b>		<b>9,724</b>	<b>9,971</b>	<b>11,292</b>
<b>Equity</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued capital	8	15,809	15,809	15,795
Reserved shares	8	(89)	(81)	(79)
Retained earnings/(accumulated losses)		118	(208)	1,100
Reserves <sup>1</sup>		(6,114)	(5,549)	(5,524)
<b>Total equity</b>		<b>9,724</b>	<b>9,971</b>	<b>11,292</b>

<sup>1</sup> The comparative periods have not been restated for the adoption of AASB 16 Leases. Refer to note 2(b) for further information.

# CASH FLOW STATEMENT

For the half-year ended 31 December 2019

	Note	Consolidated	
		December	December
		2019	2018
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers		16,995	33,789
Payments to suppliers and employees <sup>1</sup>		(14,381)	(30,880)
Dividends and distributions received from associates		99	39
Interest received		4	4
Borrowing costs <sup>2</sup>		(184)	(89)
Income tax paid		(402)	(876)
<b>Net cash flows from operating activities<sup>3</sup></b>	6	<b>2,131</b>	<b>1,987</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and intangibles	6	(455)	(955)
Proceeds from sale of property, plant and equipment and intangibles	6	248	277
Net proceeds from demerger and sale of businesses		-	856
Net proceeds from disposals of associates and other investments		89	230
Acquisition of subsidiaries, net of cash acquired		(974)	(2)
<b>Net cash flows (used in)/from investing activities</b>		<b>(1,092)</b>	<b>406</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		12	2,000
Repayment of borrowings		(61)	(715)
Repayment of lease liabilities		(465)	-
Equity dividends paid		(884)	(1,360)
Demerger transaction costs recognised directly in equity		-	(59)
<b>Net cash flows used in financing activities</b>		<b>(1,398)</b>	<b>(134)</b>
<i>Net (decrease)/increase in cash and cash equivalents</i>		<b>(359)</b>	<b>2,259</b>
<i>Cash and cash equivalents at beginning of period</i>		<b>795</b>	<b>683</b>
<b>Cash and cash equivalents at end of period</b>	6	<b>436</b>	<b>2,942</b>

<sup>1</sup> For the HY2019, payments to suppliers and employees excludes the repayment of, and interest paid on, lease liabilities.

<sup>2</sup> For the HY2019, borrowing costs includes interest paid on lease liabilities.

<sup>3</sup> Net cash flows from operating activities excludes the proportion of lease payments now classified as financing activities following the adoption of AASB 16 Leases, being \$465 million for the half-year ended 31 December 2019.

# STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2019

Attributable to equity holders of the parent

Consolidated	Note	Issued	Reserved	Retained	Hedging	Demerger	Leasing	Other	Total
		capital	shares	earnings	reserve	reserve	reserve	reserves	equity
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2018</b>		22,277	(43)	176	78	-	-	266	22,754
Net profit for the period		-	-	4,538	-	-	-	-	4,538
<b>Other comprehensive income</b>									
Exchange differences on translation of foreign operations		-	-	-	-	-	-	10	10
Changes in the fair value of financial assets designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	(9)	(9)
Changes in the fair value of cash flow hedges, net of tax	11	-	-	-	(8)	-	-	-	(8)
Remeasurement gain on defined benefit plan, net of tax		-	-	(1)	-	-	-	-	(1)
Total other comprehensive income for the period, net of tax		-	-	(1)	(8)	-	-	1	(8)
<b>Total comprehensive income for the period, net of tax</b>		-	-	4,537	(8)	-	-	1	4,530
Share-based payment transactions		-	-	-	-	-	-	11	11
Capital distribution and demerger dividend		(6,482)	-	-	-	(8,124)	-	-	(14,606)
Transfer of gain on demerger		-	-	(2,252)	-	2,252	-	-	-
Acquisition of shares on-market for Key Executive Equity Performance Plan (KEEPP)	8	-	(32)	-	-	-	-	-	(32)
Acquisition of shares on-market for Wesfarmers Long Term Incentive Plan (WLTIP)		-	(4)	-	-	-	-	-	(4)
Equity dividends	10	-	-	(1,361)	-	-	-	-	(1,361)
		(6,482)	(36)	(3,613)	-	(5,872)	-	11	(15,992)
<b>Balance at 31 December 2018</b>		<b>15,795</b>	<b>(79)</b>	<b>1,100</b>	<b>70</b>	<b>(5,872)</b>	<b>-</b>	<b>278</b>	<b>11,292</b>
<b>Balance at 30 June 2019 (as previously reported)</b>		<b>15,809</b>	<b>(81)</b>	<b>(208)</b>	<b>27</b>	<b>(5,860)</b>	<b>-</b>	<b>284</b>	<b>9,971</b>
Adoption of AASB 16, net of tax	2(b)	-	-	-	-	-	(518)	-	(518)
<b>At 1 July 2019 (restated)</b>		<b>15,809</b>	<b>(81)</b>	<b>(208)</b>	<b>27</b>	<b>(5,860)</b>	<b>(518)</b>	<b>284</b>	<b>9,453</b>
Net profit for the period		-	-	1,210	-	-	-	-	1,210
<b>Other comprehensive income</b>									
Exchange differences on translation of foreign operations		-	-	-	-	-	(1)	2	1
Changes in the fair value of cash flow hedges, net of tax	11	-	-	-	(51)	-	-	-	(51)
Changes in the fair value of financial assets designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	6	6
Total other comprehensive income for the period, net of tax		-	-	-	(51)	-	(1)	8	(44)
<b>Total comprehensive income for the period, net of tax</b>		-	-	1,210	(51)	-	(1)	8	1,166
Share-based payment transactions		-	-	-	-	-	-	(3)	(3)
Acquisition of shares on-market for KEEPP and WLTIP	8	-	(8)	-	-	-	-	-	(8)
Equity dividends	10	-	-	(884)	-	-	-	-	(884)
		-	(8)	(884)	-	-	-	(3)	(895)
<b>Balance at 31 December 2019</b>		<b>15,809</b>	<b>(89)</b>	<b>118</b>	<b>(24)</b>	<b>(5,860)</b>	<b>(519)</b>	<b>289</b>	<b>9,724</b>

# NOTES TO THE FINANCIAL STATEMENTS: ABOUT THIS REPORT

For the half-year ended 31 December 2019

## 1. Corporate information

The financial report of Wesfarmers Limited (referred to as 'Wesfarmers', 'the Company' or 'the Group') for the half-year ended 31 December 2019 was authorised for issue in accordance with a resolution of the directors on 18 February 2020. Wesfarmers is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ('the ASX').

## 2. Basis of preparation and accounting policies

### a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial report.

It is recommended that the half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and considered with any public announcements made by the Company during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest million dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the class order applies.

### b) Significant accounting policies

Except as noted below, the same accounting policies and methods of computation have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in the most recent annual financial report.

### New and revised Accounting Standards and Interpretations adopted as at 1 July 2019

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2019 to the Group have been adopted and include the first time application of AASB 16 which has had a material impact on the Group as disclosed below.

Several other amendments and interpretations apply for the first time from 1 July 2019, but do not have a material impact to the Group.

