

# Wesfarmers Annual Report 2011



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### ABOUT WESFARMERS

Strength through diversity. From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies. Headquartered in Western Australia, its diverse business operations cover: supermarkets; department stores; home improvement and office supplies; coal mining; insurance; chemicals, energy and fertilisers; and industrial and safety products. Wesfarmers is one of Australia's largest employers and has a shareholder base of approximately 500,000.

#### Our objective

Wesfarmers remains committed to providing a satisfactory return to shareholders.

#### Proud history, strong future

Steeped in a foundation of distribution and retailing since its formation, today Wesfarmers is one of Australia's leading retailers and diversified industrial companies.

#### Stock exchange listing

Wesfarmers is a company limited by shares that is incorporated and domiciled in Australia. Australian Securities Exchange (ASX) listing codes:  
– Wesfarmers (WES)  
– Wesfarmers Partially Protected Shares (WESN)

**WESFARMERS LIMITED**  
ABN 28 008 984 049





## Strength through diversity.

The combination of a diverse range of successful businesses and the strong commitment of the Wesfarmers team ensures that we create long-term value – and provide satisfactory returns for our shareholders.

# Highlights summary

The Group's result reflected a strong performance during a year affected by natural disasters and a subdued retail trading environment.

## Results summary

### KEY FINANCIAL DATA

Year ended 30 June		2011	2010
Revenue	\$m	54,875	51,827
Earnings before interest and tax	\$m	3,232	2,869
Net profit after tax	\$m	1,922	1,565
Dividends	\$m	1,735	1,446
Total assets	\$m	40,814	39,236
Net debt	\$m	4,343	4,035
Shareholders' equity	\$m	25,329	24,694
Capital expenditure	\$m	2,062	1,656
Depreciation and amortisation	\$m	923	917

### KEY SHARE DATA

		2011	2010
Earnings per share	cents	166.7	135.7
Dividends per share	cents	150.0	125.0
Net tangible assets per share	cents	411.8	360.9
Operating cash flow per share	cents	252.1	287.5

### KEY RATIOS

		2011	2010
Return on average shareholders' equity (R12) <sup>1</sup>	%	7.7	6.4
Fixed charges cover (R12) <sup>1</sup>	times	2.7	2.4
Interest cover (R12) <sup>1</sup> (cash basis)	times	9.5	6.8

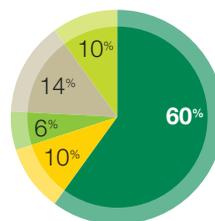
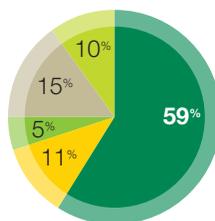
<sup>1</sup> Rolling 12 months.

## WEALTH CREATED BY WESFARMERS

- Employees – salaries, wages and other benefits
- Government – tax and royalties
- Lenders – borrowed funds
- Shareholders – dividends on their investment
- Reinvested in the business

2011: \$11,449m

2010: \$10,799m



### Net profit after tax (\$m)

Year	Net profit after tax (\$m)
2011	1,922
2010	1,565
2009	1,522
2008	1,063
2007	786

### Earnings per share (cents)

Year	Earnings per share (cents)
2011	166.7
2010	135.7
2009	158.5
2008	174.2
2007	195.2

### Dividends per share (cents)

Year	Dividends per share (cents)
2011	150
2010	125
2009	110
2008	200
2007	225

### Operating cash flow (\$m)

Year	Operating cash flow (\$m)
2011	2,917
2010	3,327
2009	3,044
2008	1,451
2007	1,301

## Financial highlights

- Operating revenue of \$54.9 billion, up 5.9 per cent
- Earnings before interest and tax (EBIT) of \$3,232 million, up 12.7 per cent
- Finance costs of \$526 million, down 19.6 per cent
- Net profit after tax of \$1,922 million, up 22.8 per cent
- Earnings per share of \$1.67, up 22.8 per cent
- Operating cash flows of \$2,917 million, cash realisation ratio<sup>2</sup> of 102.5 per cent
- Capital investment of \$2,062 million, up 24.5 per cent
- Strong liquidity position; fixed charges cover of 2.7 times, up from 2.4 times
- Fully-franked full-year dividend of \$1.50 declared, up 20.0 per cent

## Operational highlights

**COLES** continued to deliver strong earnings growth, up 21.2 per cent for the year, considerably ahead of sales growth. The result illustrates progress made to date in the turnaround program, which has built solid sales momentum through significant price investment, an enhanced fresh food offer, operational efficiencies and the progressive renewal of the store network.

**BUNNINGS** recorded another good result, with earnings up 10.2 per cent, underpinned by good merchandising execution and cost focus. Network expansion resulted in 27 new locations opening during the year.

**KMART** and **OFFICeworks** recorded earnings improvements of 4.1 per cent and 8.1 per cent respectively. Both businesses reported strong uplift in customer transactions and volume growth as they continued to make good progress in repositioning their offers.

**TARGET** recorded earnings of \$280 million, which were down on last year, as tight management of expenses and solid transaction growth were insufficient to offset the effects of significant price deflation and clearance activity to manage seasonal inventory.

**INSURANCE** recorded earnings of \$20 million, which were significantly down on last year, driven by event claims and reinsurance reinstatement expenses associated with an unprecedented number of catastrophe events in Australia and New Zealand.

**RESOURCES** earnings increased by 123.6 per cent due to higher coal prices, albeit record rainfall and groundwater inflow affected production and increased mining costs. Pleasingly, good progress was made during the year to expand production capacity at the Curragh and Bengalla mines.

**CHEMICALS, ENERGY AND FERTILISERS** increased earnings by 26.2 per cent, excluding insurance proceeds of \$42 million associated with the 2009 Varanus Island gas disruption claim, as strong demand from the resource sector and higher fertiliser margins offset increased gas costs.

**INDUSTRIAL AND SAFETY** delivered a strong result with earnings up 20.3 per cent for the year, benefiting from resource sector demand, major project activity and continuing improvements in business operations.

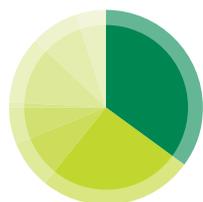
<sup>2</sup> Cash realisation ratio: operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant non-cash non-trading items.

# Review of operations

# Retail operations

## Coles

### CONTRIBUTION TO OPERATING DIVISIONAL EBIT



35%

### ACTIVITIES

- National full service supermarket retailer operating 741 stores
- Liquor retailer operating three brands through 785 liquor outlets, as well as 93 hotels
- National fuel and convenience operator managing 620 sites
- Approximately 18 million customer transactions each week
- Employing more than 102,000 team members

### YEAR IN BRIEF

- Full-year revenue of \$32.1 billion
- EBIT of \$1,166 million
- Food and liquor store sales growth up 6.3 per cent<sup>1</sup>, with comparable store sales growth of 6.3 per cent<sup>1</sup>
- Nine consecutive quarters of industry out-performance
- Continued focus on quality, service and value
- 94 new format supermarket stores delivered during the year, for a total of 144 since the Coles acquisition
- Double digit growth in fresh food sales
- Easy Ordering (an automated stock ordering system) grocery and dairy rollout complete
- More effective value promotion campaigns
- Responsible sourcing initiatives launched

<sup>1</sup> For the 52 week period 28 June 2010 to 26 June 2011.

### FUTURE DIRECTIONS

- Enter third phase of turnaround program
- Continue to create a culture of continuous improvement
- Continue to build strong customer trust and loyalty
- Deliver operational efficiency
- Innovate and improve offer
- Deliver new stores and new categories
- Embed culture change and enhance team member development
- Build long-term relationships with our food and grocery suppliers
- Continue to support the local communities in which we operate

### BUSINESSES



## Home Improvement and Office Supplies

### CONTRIBUTION TO OPERATING DIVISIONAL EBIT



26%

### ACTIVITIES

- **Bunnings:** Retailing home improvement and outdoor living products and servicing project builders, commercial tradespeople and the housing industry across Australia and New Zealand
- **Officeworks:** Retailer and supplier of office products and solutions for home, business and education across Australia

### YEAR IN BRIEF

#### Bunnings

- 5.7 per cent increase in Bunnings' revenue
- 10.2 per cent increase in Bunnings' EBIT
- Growth across all regions and product ranges
- 11 new Bunnings Warehouse stores opened
- Eight new Bunnings smaller format stores opened
- Eight new Bunnings trade centres opened

#### Office Supplies

- 5.2 per cent increase in retail store sales
- 8.1 per cent increase in EBIT
- Ongoing expansion of the merchandise offer
- Ten new Officeworks stores opened (including two relocations), six full upgrades
- Good progress on actions to improve the customer offer

### FUTURE DIRECTIONS

**Bunnings:** Growth to be achieved through better service, category expansion and range reset work, network expansion and reinvestment, ongoing work in light and heavy commercial markets, and through investment of productivity gains in lower prices to drive volume

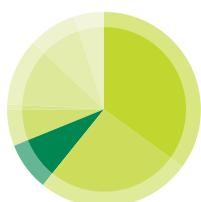
**Officeworks:** Driving the business forward by improving the customer offer and expanding and upgrading the network. Growing the business-to-business offer will remain an area of focus and an ongoing investment in the Officeworks team will underpin all strategic initiatives

### BUSINESSES



## Target

### CONTRIBUTION TO OPERATING DIVISIONAL EBIT



8%

#### ACTIVITIES

- Retailer of fashion clothing and homewares with broad customer appeal
- Extensive network of 291 stores in two formats (Target and Target Country) conveniently located throughout metropolitan and regional Australia
- Customer destination for ladieswear, childrenswear/nursery, intimate apparel and homewares, predominantly Target-branded

### YEAR IN BRIEF

- Full-year revenue of \$3.8 billion
- \$280 million in EBIT, with EBIT margin of 7.4 per cent
- Comparable store sales decrease of 1.2 per cent<sup>1</sup>, with first half performance partially offset by an improved second half result
- One new store and two replacement stores opened
- 65 stores upgraded or refurbished
- Target online retailing commenced in the second half of the year, with the customer response encouraging

### FUTURE DIRECTIONS

- Continue store network investment (new and refurbished), with the trial of a new format (Urban by Target)
- Improving customer service
- Continue to embed product design and development capabilities into everyday practice
- Ongoing refinement of product presentation in stores and delivery of product to market
- Continue to explore alternative ways of communicating to customers, including expanded online offering and increased use of social media

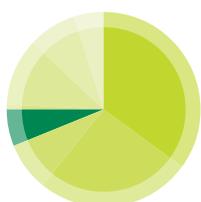
### BUSINESSES



<sup>1</sup> For the 52 week period 27 June 2010 to 25 June 2011.

## Kmart

### CONTRIBUTION TO OPERATING DIVISIONAL EBIT



6%

#### ACTIVITIES

- Kmart is a retailer where families come first for the lowest prices on everyday items, with a network of 187 stores across Australia and New Zealand
- Categories include menswear, womenswear, childrenswear, beauty, footwear, toys and sporting, events and food, entertainment, newsagency and home
- Kmart Tyre & Auto Service is one of Australia's largest retail automotive service, repair and tyre businesses with 251 centres

### YEAR IN BRIEF

- Full-year revenue of \$4.0 billion
- EBIT of \$204 million<sup>1</sup>
- The 'Expect Change' campaign, inviting customers back into store was well received by customers
- Comparable store sales 0.3 per cent<sup>2</sup>
- The business is now operating on an everyday low priced model
- Strong continued growth in volumes and customer transactions
- One new Kmart store opened during the year

### FUTURE DIRECTIONS

- Customer engagement will remain a key focus including educating customers about the 'new Kmart'
- Refining the product offer and investing in low prices by growing own brand products
- Continue to expand the store network
- Continue to source at lowest cost and to look for further cost reductions across the businesses
- Further improvement of the in-store environment

### BUSINESSES



<sup>1</sup> Includes \$3 million earnings related to Coles Group Asia overseas sourcing operations.

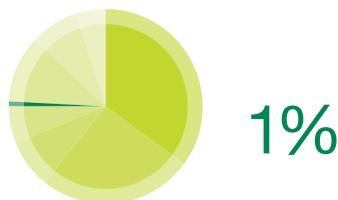
<sup>2</sup> For the 52 week period 28 June 2010 to 26 June 2011.

# Review of operations

# Industrial and other businesses

## Insurance

### CONTRIBUTION TO OPERATING DIVISIONAL EBIT



#### ACTIVITIES

- Key brands: Lumley, WFI, OAMPS and Crombie Lockwood
- Provision of general insurance products
- Insurance broking, risk management and financial services distribution
- Operations in Australia, New Zealand and the United Kingdom

### YEAR IN BRIEF

- 2.4 per cent increase in revenue to \$1.7 billion
- EBIT decreased by 83.6 per cent to \$20 million
- Impact of unprecedented level of natural disasters to claims and reinsurance costs
- Net retention exceeded six times with event claims and reinsurance restatements \$110 million over allowances
- Broking operations generated growth in revenue and earnings
- Underlying underwriting performance improved on prior year
- Distribution of home and motor insurance through Coles with strong customer interest
- Premium funding delivered strong performance
- Acquisition of FMR Risk in New Zealand and other bolt-on broker acquisitions

### FUTURE DIRECTIONS

- Continue improvements in underwriting performance through disciplined claims and underwriting performance
- Continue to grow broking revenues and improve performance
- Expand capabilities in personal lines
- Strive to consistently deliver exceptional client service across all businesses
- Leveraging divisional scale and capability to improve profitability
- Invest in the development of our team
- Further bolt-on acquisitions to enhance distribution platform

### BUSINESSES



## Resources

### CONTRIBUTION TO OPERATING DIVISIONAL EBIT



#### ACTIVITIES

- Significant Australian open-cut miner with investments in coal mines in Queensland (Curragh), New South Wales (Bengalla 40 per cent) and Western Australia (Premier Coal)
- Mine operation and development
- Supplier of metallurgical coal to export markets and steaming coal to both domestic and export markets

### YEAR IN BRIEF

- 25.6 per cent increase in revenue to \$1.8 billion
- EBIT up 123.6 per cent to \$369 million
- Strong export coal prices, but with high Australian dollar
- Production and sales constrained at Curragh due to flood events and groundwater inflows into mining areas
- 46 per cent increase in mine cash costs per tonne at Curragh (largely due to floods and groundwater inflows to mining areas) – expected to reduce with return to more normal operating conditions
- Curragh metallurgical coal sales down 19.6 per cent to 5.3 million tonnes
- Strong growth in sales volumes from Bengalla and Premier
- Continued progress with expansion of Curragh and Bengalla production capacity
- Structured sale process commenced for Premier Coal