### AASB 16 Leases

The Group has leases on office, retail and distribution properties, motor vehicles and office equipment. Prior to the adoption of AASB 16, the Group classified each of its leases (as lessee) at inception as either finance leases or operating leases under AASB 117 *Leases* (AASB 117). Operating lease payments were recognised as an expense in the income statement on a straight-line basis over the lease term. Fixed rate increases to lease payments, excluding contingent or index based rental increases, were recognised on a straight-line basis over the lease term. An asset or liability was recognised for the difference between the amount paid and the lease expense recognised in earnings on a straight-line basis. Contingent rental payments that arose as a result of either turnover-based rentals or movements in relevant indices were recognised in the income statement as they were incurred.

## 2. Basis of preparation and accounting policies (continued)

AASB 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Wesfarmers, as a lessee under AASB 16, has recognised a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligations to make lease payments. The Group has separately recognised the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group has remeasured the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Group recognises the amount of any remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from the accounting under AASB 117. The Group, as a lessor, is not materially impacted by the adoption of AASB 16.

### Impact on adoption of AASB 16

Wesfarmers has applied AASB 16 from 1 July 2019, using the modified retrospective transition method whereby there is an option on a lease-by-lease basis to calculate the right-of-use asset as either:

- its carrying amount as if AASB 16 had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.

Under this method, there is no requirement to restate comparatives.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Group elected, on a lease-by-lease basis, to apply a number of practical expedients on transition including:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the short-term exemption to leases with a lease term that ends within 12 months of 1 July 2019;
- the utilisation of previous assessments of onerous leases; and
- the use of hindsight in determining the lease term.

Wesfarmers has elected not to apply the practical expedient to combine lease and non-lease components for its property leases. As such, the calculated lease liability excludes an estimate of the gross lease payments allocated to non-lease components.

The effect of adopting AASB 16 as at 1 July 2019 is as follows:

	\$m
Right-of-use assets	6,352
Deferred tax asset	222
Lease liabilities	(7,275)
Provisions	183
Leasing reserve	518

# NOTES TO THE FINANCIAL STATEMENTS: ABOUT THIS REPORT

For the half-year ended 31 December 2019

## 2. Basis of preparation and accounting policies (continued)

### b) Significant accounting policies (continued)

#### AASB 16 Leases (continued)

The following is a reconciliation of the Group's operating lease commitments under AASB 117 at 30 June 2019 to the lease liability recognised at 1 July 2019 on transition to AASB 16.

	\$m
Operating lease commitments at 30 June 2019	8,541
Less: short-term leases	(87)
Less: non-lease components	(647)
Add: impact of reasonably certain lease extensions	361
Add: base rent escalations previously considered contingent	150
Add: other	104
Less: impact of discounting <sup>1</sup>	(1,147)
<b>Lease liabilities recognised at 1 July 2019</b>	<b>7,275</b>

<sup>1</sup> The weighted average incremental borrowing rate at the date of initial application was 3.4 per cent.

#### Summary of lease accounting policies (applied from 1 July 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### Group as a Lessee

##### Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The estimated useful lives of the right-of-use building assets is between one and 40 years and right-of-use plant, vehicles and equipment is between one and 20 years. The right-of-use assets are also subject to impairment, assessed in accordance with the Group's impairment policy.

##### Lease liabilities

Lease liabilities are recognised by the Group, at the commencement date of the lease. Lease liabilities are measured at the present value of lease payments to be made over the lease term.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date where the interest rate implicit in the lease is not readily determinable. After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

#### Short-term leases and lease of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases, which are defined as those leases that have a lease term of 12 months or less from the commencement date. It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expenses on a straight-line basis over the lease term.

#### Key judgements

A key judgement on adoption of AASB 16 is the lease term. Wesfarmers considers an option to extend a lease to be reasonably certain when the extension date is within 12 months and no decision has been made to terminate, when a decision has been made to exercise the option or when there is a clear economic incentive for extension, such as:

- favourable contractual terms and conditions in the option period compared to market rates;
- leasehold improvements have recently been undertaken and are likely to have significant residual value at the end of the current lease period;
- significant termination costs exist; or
- the underlying asset is important to the Group's operations.

After lease commencement, the lease term is reassessed upon the occurrence of a significant event or change in circumstance.

Other key assumptions include discount rates and the determination of the stand-alone prices of the lease and non-lease components.

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the half-year ended 31 December 2019

## 3. Segment information

The operating segments 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 operates in different industries and markets. The Board and executive management team (the chief operating decision-makers) monitor the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. The types of products and services from which each reportable segment derives its revenues is disclosed in the Wesfarmers 30 June 2019 financial report. Segment performance is evaluated based on operating profit or loss, which in certain respects, as explained in the table below, is presented differently from operating profit or loss in the consolidated financial statements.

Revenue and earnings of retail divisions, particularly the Kmart Group, are typically greater in the December half of the financial year due to the impact of the Christmas holiday shopping period.

Transfer prices between business segments are on 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 and are not considered material.

The financial results for the comparative period were not restated upon the adoption of AASB 16. Earnings before interest, tax, depreciation and amortisation (EBITDA), depreciation and amortisation and interest on lease liabilities are therefore not comparable.

	CONTINUING OPERATIONS				INDUSTRIALS								CONSOLIDATED	
	BUNNINGS <sup>1</sup>		KMART GROUP		WesCEF		WIS		OFFICEWORKS		OTHER <sup>2</sup>			
	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Segment revenue</b>	<b>7,276</b>	6,909	<b>4,990</b>	4,639	<b>889</b>	874	<b>858</b>	876	<b>1,231</b>	1,100	<b>5</b>	(10)	<b>15,249</b>	14,388
EBITDA	1,316	1,027	687	480	214	221	46	61	137	90	75	32	<b>2,475</b>	1,911
Depreciation and amortisation	(321)	(95)	(292)	(97)	(41)	(36)	(36)	(19)	(48)	(14)	(3)	(5)	<b>(741)</b>	(266)
Interest on lease liabilities	(57)	-	(52)	-	-	-	(3)	-	(7)	-	-	-	<b>(119)</b>	-
<b>Segment result</b>	<b>938</b>	932	<b>343</b>	383	<b>173</b>	185	<b>7</b>	42	<b>82</b>	76	<b>72</b>	27	<b>1,615</b>	1,645
Other finance costs													<b>(69)</b>	(97)
Profit before income tax expense													<b>1,546</b>	1,548
Income tax expense													<b>(419)</b>	(468)
<b>Profit attributable to members of the parent</b>													<b>1,127</b>	1,080
Capital expenditure <sup>3</sup>	<b>269</b>	239	<b>72</b>	122	<b>55</b>	32	<b>33</b>	46	<b>22</b>	20	<b>1</b>	4	<b>452</b>	463
Share of net profit or loss of associates and joint ventures included in segment result	-	-	-	-	<b>8</b>	7	-	-	-	-	<b>134</b>	65	<b>142</b>	72

<sup>1</sup> The Bunnings HY2019 segment result includes a net property contribution of \$22 million (HY2018: \$51 million). Due to the adoption of AASB 16, \$20 million of gains from sale and leaseback transactions that would have been recognised on execution of the sale, are required to be deferred under the new standard, and will be realised over the lease term.