### FUTURE DIRECTIONS

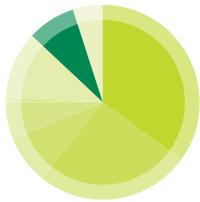
- Strong business sustainability commitment
- Strong export market fundamentals and customer demand
- Maximise exports, addressing infrastructure constraints
- Feasibility study commenced to expand Curragh to 10 million tonnes annual exports
- Stage Two feasibility study commenced to expand Bengalla to 10.7 million tonnes annual Run of Mine capacity
- Focus on future growth

### BUSINESSES



# Chemicals, Energy and Fertilisers

## CONTRIBUTION TO OPERATING DIVISIONAL EBIT



8%

### ACTIVITIES

- Manufacture and marketing of chemicals for mining, minerals processing and industrial sectors
- Production, marketing and distribution of liquefied petroleum gas (LPG) and liquefied natural gas (LNG)
- Manufacture and marketing of broadcast and horticultural fertilisers
- Manufacture, marketing and distribution of industrial, medical and specialty gases
- Power generation for remote towns and mines<sup>1</sup>

## YEAR IN BRIEF

- 4.5 per cent increase in revenue to \$1.6 billion
- 44.4 per cent increase in EBIT to \$283 million, including \$42 million in insurance proceeds from the 2009 Varanus Island gas disruption claims
- Excluding insurance proceeds, earnings from the chemicals and Kleenheat Gas businesses were in line with the previous year
- Approval received for further detailed engineering and ordering of long-lead items for the proposed ammonium nitrate expansion
- Fertiliser earnings recovered from the previous year, which included a \$25 million inventory writedown and the impact of highly priced inventory

<sup>1</sup> On 31 August 2011, Wesfarmers completed the sale of enGen for \$101 million.

## FUTURE DIRECTIONS

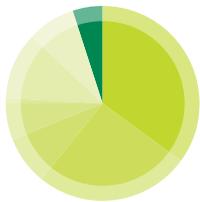
- Board consideration of the proposed 260,000 tonne per annum expansion of ammonium nitrate production at Kwinana
- Continuing strong demand for chemicals
- Seek to grow sales of LPG and manage the impact of increased gas costs and lower LPG content
- Continue development of the LNG business
- Enhance fertiliser sales volumes through a market-focused customer offer

## BUSINESSES



# Industrial and Safety

## CONTRIBUTION TO OPERATING DIVISIONAL EBIT



5%

### ACTIVITIES

- Leading provider of industrial and safety products and services in Australia and New Zealand to a wide range of customers
- Strong focus on security of supply to customers of broadest product range
- Cost efficiency to customers through local and global procurement, supply chain and eBusiness solutions

## YEAR IN BRIEF

- 10.3 per cent increase in revenue to \$1.6 billion
- EBIT increased by 20.3 per cent, with improvements in all businesses
- Strongest results in Blackwoods, Protector Alsafe and Bullivants
- Restructured Coregas, strengthening sales team and sales momentum
- Divested Motion, merged Blackwoods Paykels with Protector Safety
- Strong contract, projects, services and eBusiness growth
- Increased industry diversification
- Operational and capital management contributing to improved returns
- Opened multi-country distribution centre in Shenzhen, China

## FUTURE DIRECTIONS

- Growing share of customers' product and service spend
- Capture resources and infrastructure projects momentum
- Ongoing diversification of customer base
- Continued Coregas improvements
- Growth through acquisitions
- Continued operational improvements, including safety, sustainability and employee development

## BUSINESSES



# Other activities

## ACTIVITIES

### GRESHAM

- 50.0 per cent interest in the investment bank, Gresham Partners; plus interests in Gresham's private equity funds

### WESPINE

- 50.0 per cent interest in a plantation softwood sawmill at Dardanup, Western Australia

### BWP TRUST

- 23.3 per cent interest in the property trust which mainly owns Bunnings Warehouses tenanted by Bunnings Group Limited



## YEAR IN BRIEF

### GRESHAM

- The Gresham Private Equity Funds recorded a loss of \$60 million, due to downward non-cash revaluations, compared to a gain of \$43 million last year

### WESPINE

- Earnings up 16.7 per cent due to increased sales into the Western Australian market and focus on customer service and cost control

### BWP TRUST

- Wesfarmers share of profit from investment in BWP Trust was \$19 million, compared to \$27 million recorded last year

## FUTURE DIRECTIONS

### GRESHAM

- Focus on improving portfolio returns and identifying investment opportunities

### WESPINE

- Increased focus on customer service and maintaining a strong Western Australian market position in an environment where a depressed housing market and continued import competition are expected to place downward pressure on sales and earnings

### BWP TRUST

- Improve portfolio through enhancements to existing properties and selective acquisitions of quality commercial assets

# Chairman's message

**We've grown from a small farmers' cooperative to one of Australia's 10 largest companies, and we've done it with a series of outstanding leaders, good people, financial discipline and a preparedness to undertake, from time to time, bold growth initiatives.**

It gives me great pleasure to present the 2011 Wesfarmers annual report after what has been a year of strong performance by our business divisions in the face of declining consumer confidence and some extremely adverse natural events. This year's result clearly demonstrates the strength of the Group's diversified conglomerate portfolio and long-term investment strategy.

The result also demonstrates how we truly reflect a cross-section of the Australian economy. Our resource-oriented businesses performed very well, despite adverse weather events, while retailers at the staples and value end of the market performed better than those relying on more discretionary spending. Natural disasters badly hit our Insurance division.

I would like to place on the record the admiration and appreciation the Board has for the way our Wesfarmers team members across Australia and New Zealand responded to those disasters – floods, cyclones, earthquakes – we've had the lot. Their efforts in helping individuals, families and communities get back on their feet were highly commendable.

## BUSINESS PERFORMANCE

Last year I reported that Wesfarmers had emerged in good shape from one of the most volatile and challenging times in our company's history. Economic circumstances remain volatile and challenging but, against that background, the company's performance over the past 12 months gives us very good reason to be confident about the future. Our balance sheet is strong and we are well positioned to take advantage of growth opportunities in the future.

With 2011 financial year revenue of nearly \$55 billion, we reported a net profit after tax of \$1.9 billion, up almost 23 per cent on last year. We have a very strong liquidity position and reported capital investment of \$2.1 billion for the year, much of which was expenditure for growth.

At year-end we announced a fully-franked final dividend of 85 cents per share, which gave a full-year dividend of 150 cents per share. This represents an increase of 25 cents, or 20.0 per cent over the prior period.

I believe we are seeing the benefits of Wesfarmers' tradition of a long-term investment strategy, most recently exemplified by our Coles acquisition, but also evident in heavy investment in growth for our other businesses. I also believe we can look forward to further benefits accruing from that strategy for many years to come.

We have in place a very strong portfolio of businesses and performance-focused management teams, both within each of those businesses and at corporate level.

## PEOPLE ARE OUR STRENGTH

The ability to recruit talented people has been the single most important factor in Wesfarmers' success for nearly 100 years.