<sup>2</sup> The Other result includes the share of profits from Wesfarmers' 15 per cent interest in Coles.

<sup>3</sup> Capital expenditure includes accruals for costs incurred during the period. The amount excluding movement in accruals is \$455 million (2018: \$459 million).

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the half-year ended 31 December 2019

## 4. Revenue and expenses from continuing operations

	Consolidated	
	December	December
	2019	2018
	\$m	\$m
Revenue from contracts with customers	15,203	14,367
Interest revenue	4	8
Other	42	13
<b>Revenue</b>	<b>15,249</b>	<b>14,388</b>
Gains on disposal of property, plant and equipment and other assets	25	89
Other	35	60
<b>Other income</b>	<b>60</b>	<b>149</b>
Remuneration, bonuses and on-costs	2,202	2,085
Superannuation expense	164	155
Share-based payments expense	52	51
<b>Employee benefits expense</b>	<b>2,418</b>	<b>2,291</b>
Minimum lease payments	11	593
Contingent rental payments	26	20
Outgoings and other	196	138
<b>Occupancy-related expenses<sup>1</sup></b>	<b>233</b>	<b>751</b>
Depreciation	215	211
Depreciation of right-of-use assets	464	-
Amortisation of intangibles	27	22
Amortisation other	35	33
<b>Depreciation and amortisation</b>	<b>741</b>	<b>266</b>
Impairment of plant, equipment and other assets	6	3
Impairment of freehold property	-	-
Impairment of goodwill	-	-
<b>Impairment expenses</b>	<b>6</b>	<b>3</b>
Repairs and maintenance	98	94
Utilities and office expenses	230	215
Insurance expenses	45	80
Other	226	218
<b>Other expenses</b>	<b>599</b>	<b>607</b>
Interest on interest-bearing loans and borrowings	61	85
Discount rate adjustment	1	5
Amortisation of debt establishment costs	2	1
Other finance related costs	5	6
<b>Other finance costs</b>	<b>69</b>	<b>97</b>

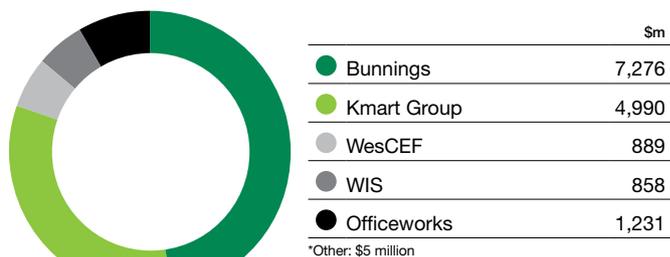
<sup>1</sup> The Group adopted AASB 16 from 1 July 2019. Had the Group's previous accounting policies under AASB 117 been applied for the current half-year period, the total occupancy-related expenses would have been \$813 million.

## 4. Revenue and expenses (continued) from continuing operations

	Consolidated	
	December	December
	2019	2018
	\$m	\$m
<b>Revenue by geography<sup>2</sup></b>		
Australia	14,058	13,298
New Zealand	1,155	1,055
United Kingdom	18	21
Other foreign countries	18	14
	<b>15,249</b>	<b>14,388</b>

<sup>2</sup> Revenue from contracts with customers disaggregated by geographic location is materially consistent with the disclosure above.

## Revenue by segment for HY2019<sup>3</sup> from continuing operations



<sup>3</sup> Revenue from contracts with customers disaggregated by segment is materially consistent with the disclosure above.

## 5. Tax expense from continuing operations

	Consolidated	
	December	December
	2019	2018
	\$m	\$m
A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Group's applicable income tax rate is as follows:		
Profit before tax	1,546	1,548
Income tax at the statutory rate of 30%	464	464
Adjustments relating to prior years	(2)	14
Non-deductible items	4	4
Share of results of associates and joint ventures	(3)	(14)
Non-assessable dividends	(22)	-
Deferred tax balances not previously recognised	(29)	-
Other	7	-
<b>Income tax on profit before tax</b>	<b>419</b>	<b>468</b>

# NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS

For the half-year ended 31 December 2019

## 6. Cash and cash equivalents

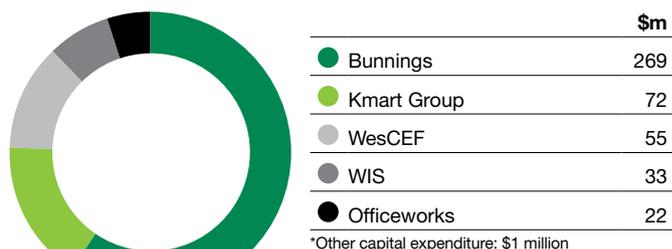
	Consolidated	
	December	June
	2019	2019
	\$m	\$m
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:		
Cash on hand and in transit	150	266
Cash at bank and on deposit	286	529
	<b>436</b>	<b>795</b>

	Consolidated	
	December	December
	2019	2018
	\$m	\$m

<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit	1,210	4,538
<i>Non-cash items</i>		
Depreciation and amortisation	741	538
Impairment and writedowns of assets	6	28
Gain on disposal of businesses	-	(3,167)
Net gain on disposal of non-current assets including investments and associates	(24)	(218)
Share of profits of associates and joint ventures	(142)	(76)
Dividends and distributions received from associates	99	39
Discount adjustment in borrowing costs	1	5
Other	(7)	(33)
<i>(Increase)/decrease in assets</i>		
Receivables - trade and other	80	136
Inventories	(286)	(687)
Prepayments	16	(63)
Deferred tax assets	(232)	(28)
Other assets	(3)	(1)
<i>Increase/(decrease) in liabilities</i>		
Trade and other payables	454	930
Current tax payable	167	(91)
Provisions	63	94
Other liabilities	(12)	43
<b>Net cash flows from operating activities</b>	<b>2,131</b>	<b>1,987</b>

	Consolidated	
	December	December
	2019	2018
	\$m	\$m
<i>Net cash capital expenditure</i>		
<b>Cash capital expenditure</b>		
Payment for property	164	324
Payment for plant and equipment	250	614
Payment for intangibles	41	17
	<b>455</b>	<b>955</b>
Less: Proceeds from sale of property, plant, equipment and intangibles	248	277
<b>Net cash capital expenditure</b>	<b>207</b>	<b>678</b>

### Capital expenditure by segment for HY2019



\*Other capital expenditure: \$1 million

# NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

For the half-year ended 31 December 2019

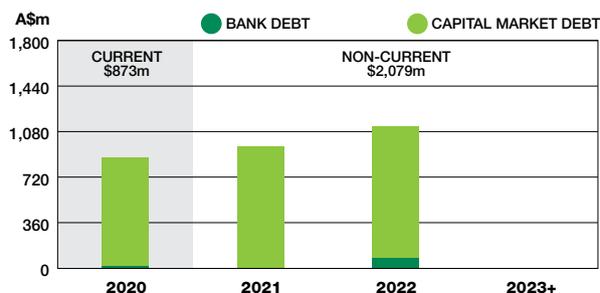
## 7. Interest-bearing loans and borrowings

### Funding activities

The Group continues its strategy of maintaining diversity of funding sources, pre-funding upcoming maturities, if required, and maintaining a presence in key markets. During the half-year ended 31 December 2019, there were no medium term note issuances or maturities. The Group has unused financing facilities available at 31 December 2019 of \$3,122 million.

The illustration below provides details, including the principal repayment obligations, of all loans and borrowings on issue at 31 December 2019:

### Outstanding loans and borrowings



	Consolidated	
	December 2019	June 2019
	\$m	\$m
<b>Current</b>		
Unsecured		
Bank debt	18	6
Capital market debt	855	350
	<b>873</b>	<b>356</b>
<b>Non-current</b>		
Unsecured		
Bank debt	83	142
Capital market debt	1,996	2,531
	<b>2,079</b>	<b>2,673</b>
<b>Total interest-bearing loans and borrowings</b>	<b>2,952</b>	<b>3,029</b>

## 8. Equity

### Movement in shares on issue

	Ordinary Shares		Reserved Shares	
	'000	\$m	'000	\$m
At 1 July 2018	1,133,840	22,277	(2,342)	(43)
Exercise of in-substance options	-	-	67	-
Acquisition of shares on-market for KEEPP	-	-	(1,057)	(32)
Acquisition of shares on-market for WLTIP	-	-	(112)	(4)
Demerger capital distribution	-	(6,441)	-	-
Demerger transaction costs, net of tax	-	(41)	-	-
At 31 December 2018	1,133,840	15,795	(3,444)	(79)
Exercise of in-substance options	-	-	53	-
Transfer from other reserves	-	14	-	-
Acquisition of shares on-market for WLTIP	-	-	(62)	(2)
KEEPP and WLTIP vested during the year	-	-	744	-
At 30 June 2019 and 1 July 2019	1,133,840	15,809	(2,709)	(81)
Exercise of in-substance options	-	-	61	-
Acquisition of shares on-market for KEEPP	-	-	(185)	(8)
Acquisition of shares on-market for WLTIP	-	-	(17)	-
<b>At 31 December 2019</b>	<b>1,133,840</b>	<b>15,809</b>	<b>(2,850)</b>	<b>(89)</b>

# NOTES TO THE FINANCIAL STATEMENTS: CAPITAL

For the half-year ended 31 December 2019

## 9. Earnings per share

	Consolidated	
	December 2019	December 2018
Profit attributable to ordinary equity holders of the parent (\$m)	1,210	4,538
WANOS <sup>1</sup> used in the calculation of basic EPS (shares, million) <sup>2</sup>	1,131	1,131
WANOS used in the calculation of diluted EPS (shares, million) <sup>2</sup>	1,132	1,133
- Basic EPS (cents per share)	106.9	401.2
- Diluted EPS (cents per share)	106.9	400.5

<sup>1</sup> Weighted average number of ordinary shares.

<sup>2</sup> The variance in the WANOS used in the calculation of basic EPS and diluted EPS is attributable to in-substance options and restricted shares.

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

### Calculation of earnings per share

#### Basic earnings per share

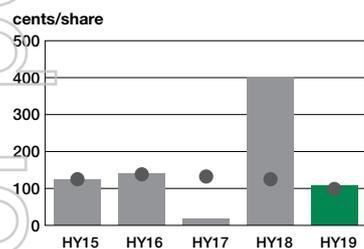
Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

#### Diluted earnings per share

Diluted earnings per share amounts are calculated per basic earnings per share with an adjustment for the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares. Dilution arises as a result of the employee reserved shares issued under the employee share plan being accounted for as in-substance options and unvested restricted shares.

### Half-year basic EPS from total operations

# 106.9 cents



HY19 <sup>1</sup>	106.9
HY18 <sup>2</sup>	401.2
HY17 <sup>3</sup>	18.7
HY16	140.1
HY15	124.2

● Basic EPS adjusted for significant items

<sup>1</sup> HY2019 EPS of 106.9 cents per share includes significant items relating to the finalisation of tax positions on prior year disposals and the Coles demerger. Excluding these items, basic EPS is 99.6 cents per share.

<sup>2</sup> HY2018 EPS of 401.2 cents per share includes significant items relating to the gains on disposal of Bengalla, KTAS and Quadrant Energy, the gain on demerger of Coles and the provision for Coles' supply chain automation. Excluding these items, basic EPS is 130.8 cents per share, which includes the operating results of Bengalla, KTAS, Quadrant Energy and Coles to the date of disposal or demerger.

<sup>3</sup> HY2017 EPS of 18.7 cents per share includes significant items relating to non-cash impairments and write-offs and store closure provisions at BUKI and Target's non-cash impairment. Excluding these items, basic EPS is 135.6 cents per share.

## 10. Dividends and distributions

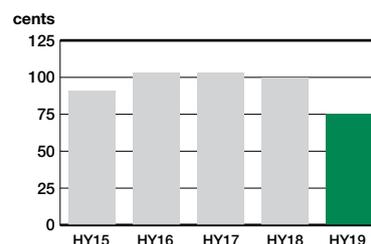
	Consolidated	
	December 2019	December 2018
	\$m	\$m
<b>Declared and paid during the period (fully-franked at 30 per cent)</b>		
Final dividend for 2019: \$0.78 (2018: \$1.20)	884	1,361
Capital distribution and demerger dividend <sup>1</sup>	-	14,565
	<b>884</b>	<b>15,926</b>
<b>Proposed and unrecognised as a liability (fully-franked at 30 per cent)</b>		
Interim dividend for 2020: \$0.75 (2019: \$1.00)	850	1,134
Special dividend <sup>2</sup>	-	1,134

<sup>1</sup> The capital distribution and demerger dividend represents the fair value of the Coles distribution to shareholders.

<sup>2</sup> A fully-franked special dividend of 100 cents per share was paid on 1 April 2019.

### Interim distributions

# 75 cents



HY19	75
HY18	100
HY17	103
HY16	103
HY15	91

## 11. Cash flow hedge reserve

The change in cash flow hedge reserve for the half-year ended 31 December 2019 includes the after-tax net movement in the market value of cash flow hedges from 30 June 2019 and comprised: \$(45) million (2018: \$9 million) of foreign exchange rate contracts, \$(3) million (2018: \$(12) million) of commodity swaps, \$(3) million (2018: \$(6) million) of interest rate swaps and a nil (2018: \$1 million) movement in associates and joint ventures reserves.