We've grown from a small farmers' cooperative to one of Australia's 10 largest companies, and we've done it with a series of outstanding leaders, good people, financial discipline and a preparedness to undertake, from time to time, bold growth initiatives.

Today, as a diverse conglomerate with more than 200,000 staff, the task is more complex than ever. With a more mobile and adventurous workforce in an increasingly accessible and diverse global economy, the biggest challenge confronting Wesfarmers as we contemplate the future

is our capacity to attract, develop and retain quality people across all the many disciplines relevant to our businesses.

Significantly, under Richard Goyder's passionate leadership on the issue, we have set about providing far greater employment opportunities for indigenous Australians. Not only do we believe our employee profile should better reflect the broader community in which we operate, but we have already seen significant reciprocal benefit through success in this effort. We are focused on increasing opportunities for women at all levels of our organisation.

## SUSTAINABILITY

As a company, we recognised a long time ago that sustainability had to be a central part of our approach to doing business.

We now operate in nearly every major community across Australia. As a company, we have clear responsibilities to the 200,000 people we employ, to our customers, to the communities in which we operate, to those who supply our divisions with goods and services and, importantly, to our greatly expanded shareholder base.

We recognise we have to be part of, and reflective of, the communities in which we operate. If we are to be successful as a business, we have to play our part in ensuring that our communities are healthy and thriving, hence our proactive community partnership agenda and our contributions to the arts, education, medical research and indigenous programs.

Of critical importance is the profound responsibility we have to provide a safe working environment for all our employees.

## THE BOARD

I would like to thank my Board colleagues for their hard work and support throughout the year.

Our balance sheet is strong and we are well positioned to take advantage of growth opportunities in the future.



We had one departure from the Board during the 2011 financial year. Long-serving member, David White, a director since May 1990, announced his retirement from the Board at last year's Annual General Meeting. I would like to record the appreciation of the entire Board, past and present, for the great service David gave to Wesfarmers over two decades. We thank him and wish him well.

#### THE FUTURE

The Group remains positive in its outlook, subject to any adverse shocks from a fragile global economy, given the solid operating fundamentals in place across the divisions and an expected recovery from one-off impacts associated with natural disasters experienced during the last year.

Finally, on behalf of the Board, I would like to thank the Wesfarmers executive team led by our Managing Director, Richard Goyder, for the tremendous work it has done over the past 12 months to ensure that this company's future remains bright. Their combined efforts have been outstanding. My thanks go also to you, the shareholders, the owners of the business. With your continued support and with the continued dedication of our team members, we know we can not only maintain, but enhance, Wesfarmers' position as a great Australian company.

**Bob Every** Chairman

# Managing Director's review

**Wesfarmers has an excellent portfolio of assets, from the value end of retail to direct and indirect exposure to the resource sector, and our insurance activities, so we are confident that our businesses have the capacity to perform well under most circumstances.**

Your company has enjoyed another successful year on many fronts, despite the extremely challenging external environment which threw up floods, earthquakes and ongoing economic uncertainty.

In that context, to achieve a 22.8 per cent increase in net profit after tax, a 22.8 per cent increase in earnings per share, and a 20.0 per cent increase in dividends for the full year was very satisfying.

What is particularly gratifying to see is the dedication to work and commitment of our many employees who have been caught up in the natural disasters which have so severely affected Australia and New Zealand during the year.

Whether it is our insurance people dealing with devastated customers, our employees at the Curragh coal mine doing everything possible to mitigate the impact of impending floodwaters, or the many thousands of other employees from all of our divisions who helped put in place actions to assist the Queensland and Christchurch communities, we should all be very proud of them.

The Wesfarmers Board responded quickly to both disasters, committing \$5 million to the Queensland Premier's Flood Relief Appeal and \$1 million to the Christchurch Earthquake Appeal. We felt that it was important to demonstrate our serious commitment to these communities in which we operate businesses and employ many people.

## **BUSINESS DIVISIONS**

The Group's retail businesses recorded solid combined earnings growth for the year, up 8.2 per cent to \$2,532 million, including strong performances from both Coles and Bunnings, in what was a challenging trading period for retailers.

Retail conditions during the year were affected by declining consumer confidence and an increased propensity for households to save. Within this environment, all of the Group's retail businesses have experienced price deflation as they invested in lowering prices for their customers.

The Coles division continued to deliver strong earnings growth, up 21.2 per cent for the year, considerably ahead of sales growth. The result illustrates the progress made to date in the turnaround program, which has built solid sales momentum through significant price investment, an enhanced fresh food offer, operational efficiencies and the progressive renewal of the store network.

Bunnings recorded another good result, with earnings up 10.2 per cent, despite the deflationary impacts of the range reset work underway. Earnings growth was underpinned by good merchandising execution and a strong focus on cost management. Network expansion resulted in 27 new locations being opened during the year.

Kmart and Officeworks both recorded earnings improvements and strong uplift in customer transactions and unit growth, as they continued to make good progress in repositioning their offers.

Target's earnings of \$280 million were down on last year, as tight management of expenses and solid transaction growth were insufficient to offset the effects of significant price deflation and clearance activity to manage seasonal inventory.

The combined retail results include a one-off impact associated with asset writedowns and business interruption costs following severe flood and storm events, including Cyclone Yasi, and earthquakes in Christchurch.

Total costs quantifiable at year-end of approximately \$100 million were partially offset by insurance recoveries recognised of approximately \$60 million, reducing the net earnings impact with the balance largely arising in Coles and Bunnings.

The Insurance division recorded earnings before interest and tax of \$20 million, driven by event claims and reinsurance reinstatement expenses associated with an unprecedented number of catastrophe events in Australia and New Zealand.

Earnings from the Resources division, while up 123.6 per cent on last year, were adversely affected by interruptions to production caused by record wet weather and flooding events. Pleasingly, higher export coal pricing, compared to the 2010 financial year, more than offset the reduction in sales volumes and increased mining costs.

The Chemicals, Energy and Fertilisers division increased earnings by 26.2 per cent, excluding insurance proceeds of \$42 million received during the period that were associated with the 2009 Varanus Island gas disruption claim, as strong demand from the resource sector and higher fertiliser margins offset increased gas costs.

The Industrial and Safety division delivered a strong result, with earnings up 20.3 per cent for the year, benefiting from resource sector demand, major project activity and continuing improvements in business operations.

Other businesses' earnings were \$45 million lower than last year, having been negatively affected by reduced earnings from associate businesses and reduced interest revenue. This was offset by a \$128 million reduction in financing costs as the Group continued to proactively diversify its funding sources and extend its debt maturity profile.

We are fortunate to have terrific employees, a great portfolio of assets and a very strong balance sheet.



We are very confident that these investments will deliver satisfactory returns to our shareholders, because as always, they are subject to rigorous analysis and evaluation before proceeding.

#### MANAGEMENT CHANGE

In September 2011 Launa Inman announced her intention to leave the Group, after almost seven years as Managing Director of Target. Launa agreed to remain in the role until a successor was in place.

#### THE CHALLENGE AHEAD

We are fortunate to have terrific employees, a great portfolio of assets and a very strong balance sheet. Coupled with a performance-focused culture and a growth orientation, Wesfarmers is well placed to continue the growth it has enjoyed since establishing as a farmers' cooperative in 1914 and listing as a public company in 1984.

A volatile external environment means that we will maintain a strong balance sheet and look for investment opportunities which can create value for our stakeholders, while continuing to invest in our businesses and people.

The leadership team is fortunate to have the oversight and governance provided by the Wesfarmers Board led by Bob Every and we are very appreciative of that.

**Richard Goyder** Managing Director

#### ECONOMIC ENVIRONMENT

At the time of writing, we are witnessing significant volatility in markets, mostly due to concerns about economic growth in the USA and Europe and the level of indebtedness of some countries. These uncertainties feed into consumer confidence, which in turn affects discretionary expenditure. The relatively high Australian dollar is also making our exports more expensive, affecting a number of export-oriented industries.

Fortunately for Australia, China and some other growth economies such as India continue to have a high demand for our raw materials, which is providing a degree of protection for the Australian economy.

Wesfarmers has an excellent portfolio of assets, from the value end of retail to direct and indirect exposure to the resource sector, and our insurance activities, so

we are confident that our businesses have the capacity to perform well under most circumstances.

#### INVESTMENTS

During the 2011 financial year, we had capital expenditure of \$2,062 million for a combination of replacement and growth initiatives. In the next financial year, we anticipate that this amount will increase to between \$2.8 and \$3.2 billion, the majority of which will be to fund growth initiatives in our existing businesses.

These growth initiatives include:

- the expansion of the Curragh coal mine
- the expansion of the Bengalla coal mine
- preliminary work on a proposed further ammonium nitrate expansion at Kwinana, and
- numerous investments in our retail property pipeline.

# Wesfarmers leadership team

Driven by a long-standing objective to deliver a satisfactory return to shareholders, our leadership team is guided by Wesfarmers' core values – integrity, openness, accountability and boldness.

## RICHARD GOYDER

### Managing Director, Wesfarmers Limited

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

## TERRY BOWEN

### Finance Director, Wesfarmers Limited

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

## IAN MCLEOD

### Managing Director, Coles

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

## JOHN GILLAM

### Managing Director, Home Improvement and Office Supplies

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

## LAUNA INMAN

### Managing Director, Target

Launa was appointed Managing Director of Target in 2005 and prior to this was Managing Director of Officeworks. Launa has completed an Advanced Executive Program at Wharton Business School, holds a Bachelor of Commerce Honours, and a Masters of Commerce in Strategy and Economics. In March 2011 Launa was appointed independent non-executive director of Commonwealth Bank of Australia.

## GUY RUSSO

### Managing Director, Kmart

Guy was appointed Managing Director of Kmart in 2008. Prior to that, he was Managing Director and Chief Executive Officer of McDonald's Australia between 1999 and 2005, having held all key operational posts since 1974. Guy also served as President, McDonald's Greater China until 2007 and is currently President of the international Half the Sky Foundation for orphaned children in China.

## STEWART BUTEL

### Managing Director, Wesfarmers Resources

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

## ROB SCOTT

### Managing Director, Wesfarmers Insurance

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

## TOM O'LEARY

### Managing Director, Wesfarmers Chemicals Energy & Fertilisers

Tom joined Wesfarmers' business development team in 2000 and became General Manager of the team in 2002. He was appointed Executive General Manager, Business Development in 2006 before his appointment as Managing Director, Wesfarmers Energy in 2009. In July 2010, Tom became Managing Director of the newly formed Chemicals, Energy and Fertilisers division. Prior to joining Wesfarmers, Tom worked in finance law and investment banking.

The senior management team at Wesfarmers leads by example with passion and commitment.



**OLIVIER CHRETIEN**

**Managing Director, Wesfarmers Industrial and Safety**

Olivier joined Wesfarmers in 2006 as General Manager Commercial, Wesfarmers Industrial and Safety, before being appointed Managing Director of the division in 2007. Prior to joining Wesfarmers, Olivier worked in engineering contracting with Jacobs Serete and management consulting with The Boston Consulting Group in France and Australia.

**TIM BULT**

**Executive General Manager, Business Development, Wesfarmers Limited**

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

**PAUL MEADOWS**

**Group General Counsel, Wesfarmers Limited**

Paul was appointed Group General Counsel of Wesfarmers Limited in March 2010. Paul was admitted to practise as a barrister and solicitor in 1981 and was a partner of Allens Arthur Robinson in Melbourne from 1989 until February 2010. He worked at Linklaters in London in 1986 and 1987. Between 2006 and February 2010, Paul was also a senior adviser to UBS Australia.

**BEN LAWRENCE**

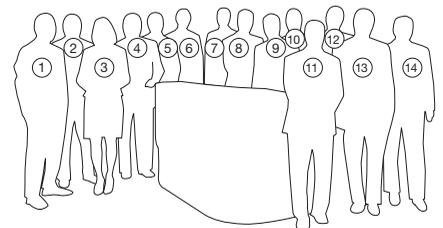
**Chief Human Resources Officer, Wesfarmers Limited**

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

**ALAN CARPENTER**

**Executive General Manager, Corporate Affairs, Wesfarmers Limited**

Alan joined Wesfarmers as Executive General Manager, Corporate Affairs in December 2009. Prior to that he was Premier of Western Australia from January 2006 to September 2008 and served 13 years in the Western Australian Parliament. Alan has also worked as a journalist with the Seven Network and the ABC and lectured in Australian politics at the University of Notre Dame, Fremantle.



Left to right: 1 **Guy Russo** 2 **Stewart Butel** 3 **Launa Inman** 4 **Alan Carpenter** 5 **Tom O'Leary** 6 **Paul Meadows** 7 **Rob Scott** 8 **Olivier Chretien** 9 **John Gillam** 10 **Ben Lawrence** 11 **Terry Bowen** 12 **Tim Bult** 13 **Richard Goyder** and 14 **Ian McLeod**

# Finance Director's review

**The balance sheet was further strengthened during the year, as evidenced by an upgrade in the Group's credit rating by Standard & Poor's to A- (stable outlook).**

## RESULTS OVERVIEW

Net profit after tax for the Group in the 2011 financial year of \$1,922 million was 22.8 per cent ahead of last year. This was achieved despite difficult operating conditions experienced in a number of the Group's divisions as a result of the large number of natural disasters in Australia and New Zealand and declining consumer confidence.

Earnings per share of 166.7 cents were up 22.8 per cent on last year, reflecting the strong profit growth achieved. Similarly, average return on equity increased to 7.7 per cent from 6.4 per cent in the previous year.

## CASH FLOW

Cash flows from operations for the year were \$2,917 million. The Group's cash realisation ratio was solid at 102.5 per cent, but down on last year's result, which benefited from significant business restructuring in Kmart and Coles.

The Group continued to invest strongly in capital expenditure, well ahead of depreciation, in order to drive future growth. Capital investment of \$2,062 million was up 24.5 per cent on last year following significant retail network expansion and improvement, and works associated with capacity increases at the Curragh and Bengalla coal mines.

It is expected that the current phase of strong capital investment will continue in the 2012 financial year as we drive strong growth and improvement in our retail networks; complete the current expansion works in the Resources division; and, subject to Wesfarmers Board approval, further expand ammonium nitrate production capacity at Kwinana.

Free cash flows for the year were \$1,041 million, compared to \$1,631 million in the previous year, given higher working capital and increased capital investment.