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the half-year ended 31 December 2019

## 12. Associates and joint arrangements

	Consolidated			Consolidated	
	December 2019 \$m	June 2019 \$m		December 2019 \$m	December 2018 \$m
Investments in associates	3,323	3,337	<b>Movement in investments in associates</b>		
Interests in joint ventures	75	56	Net carrying amount at the beginning of the period	3,337	705
	3,398	3,393	Share of net profit from operations of associates	134	74
<b>Investments in associates</b>			Dividends	(96)	(39)
			Valuation of retained interest in Coles at date of demerger	-	2,571
			Associates disposed of during the period	(53)	(107)
			Movement in reserves	1	-
			<b>Net carrying amount at the end of the period</b>	<b>3,323</b>	<b>3,204</b>
			<b>From continuing operations</b>		
			<b>Total comprehensive income from associates and joint ventures</b>		
			Share of net profits from operations of associates	134	68
			Other comprehensive income/(loss) of associates	1	(4)
			Profit from operations of joint ventures	8	4
			Other comprehensive income/(loss) of joint ventures	1	(1)
			<b>Total comprehensive income</b>	<b>144</b>	<b>67</b>

	\$m
● Coles Group Limited	2,705
● BWP Trust	468
● Other	150

### Interests in associates and joint arrangements

Associates	Principal activity	Ownership	
		December 2019 %	June 2019 %
BWP Trust	Property investment	24.8	24.8
Coles Group Limited	Food and staples retailing	15.0	15.0
Gresham Partners Group Limited	Investment banking	50.0	50.0
Gresham Private Equity Funds <sup>1</sup>	Private equity fund	-	(b)
Queensland Nitrates Management Pty Ltd	Chemical manufacturing	50.0	50.0
Queensland Nitrates Pty Ltd	Chemical manufacturing	50.0	50.0
Wespine Industries Pty Ltd	Pine sawmillers	50.0	50.0
<b>Joint Operations</b>			
Sodium Cyanide	Sodium cyanide manufacturing	75.0	75.0
Mt Holland Lithium	Lithium development	50.0	-
<b>Joint Ventures</b>			
BPI NO 1 Pty Ltd	Property management	(a)	(a)
Covalent Lithium Pty Ltd	Management company	50.0	-
Loyalty Pacific Pty Ltd	Loyalty programs	50.0	50.0

<sup>1</sup> Gresham Private Equity Fund No. 2 was wound up on 15 November 2019.

(a) BPI NO 1 Pty Ltd: Whilst the Group owns the only equity share in BPI NO 1 Pty Ltd, the Group's effective interest approximates 50.0 per cent and joint control is effected through contractual arrangements with the joint venture partner.

(b) Gresham Private Equity Funds: Whilst the Group's interest in the unitholders' funds of Gresham Private Equity Fund No. 2 amounts to greater than 50.0 per cent, it is not a controlled entity as the Group does not have the practical ability to direct their relevant activities. Such control requires a unit holders' resolution of 75.0 per cent of votes pursuant to the Funds' trust deeds.

# NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE

For the half-year ended 31 December 2019

## 13. Acquisitions

### Business combination - Acquisition of Catch Group Holdings Limited

On 12 August 2019, Wesfarmers, through its wholly owned subsidiary Wesfarmers Online Retail Holdings Pty Ltd, completed the acquisition of Catch Group Holdings Limited (Catch Group) for consideration of \$230 million.

Catch Group is an established, profitable and cash-generative business that operates an online business model offering branded products on a first-party basis and a third-party online marketplace. The acquisition of the Catch Group is expected to accelerate the digital and e-commerce capabilities of the Kmart Group.

At 31 December 2019, the acquisition accounting balances are provisional due to the ongoing work finalising valuations and tax matters that may impact acquisition accounting entries.

Details of the provisional fair values of identifiable assets and liabilities as at the date of acquisition are:

	Provisional fair value recognised on acquisition \$m
<b>Catch Group</b>	<b>\$m</b>
<i>Assets</i>	
Cash	5
Receivables - trade and other	2
Inventories	43
Deferred tax asset	2
Property, plant and equipment	26
Right-of-use assets	26
Intangible assets	52
Other	15
<i>Liabilities</i>	
Trade and other payables	30
Lease liabilities	32
Provisions	7
Other	10
<b>Fair value of identifiable net assets</b>	<b>92</b>
Goodwill arising on acquisition	135
<b>Purchase consideration transferred</b>	<b>227</b>
<i>Cash outflow on acquisition:</i>	
Net cash acquired	(5)
Cash paid	227
<b>Net cash outflow on acquisition</b>	<b>222</b>

### Acquisition of Kidman Resources Limited

On 23 September 2019, Wesfarmers, through its wholly owned subsidiary Wesfarmers Lithium Pty Ltd, completed the acquisition of all of the issued ordinary shares in Kidman Resources Limited (Kidman). The cash payment of \$1.90 per share to Kidman shareholders was funded from existing banking facilities.

Upon completion of the transaction, Wesfarmers holds a 50 per cent interest in the Mt Holland Lithium project based in Western Australia.

This acquisition has been accounted for as an asset acquisition as the transaction did not meet the definition of a business combination in accordance with AASB 3 *Business Combinations*.

Details of the carrying values of identifiable assets and liabilities as at the date of acquisition are:

	Purchase price allocation \$m
<b>Kidman</b>	<b>\$m</b>
<i>Assets</i>	
Cash	33
Mineral rights	790
Deferred tax assets	2
Other	1
<i>Liabilities</i>	
Trade payables	50
<b>Carrying value of identifiable net assets</b>	<b>776</b>

# NOTES TO THE FINANCIAL STATEMENTS: RISK

For the half-year ended 31 December 2019

## 14. Financial instruments

### Valuation methodology of financial instruments

For all fair value measurements and disclosures, the Group uses the following to categorise the method used:

- Level 1: fair value is calculated using quoted prices in active markets;
- Level 2: fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: fair value is estimated using inputs for the asset or liability that are not based on observable market data.

All of the Group's financial instruments carried at fair value were valued using market observable inputs (Level 2).

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between Level 1 and Level 2 during the period. There were no material Level 3 fair value movements during the period.

### Fair values

The carrying amounts and estimated fair values of all the Group's financial instruments recognised at amortised cost in the financial statements are materially the same, with the exception of the following:

	December 2019 \$m	June 2019 \$m	December 2018 \$m
Capital market debt:			
Carrying amount	2,851	2,881	3,378
Fair value	2,935	2,974	3,485

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

### Cash

The carrying amount is fair value due to the asset's liquid nature.

### Receivables/payables

Due to the short-term nature of these financial rights and obligations, carrying amounts are estimated to represent fair values.

### Other financial assets/liabilities

The fair values of corporate bonds (capital market debt) held at fair value have been calculated by discounting the expected future cash flows at prevailing interest rates using market observable inputs. The fair values of loan notes and other financial assets have been calculated using market interest rates.

### Derivatives

The fair values are calculated at the present value of estimated future cash flows using a market based yield curve sourced from available market data quoted for all major currencies.

The fair values of foreign exchange contracts are calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. As market rates are observable they are classified as Level 2.

### Interest-bearing loans and borrowings

Quoted market prices or dealer quotes for similar instruments are used to value long-term debt instruments, except capital market debt.

### Financial risk factors

The Group's activities expose its financial instruments to a variety of market risks, including foreign currency, commodity price and interest rate risk. The half-year financial report does not include all financial risk management information and disclosures required in the annual financial statements and as such, should be read in conjunction with the Group's annual financial statements as at 30 June 2019. There have been no significant changes in risk management policies since year-end.

# NOTES TO THE FINANCIAL STATEMENTS: OTHER ITEMS

For the half-year ended 31 December 2019

## 15. Impairment of non-financial assets

Wesfarmers is required to review, at the end of each reporting period, whether there is any indication that an asset may be impaired, in accordance with Australian Accounting Standards. Wesfarmers has reviewed each cash generating unit (CGU) for indications of impairment using both external and internal sources of information. This review included an assessment of performance against expectations and changes in market values or discount rates.