Cash dividends paid increased to \$1,557 million from \$1,325 million in the previous year.

## BALANCE SHEET

The balance sheet was further strengthened during the year, as evidenced by stronger key liquidity ratios and an upgrade in the Group's credit rating by Standard & Poor's to A- (stable outlook).

Total debt at 30 June 2011 reduced to \$4,879 million (from \$5,353 million 12 months earlier) as funds held in cash and on deposit were progressively used to repay debt following refinancing of the Group's syndicated loan facilities. This activity assisted in finance costs for the Group declining by 19.6 per cent to \$526 million for the year.

Net debt increased from \$4,035 million to \$4,343 million as at 30 June 2011.

The value of property, plant and equipment increased over the year, from \$7,542 million to \$8,302 million as at 30 June 2011, as capital investment exceeded depreciation and amortisation.

Working capital balances at 30 June 2011 increased by \$316 million compared to the prior year, primarily in the Group's retail businesses due to strong network expansion and sales growth, as well as increased direct sourcing and higher inventory levels in Coles ahead of supply system changes.

Detailed impairment testing of non-current assets, including goodwill and other intangible assets recognised on business acquisitions, was carried out during the year. External experts were engaged to provide support on model inputs including discount rates and long-term growth rates. Non-cash impairment charges totalling \$27 million were made during the year, compared to \$81 million in the prior year.

The current year impairment charge largely related to retail property holdings. In all other cases, recoverable amounts of non-current assets determined for impairment testing exceeded their carrying values. Future impairment testing of non-current assets remains sensitive to changes in general trading conditions and outlook, as well as discount rates.

## DEBT MANAGEMENT

The Group aims to maintain a strong investment-grade rating through prudent balance sheet management. During the year, the Group continued to proactively diversify its funding sources and extend its debt maturity profile, and in March 2011, Standard & Poor's upgraded the Group's long-term credit rating to A- (stable outlook) from BBB+ (positive outlook). Moody's has placed the Group on a Baa1 positive outlook, from stable previously.

Refinancing activity comprised the establishment in December 2010 of a \$2.5 billion revolving syndicated debt facility with an average term to maturity of 3.5 years and, in May 2011, the issuance of a US\$650 million five-year US bond. The proceeds of both issuances were used to repay shorter-term debt, which resulted in a lengthening of the Group's average tenor to 3.0 years across its diversified sources of debt.

As at 30 June 2011, the Group had available to it \$536 million in cash at bank and on deposit and \$2,006 million in committed but undrawn bank facilities. Over the year, the Group's fixed charges cover increased to 2.7 times, up from 2.4 times a year ago, and cash interest cover improved to 9.5 times from 6.8 times. The weighted average cost of debt for the year was 8.8 per cent compared to 8.9 per cent last year.

## EQUITY MANAGEMENT

Over the year, shares on issue were stable, with 1,157 million shares on issue at 30 June 2011, made up of 1,006 million ordinary shares and 151 million partially protected ordinary shares.

## DIVIDEND POLICY

Wesfarmers' dividend policy seeks to deliver growing dividends over time, with the declared amount reflective of the Group's current and projected cash position, profit generation and available franking credits. Consistent with this policy, a fully-franked full-year dividend of 150 cents per share was declared, an increase of 20.0 per cent on last year. The final dividend, to be paid on 30 September 2011, is not provided for in the accounts. Given a preference by many shareholders to receive dividends in the form of shares, the directors decided to continue the operation of the Dividend Investment Plan (the Plan). No discount applied to shares allocated under the Plan. In recognition of our capital structure and strong balance sheet, all shares issued under the Plan were acquired on-market by a broker and transferred to participants.

# Wesfarmers seeks to deliver growing dividends over time.



## RISK MANAGEMENT

The Group maintains and adheres to clearly defined policies covering areas such as liquidity risk, market risk (including foreign exchange, interest rate and commodity price risk) and credit risk. It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments be undertaken.

The main sources of foreign exchange risk include: the sale of export coal, denominated in US dollars; purchases in foreign currency, mainly retail inventory in US dollars; and current US dollar and Euro denominated debt.

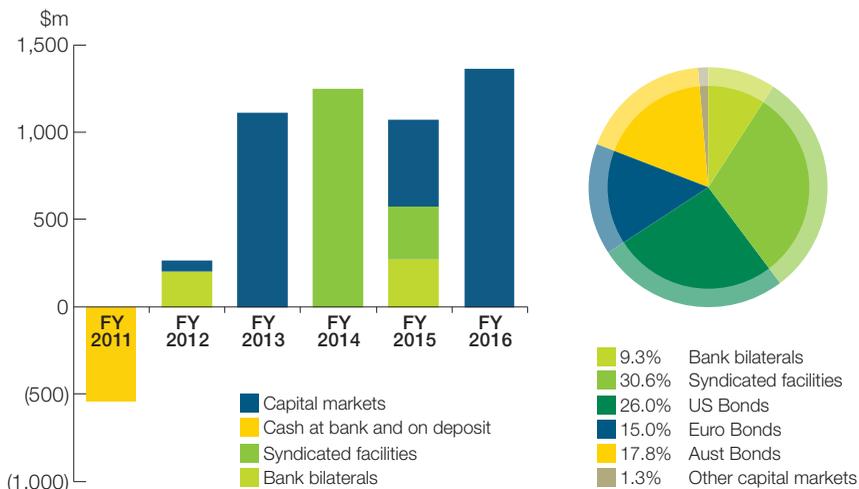
Businesses exposed to foreign exchange risk use forward contracts to minimise currency exposure. US dollar and Euro denominated debt and associated interest costs are fully hedged at the time the debt is drawn down. The Group uses interest rate and cross currency interest rate swaps to manage interest rate risk. Interest rate swaps covering \$2.5 billion of debt are currently in place for the 2012 financial year. Our annual corporate planning process includes an established framework for assessing broad business risk as well as considering risk mitigation.

## INTERNAL CONTROL AND ASSURANCE

The Group maintains an internal audit function with a Group-wide mandate that is fully independent of the business operations to monitor and provide assurance to the Wesfarmers Board's Audit Committee and ultimately the Board as to the effectiveness of risk management and internal control systems.

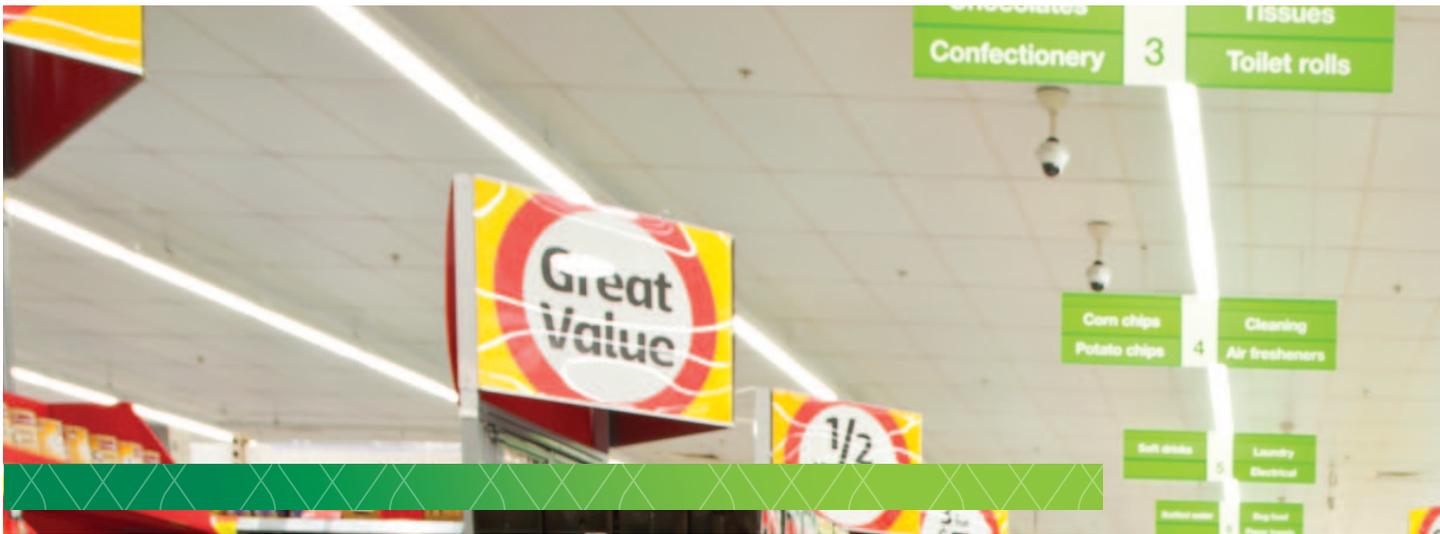
The annual internal audit plan is developed within a combined assurance framework and applies a risk-based methodology to ensure that the Group's key risks are appropriately and regularly reviewed. The internal audit plan is approved by the Board. The internal audit function delivers the approved internal audit plan by engaging a single outsource audit provider. As part of the annual operating cycle, we also require each business to review and report on: legal liabilities; financial controls; information systems; environment, health and safety planning; and risk assessment and mitigation.

**Terry Bowen** Finance Director



Note: Reflects 30 June 2011 position.

Average debt tenor of three years across diversified sources of debt



# Retail operations

Reinvestment in our retail businesses delivered improvements in value, quality and service.





Wesfarmers' retail operations are focused on driving efficiencies and reducing costs of doing business so that they can invest in a better customer offer.



## Coles

Coles employs more than 102,000 team members and manages approximately 18 million customer transactions a week.

PAGE 18



## Home Improvement and Office Supplies

Bunnings and Officeworks are the leading retailers in home improvement and office supplies products in Australia.

PAGE 22



## Target

Target is a retailer of fashion clothing and homewares with broad customer appeal.

PAGE 26



## Kmart

Kmart is a retailer that offers the lowest prices possible on everyday items, every day of the year.

PAGE 30

# Coles

The Coles turnaround plan produced strong trading results in 2011 by improving quality, service and value. The business is now over halfway through the turnaround plan, in which it is focused on 'Delivering Consistently Well'.

## THE BUSINESS

Coles is a leading food, liquor and convenience retailer, with a presence in every Australian state and territory. The business operates more than 2,200 retail outlets across Coles, BiLo, 1st Choice Liquor Superstore, Liquorland, Vintage Cellars, Coles Express and Spirit Hotels.

The business employs more than 102,000 team members and handles approximately 18 million customer transactions a week.

## STRATEGY

Coles seeks to give the people of Australia a shop they trust, delivering quality, service and value.

In 2010/11, Coles continued to improve efficiency and customer service, deliver effective value promotions, enhance its fresh food offer, accelerate store refurbishments with new store formats and automate stock ordering across the network.

## RESULTS

The 2011 financial year saw Coles deliver operating revenue of \$32.1 billion, up 6.9 per cent on the prior corresponding period. Earnings before interest and tax grew to \$1,166 million, up 21.2 per cent on the previous year.

Food and liquor store sales were \$25 billion, up 6.3 per cent on the previous year and comparable store sales growth was 6.3 per cent<sup>1</sup>. The results were driven by a strong focus on building customer trust through quality, service and value initiatives. The business saw a pleasing double digit increase in fresh food sales with customers responding to better quality fresh produce and greater availability.

A value focus and price reductions on everyday items drove customer transactions, while easy ordering and better ways of working improved stock availability.

Coles Liquor continued to provide strong value to customers through promotional activities, investment in new store formats for each brand and a new technology platform to drive internal efficiencies and sales.

Coles Express enjoyed a solid performance, driven by fuel volume growth, with revenue of nearly \$6.8 billion, up 8.7 per cent on the previous year. Comparable fuel volumes increased by 2.3 per cent<sup>1</sup>.

Convenience store sales, excluding fuel sales, rose 2.0 per cent<sup>1</sup>, with comparable store sales growth of 0.9 per cent<sup>1</sup>.

## YEAR IN BRIEF

Coles recorded another year of business improvement and growth in 2010/11 and is over halfway through the second phase of its transformation plan.

In 2011, the business continued to deliver better value to customers and build trust in the Coles brand by responding to customer feedback and delivering quality products at low prices.

Coles lowered the prices of over 6,000 grocery items by an average of 10 per cent through its value campaign and engaged customers and schools with innovative programs and sponsorships, such as Feed your Family, Sports for Schools and Masterchef.

During the year, 30 Coles Brand and Coles Finest products achieved quality awards.

In response to customer preferences for food free of additives and higher animal welfare choices, Coles launched no added hormone butcher beef and lowered the price of free range eggs.



**Ian McLeod** Coles Managing Director (left) with Store Manager **Nathan Jones** at the Coles Oakleigh store in Victoria

## GROWTH STRATEGIES

'Driving the Coles Difference'

- Culture of continuous improvement
- Strong customer trust and loyalty
- Strong operational efficiency
- Innovate and improve offer
- New stores, new categories
- Embed culture change and enhance team member development
- Build long-term relationships with our food and grocery suppliers
- Continue to support the local communities in which we operate

<sup>1</sup> For the 52 week period 28 June 2010 to 26 June 2011.



In response to customer preferences, this year Coles launched no added hormone butcher beef.



## Key financial indicators

For the year ended 30 June	2008*	2009	2010	2011
Revenue (\$m)	16,876	28,799	30,002	<b>32,073</b>
Earnings before interest and tax (\$m)	475	831	962	<b>1,166</b>
Capital employed (R12) (\$m)	14,952	15,163	14,830	<b>14,973</b>
Return on capital employed (%)	nm	5.5	6.5	<b>7.8</b>
Capital expenditure (\$m)	351	606	683	<b>840</b>

nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.  
 \* For the ownership period from 23 November 2007 to 30 June 2008.