Detailed impairment testing has been completed for non-current assets when the existence of an indication of impairment has been identified. No material impairment has been recognised in the half-year ended 31 December 2019.

### Industrial and Safety CGU

The key assumptions used in determining the recoverable amount of the Industrial and Safety CGU are set out below. The recoverable value has been determined using the value in use methodology.

Earnings growth over the forecast period is supported by a transformation program, which is currently underway, to invest in a new enterprise wide resource planning system and data and digital systems to realise productivity improvements, improve customer experience, enhance supply chain efficiency, build merchandising capability and sales force effectiveness designed to increase market share.

The post-tax discount rate incorporates a risk-adjustment relative to the risks associated with the net post-tax cash flows being achieved, while the growth rates beyond the forecast period are based on market estimates of the long-term average industry growth rate.

	WIS December 2019	WIS June 2019
Discount rate (post-tax)	9.5%	9.0%
Growth rate beyond corporate plan	2.5%	3.0%
Headroom as a percentage of the CGU's net carrying value	-	4.4%
Terminal value as a percentage of the CGU's recoverable value	86.0%	83.8%

As the Industrial and Safety CGU's recoverable amount is consistent with its carrying value, any adverse movements in key assumptions may lead to an impairment. The forecast improvement in the CGU's financial performance is expected to occur in the medium term given the lead time in application of the transformation program.

The recoverable value of the Industrial and Safety CGU is sensitive to changes in its discount rate and its forecast long-term earnings that drives terminal value. A 25 basis point increase in discount rate or a four per cent reduction in its forecast long-term earnings has a \$50 million effect on the recoverable value.

Consistent with prior periods, Wesfarmers will perform detailed impairment testing prior to the end of the financial year using cash flow projections based on Wesfarmers' five-year corporate plans, long-term business forecasts and market-based valuation assumptions. Where there are significant changes in the corporate plan, long-term business forecasts or market-based valuation assumptions from those used in impairment testing in previous periods, this may cause the carrying values of non-current assets to exceed their recoverable amounts.

## 15. Impairment of non-financial assets (continued)

### Target Brand

The key assumptions for assessing the recoverable amount of the Target brand utilising the relief from royalty methodology are set out below.

	Target December 2019
Discount rate (post-tax)	10.0%
Royalty rate	1.2%
Terminal growth rate	2.5%

Under this methodology, the recoverable amount of the Target brand approximates its carrying value and is sensitive to changes in its discount rate and royalty rate. A 10 basis point reduction in the royalty rate or a 70 basis point increase in the discount rate, decreases the recoverable amount under this methodology by \$25 million.

## 16. Contingent liabilities

Certain companies within the Group are party to various legal actions that have arisen in the normal course of business. It is expected that any liabilities arising from such legal action would not have a material effect on the Group's financial performance.

## 17. Events after the reporting period

### Dividends

A fully-franked interim dividend of 75 cents per share resulting in a dividend payment of \$850 million was declared for a payment date of 31 March 2020. This dividend has not been provided for in the 31 December 2019 half-year financial report.

### Partial disposal of interest in Coles

On 18 February 2020, Wesfarmers announced that it had entered into an underwriting agreement with two lead managers to sell 4.9 per cent of the issued capital of Coles Group Limited (Coles) for total pre-tax proceeds of \$1,050 million. Wesfarmers expects to recognise a pre-tax profit on sale of approximately \$160 million. Following the sale process, Wesfarmers will retain an interest of 10.1 per cent in Coles and its right to nominate a director on the Coles Board, maintaining the ongoing relationship between the two companies since the demerger of Coles from Wesfarmers in November 2018.

## DIRECTORS' DECLARATION

Wesfarmers Limited and its controlled entities

1. In accordance with a resolution of the directors of Wesfarmers Limited, I note that in the opinion of the directors:
  - (a) The financial statements and notes of Wesfarmers Limited for the half-year ended 31 December 2019 are in accordance with the *Corporations Act 2001*, including;
    - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
    - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;
  - (b) 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 made to the directors for the half-year ended 31 December 2019 in accordance with the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

On behalf of the Board



**M A Chaney AO**  
Chairman  
Perth, 18 February 2020

# INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF WESFARMERS LIMITED



Building a better  
working world

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

## Independent auditor's review report to the members of Wesfarmers Limited

### Report on the half-year financial report

#### Conclusion

We have reviewed the accompanying half-year financial report of Wesfarmers Limited (the Company) and its subsidiaries (collectively the Group), which comprises the balance sheet as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF WESFARMERS LIMITED



Building a better  
working world

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Ernst & Young*

Ernst & Young

T S Hammond  
Partner  
Perth  
18 February 2020

J K Newton  
Partner

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## ADDITIONAL DISCLOSURES

2020 half-year retail sales results

### RETAIL SALES RESULTS

Headline sales (\$m) <sup>1</sup>	Half-year 2020	Half-year 2019	Variance %
<b>Bunnings<sup>2</sup></b>	<b>7,275</b>	<b>6,907</b>	<b>5.3</b>
Kmart <sup>3</sup>	3,417	3,176	7.6
Target	1,492	1,559	(4.3)
<b>Total Kmart Group</b>	<b>4,909</b>	<b>4,735</b>	<b>3.7</b>
<b>Officeworks</b>	<b>1,226</b>	<b>1,100</b>	<b>11.5</b>

<sup>1</sup> Refer to retail calendar table for each business below.

<sup>2</sup> Includes cash and trade sales, excludes property income.

<sup>3</sup> Excludes Catch. Half-year 2019 excludes KTAS.

Key metrics (%) <sup>1</sup>	Half-year 2020	Half-year 2019
<b>Bunnings<sup>2</sup></b>		
Total store sales growth	5.8	5.5
Store-on-store sales growth	4.7	4.0
<b>Kmart Group<sup>3</sup></b>		
<u>Kmart</u> : Comparable store sales growth	5.5	(0.6)
<u>Target</u> : Comparable store sales growth	(2.3)	0.5
<b>Officeworks</b>		
Total sales growth	11.5	8.2

<sup>1</sup> Refer to retail calendar table below for each period used in sales growth calculations.

<sup>2</sup> Includes cash and trade sales, excludes property income.

<sup>3</sup> Excludes Catch. Half-year 2019 excludes KTAS. Comparable store sales include lay-by sales. Lay-by sales are excluded from total sales under Australian Accounting Standards.

### RETAIL CALENDARS

Business	Retail sales period
<b>Bunnings, Officeworks and Catch</b>	
Half-year 2020	1 Jul 2019 to 31 Dec 2019 (6 months)
Half-year 2019	1 Jul 2018 to 31 Dec 2018 (6 months)
Half-year 2018	1 Jul 2018 to 31 Dec 2018 (6 months)
<b>Kmart</b>	
Half-year 2020	1 Jul 2019 to 5 Jan 2020 (27 weeks)
Half-year 2019	25 Jun 2018 to 30 Dec 2018 (27 weeks)
Half-year 2018	26 Jun 2017 to 31 Dec 2017 (27 weeks)
<b>Target</b>	
Half-year 2020	30 Jun 2019 to 4 Jan 2020 (27 weeks)
Half-year 2019	24 Jun 2018 to 29 Dec 2018 (27 weeks)
Half-year 2018	25 Jun 2017 to 30 Dec 2017 (27 weeks)

## ADDITIONAL DISCLOSURES

Store network

### STORE NETWORK MOVEMENTS

	Open at 1 Jul 2019	Opened	Closed	Re- branded	Open at 31 Dec 2019
<b>BUNNINGS</b>					
Bunnings Warehouse	267	6	-	-	273
Bunnings smaller formats	75	2	(3)	-	74
Bunnings Trade Centres	32	-	(1)	-	31
<b>Total Bunnings</b>	<b>374</b>	<b>8</b>	<b>(4)</b>		<b>378</b>
<b>KMART GROUP</b>					
<b>Kmart</b>	231	5	-	-	236
Target Large	183	-	-	-	183
Target Small	106	-	(4)	-	102
<b>Total Target</b>	<b>289</b>	<b>-</b>	<b>(4)</b>		<b>285</b>
<b>OFFICEWORKS</b>					
Officeworks	167	-	-	-	167

### STORE NETWORK HISTORY

Open at 31 December	2019	2018	2017	2016	2015
<b>Bunnings Australia and New Zealand</b>					
Bunnings Warehouse	273	265	253	248	240
Bunnings smaller formats	74	75	77	73	67
Bunnings Trade Centres	31	32	33	33	32
<b>Total Bunnings Australia &amp; New Zealand</b>	<b>378</b>	<b>372</b>	<b>363</b>	<b>354</b>	<b>339</b>
<b>KMART</b>					
Kmart	236	231	224	214	206
Kmart Tyre & Auto	-	-	254	250	249
<b>Total Kmart</b>	<b>236</b>	<b>231</b>	<b>478</b>	<b>464</b>	<b>455</b>
<b>TARGET</b>					
Large	183	186	189	185	185
Small	102	110	118	119	121
<b>Total Target</b>	<b>285</b>	<b>296</b>	<b>307</b>	<b>304</b>	<b>306</b>
<b>OFFICEWORKS</b>					
Officeworks	167	166	165	163	158

## ADDITIONAL DISCLOSURES

Five-year history – financial performance and key metrics

### GROUP FINANCIAL PERFORMANCE

Half-year ended 31 December (\$m) <sup>1</sup>	Post AASB 16		Pre AASB 16		
	2019	2018	2017	2016	2015
<b>Summarised income statement</b>					
Revenue	15,249	31,152	35,903	34,917	33,462
EBIT (after interest on lease liabilities)	1,615	5,482	1,113	2,429	2,110
Other finance costs <sup>2</sup>	(69)	(97)	(114)	(149)	(152)
Income tax expense	(336)	(847)	(787)	(703)	(565)
Profit after tax from discontinued operations	83	3,458	(466)	-	-
NPAT (including discontinued operations)	1,210	4,538	212	1,577	1,393
<b>Summarised balance sheet</b>					
Total assets	26,079	20,585	40,467	41,399	41,790
Total liabilities	16,355	9,293	17,638	17,632	16,828
Net assets	9,724	11,292	22,829	23,767	24,962
Net debt	2,666	731	4,401	5,916	6,108
<b>Summarised cash flow statement</b>					
Operating cash flows after lease cash flows	1,666	1,987	2,897	2,648	2,404
Net capital expenditure	(207)	(678)	(686)	(400)	(675)
Other investing cash flows	(885)	1,084	17	(17)	(64)
Free cash flows after lease cash flows	574	2,393	2,228	2,231	1,665
Financing cash flows excl. lease cash flows	(933)	(134)	(1,399)	(2,104)	(1,682)
Net increase/(decrease) in cash	(359)	2,259	829	127	(17)
<b>Distributions to shareholders (cents per share)</b>					
Interim ordinary dividend	75	100	103	103	91
Special dividend	-	100	-	-	-
<b>Key performance metrics</b>					
Earnings per share (cents per share)	106.9	401.2	18.7	140.1	124.2
Earnings per share from continuing operations excluding sig. items <sup>3</sup> (cents per share)	99.6	95.5	86.4	140.1	124.2
Operating cash flow per share <sup>4</sup> (cents per share)	188.4	175.4	255.7	234.9	213.9
Cash realisation ratio (excluding sig. items) <sup>3,5</sup> (%)	114.1	98.5	132.6	119.7	118.3
Return on equity (R12, %)	22.2	26.9	6.4	2.5	10.0
Return on equity (R12, %) (excluding sig. items) <sup>3</sup>	21.4	13.5	12.0	10.2	10.0
Net tangible asset backing per share (\$ per share) <sup>6</sup>	4.81	6.41	4.31	4.23	5.05

<sup>1</sup> Unless specified, all figures are presented as last reported.

<sup>2</sup> 2017 finance costs include costs relating to BUKI which are reported as part of discontinued operations.

<sup>3</sup> 2019 excludes post-tax significant items comprising BUKI tax losses of \$84 million and a true-up of the tax base in Coles of \$10 million, partially offset by additional expenses of \$11 million associated with the sale of Bengalla. 2018 excludes pre-tax significant items comprising \$2,312 million gain on demerger of Coles, \$679 million gain on sale of Bengalla, \$267 million gain on sale of KTAS, \$138 million gain on sale of Quadrant Energy, partially offset by a \$146 million provision for supply chain automation in Coles. 2017 excludes pre-tax significant items of \$931 million relating to BUKI and a \$306 million pre-tax non-cash impairment of Target.

<sup>4</sup> For the purposes of this calculation, reserved shares have been included.

<sup>5</sup> Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant items.

<sup>6</sup> The calculation of net tangible assets per ordinary share at 31 December 2019 includes the right-of-use asset and lease liability.

## ADDITIONAL DISCLOSURES

Five-year history – financial performance and key metrics

### DIVISIONAL KEY PERFORMANCE METRICS

Half-year ended 31 December (\$m) <sup>1</sup>	Pre AASB 16				
	2019	2018	2017	2016	2015
<b>Bunnings</b>					
Revenue	7,276	6,909	6,566	5,957	5,500
EBITDA <sup>2</sup>	1,059	1,027	953	853	776
Depreciation and amortisation	(98)	(95)	(89)	(83)	(75)
EBIT <sup>2</sup>	961	932	864	770	701
EBIT margin <sup>2</sup> (%)	13.2	13.5	13.2	12.9	12.7
ROC (R12, %)	52.2	50.2	47.0	39.0	35.8
Capital expenditure (cash basis)	269	240	275	212	314
Total sales growth <sup>3</sup> (%)	5.3	5.5	10.0	8.3	10.9
Total store sales growth <sup>3</sup> (%)	5.8	5.5	10.1	8.4	11.0
Store-on-store sales growth <sup>3</sup> (%)	4.7	4.0	9.0	6.5	7.9
<b>Kmart Group</b>					
Revenue <sup>4</sup>	4,990	4,639	4,769	4,619	4,722
EBITDA <sup>4,5,6</sup>	453	480	518	486	487
Depreciation and amortisation <sup>4</sup>	(108)	(97)	(103)	(99)	(94)
EBIT <sup>4,5,6</sup>	345	383	415	387	393
EBIT margin <sup>4,5,6</sup> (%)	6.9	8.3	8.7	8.4	8.3
ROC <sup>4,7</sup> (R12, %)	25.2	33.9	26.2	9.2	14.8
Capital expenditure <sup>4</sup> (cash basis)	80	119	201	123	145
<b>Kmart</b>					
- Total sales growth <sup>3,4</sup> (%)	7.6	1.0	8.6	9.1	12.4
- Comparable sales growth <sup>3,4</sup> (%)	5.5	(0.6)	5.4	5.7	9.1
<b>Target</b>					
- Total sales growth <sup>3</sup> (%)	(4.3)	0.3	(6.2)	(17.4)	1.6
- Comparable sales growth <sup>3</sup> (%)	(2.3)	0.5	(6.5)	(18.2)	1.4
<b>OFFICEWORKS</b>					
Revenue	1,231	1,100	1,017	927	875
EBITDA	94	90	80	74	70
Depreciation and amortisation	(15)	(14)	(12)	(12)	(11)
EBIT	79	76	68	62	59
EBIT margin (%)	6.4	6.9	6.7	6.7	6.7
ROC (R12, %)	16.9	17.2	15.7	13.9	12.5
Total sales growth <sup>3</sup> (%)	11.5	8.2	9.8	5.8	9.1

<sup>1</sup> All figures are presented as last reported.

<sup>2</sup> Includes net property contribution for 2019 of \$42 million; 2018 of \$51 million; 2017 of \$30 million; 2016 of \$44 million; and for 2015 of \$33 million.

<sup>3</sup> Based on retail period (rather than Gregorian reporting). Refer to page 43 for applicable retail period. Excludes Catch for Kmart.

<sup>4</sup> 2018 excludes KTAS.

<sup>5</sup> 2017 excludes a pre-tax non-cash impairment of \$306 million for Target. 2016 includes a provision of \$13 million recognised for restructuring costs associated with the planned relocation of Target's store support office. 2015 includes rebate income of \$21 million recognised contrary to Group policy which was reversed in the second half of FY2016, having no effect on the 2016 full-year results.

<sup>6</sup> 2019 includes \$9 million of payroll remediation costs relating to Target.

<sup>7</sup> 2017 excludes a pre-tax non-cash impairment of \$306 million for Target. 2016 includes \$158 million in restructuring costs and provisions for Target. In addition to higher earnings, the increase in RoC in 2017 also reflects lower capital employed as a result of non-cash impairments in Target in June 2016 and December 2017.

## ADDITIONAL DISCLOSURES

Five-year history – financial performance and key metrics

### DIVISIONAL KEY PERFORMANCE METRICS (CONTINUED)

Pre AASB 16

Half-year ended 31 December (\$m) <sup>1</sup>	2019	2018	2017	2016	2015
<b>INDUSTRIALS – continuing operations</b>					
<b>Divisional performance</b>					
Revenue	1,747	1,750	1,633	1,579	1,680
EBITDA <sup>2</sup>	237	282	296	298	218
Depreciation and amortisation	(57)	(55)	(56)	(59)	(78)
EBIT <sup>2</sup>	180	227	240	239	140
Capital expenditure (cash basis)	83	78	49	36	50
<b>Chemicals, Energy and Fertilisers</b>					
Chemicals revenue	510	502	439	412	469
Energy revenue <sup>3,4</sup>	219	233	223	182	173
Fertilisers revenue	160	139	102	101	111
Total revenue <sup>3,4</sup>	889	874	764	695	753
EBITDA <sup>4,5</sup>	212	221	223	225	161
Depreciation and amortisation	(38)	(36)	(35)	(38)	(57)
EBIT <sup>4,5</sup>	174	185	188	187	104
ROC <sup>4,5</sup> (R12, %)	26.7	29.4	28.0	25.1	15.7
Capital expenditure (cash basis)	50	32	30	20	21
<b>Sales volumes ('000 tonnes)</b>					
Chemicals	568	546	494	499	524
LPG	75	75	81	55	74
Fertilisers	324	301	253	234	214
<b>Industrial and Safety</b>					
Revenue	858	876	869	884	927
EBITDA <sup>2</sup>	25	61	73	73	57
Depreciation and amortisation	(19)	(19)	(21)	(21)	(21)
EBIT <sup>2</sup>	6	42	52	52	36
EBIT margin <sup>2</sup> (%)	0.7	4.8	6.0	5.9	3.9
ROC (R12, %)	3.4	7.5	8.3	5.9	4.2
Capital expenditure (cash basis)	33	46	19	16	29

<sup>1</sup> All figures are presented as last reported except Industrials division total, which has been restated to exclude Resources for the years 2017 and prior.

<sup>2</sup> 2019 includes \$15 million of payroll remediation costs.

<sup>3</sup> 2017 and prior years includes interest revenue from Quadrant Energy loan notes. All years exclude intra-division sales.

<sup>4</sup> 2017 and prior years include Quadrant Energy.

<sup>5</sup> 2016 includes a profit on sale of land of \$22 million. 2015 includes \$30 million of one-off restructuring costs associated with the decision to cease PVC manufacturing.

# CORPORATE DIRECTORY

Wesfarmers Limited ABN 28 008 984 049

## Registered office

Level 14, Brookfield Place Tower 2

123 St Georges Terrace, Perth, Western Australia  
6000

Telephone: (+61 8) 9327 4211  
Facsimile: (+61 8) 9327 4216  
Website: [www.wesfarmers.com.au](http://www.wesfarmers.com.au)  
Email: [info@wesfarmers.com.au](mailto:info@wesfarmers.com.au)

## Executive director

Rob Scott  
*Group Managing Director and Chief Executive Officer*

## Non-executive directors

Michael Chaney AO, Chairman  
The Right Honourable Sir Bill English KNZM  
Wayne Osborn  
Mike Roche  
Diane Smith-Gander AO  
Vanessa Wallace  
Sharon Warburton  
Jennifer Westacott AO

## Chief Financial Officer

Anthony Gianotti

## Company Secretary

Aleksandra Spaseska

## Share registry

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street,  
Abbotsford, Victoria 3067

### Telephone

**Australia:** 1300 558 062  
**International:** (+61 3) 9415 4631

### Facsimile

**Australia:** (03) 9473 2500  
**International:** (+61 3) 9473 2500

**Website:** [www.investorcentre.com/wes](http://www.investorcentre.com/wes)

## Financial calendar\*

Half-year end	31 December 2019
Half-year results briefing	19 February 2020
Record date for interim dividend	25 February 2020
Interim dividend payable	31 March 2020
Year end	30 June 2020
Full-year results announcement	20 August 2020
Record date for final dividend	August 2020
Final dividend payable	September 2020
Annual general meeting	November 2020

\* Dates are subject to change should circumstances require.  
All changes will be advised to the ASX.

## Website

To view the 2020 Half-year Report, the 2019 Annual Report, shareholder and company information, news announcements, background information on Wesfarmers' businesses and historical information, visit the Wesfarmers website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au)