### Revenue (\$m)

**\$32,073**

<b>2011</b>	<b>32,073</b>
2010	30,002
2009	28,799
2008*	16,876

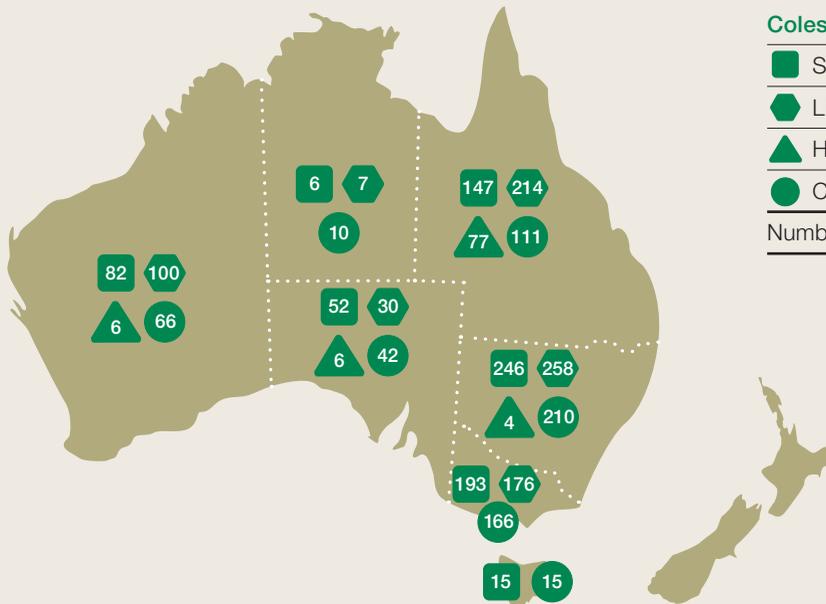
### EBIT (\$m)

**\$1,166**

<b>2011</b>	<b>1,166</b>
2010	962
2009	831
2008*	475



## Business statistics



### Coles

Supermarkets	741
Liquor stores	785
Hotels	93
Convenience stores	620
Number of team members	102,520

# Coles continued to deliver better value to customers and build trust in the Coles brand.



## Business websites

- [www.coles.com.au](http://www.coles.com.au)
- [www.colesonline.com.au](http://www.colesonline.com.au)
- [www.bilo.com.au](http://www.bilo.com.au)
- [www.1stchoice.com.au](http://www.1stchoice.com.au)
- [www.liquorland.com.au](http://www.liquorland.com.au)
- [www.liquorlanddirect.com.au](http://www.liquorlanddirect.com.au)
- [www.vintagecellars.com.au](http://www.vintagecellars.com.au)

The business expanded Coles Online shopping, which is now accessible to 85 per cent of Australia, including areas such as Alice Springs and Darwin. Coles also launched new products and services, including Coles Car Insurance and Home Insurance and Coles Mobile.

Coles continued to invest in its store network, adding 94 new format supermarkets, bringing the total number of new format stores to 144.

During the year, more than 25 Coles stores were affected by the Queensland floods and Cyclone Yasi – the worst affected of these were at Emerald, Fairfield and Ipswich. In June 2011, Coles Emerald and Fairfield were re-opened with the latest store design and a new store at Ipswich will be built in the coming year.

As part of improving on-shelf availability of stock, Coles' Easy Ordering system was implemented for all supermarkets, and store efficiency programs are streamlining stock replenishment and reducing stock loss.

## BUSINESS SUSTAINABILITY

As part of managing our business responsibly, we continued to focus on ways to be more energy efficient. Coles' programs were aimed at reducing the energy consumed for refrigeration and lighting across its store network.

Together with Green Building Council of Australia, Coles worked to finalise a 'Greenstar' rating tool for future freehold supermarket developments. The first development to use the tool as a benchmark is our new store at Greenacre, New South Wales, which is under construction.

Coles is committed to sustainable agriculture, including best practice animal welfare practices, and works closely with all of our food and grocery suppliers to build long-term mutually beneficial relationships.

Coles announced a range of responsible sourcing initiatives in 2010/11, including a three year program with the WWF Australia, a leading authority on marine sustainability, to deliver sustainable seafood across Coles brands in fresh, frozen and canned fish.

Coles was also awarded a Good Egg Award from the RSPCA following a decision to phase out caged eggs by 2013.

Having a diverse and inclusive culture is a priority, and during the year Coles launched an Aboriginal and Torres Strait Islander Plan to be more representative of the communities it serves. Part of this plan is an indigenous employment program and cross-cultural awareness training which assists team members to better understand and respect Aboriginal culture.

The business continued to build safety leadership and raise safety awareness during the year. Close to 350,000 hours were invested in improving health and safety skills and knowledge through training. New methodology for calculating lost time due to injuries this year, and an increase in manual handling injuries at our supermarkets, led to a higher Lost Time Injury Frequency Rate of 16.98<sup>1</sup>, up from 12.87 last year.

This year, Coles raised and contributed more than \$22.3 million to community programs and emergency relief. Of this, \$5.34 million was in aid of the Queensland Premier's Disaster Relief Appeal.

Another \$7.1 million in sporting equipment was distributed to more than 7,600 schools across Australia as part of Sports for Schools and over 1.1 million kilograms of food was donated to people in need through Foodbank Australia, SecondBite and the Salvation Army.

## OUTLOOK

In the coming year, the business will move into phase three of its turnaround plan where it will focus on 'Driving the Coles Difference' by creating a culture of continuous improvement; building strong customer trust and loyalty; delivering operational efficiency; innovating and improving its customer proposition; and delivering new stores with new categories.

Main image: Team member Jared Moore setting up signage at the 1st Choice Liquor Superstore in Tooronga, Victoria

<sup>1</sup> Restated for a change in the LTIFR calculation to be consistent with the other divisions of Wesfarmers.

# Home Improvement and Office Supplies

Bunnings and Officeworks are the leading retailers in home improvement and office supplies products in Australia.

## Home Improvement: Bunnings

### THE BUSINESS

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

Operating from a network of large warehouse stores, smaller format stores, trade centres and frame and truss manufacturing sites, Bunnings caters for consumer and commercial customers.

### STRATEGY

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

Bunnings continues to expand and improve its store network through ongoing investment in existing outlets, innovative merchandising initiatives and new store openings. Bunnings has developed and continues to expand and enhance a network of trade centres to service major commercial customers.

### RESULTS

Operating revenue from the Bunnings home improvement business increased by 5.7 per cent to \$6.8 billion for the full year, with trading revenue increasing by 5.7 per cent. Earnings before interest and tax grew 10.2 per cent to \$802 million.

Total store sales growth in Bunnings of 5.6 per cent was achieved during the year, with underlying store-on-store sales increasing by 3.0 per cent. Commercial sales were 5.1 per cent higher than in the comparative period.

Pleasing results were achieved in all Australian states and New Zealand, across all product ranges, driven by good execution of merchandising and operational strategies.

### YEAR IN BRIEF

During the year 27 trading locations were opened: 11 warehouse stores, eight smaller format stores and eight trade centres. At year-end there were 194 warehouses, 59 smaller format stores and 36 trade centres operating across Australia and New Zealand. Investment in bringing current merchandising standards into older parts of the network continued, together with category-specific upgrade work across the whole network.

### BUSINESS SUSTAINABILITY

During the year work continued towards long-term carbon footprint reduction initiatives to reduce energy usage and waste and to help educate our customers and team on sustainable living choices. Our carbon footprint increased by only 5.0 per cent, compared to net site growth of 6.0 per cent, with further reductions in carbon intensity planned. Water consumption remained a priority, with rainwater tanks continuing to be rolled out in new warehouse stores, and hand watering in selected nurseries. Water consumption remained at the same level as in the prior year.

Over the year, Bunnings supported more than 42,000 community activities through community group sausage sizzles, hands on do-it-yourself projects and renovations, local fundraising activities, community workshops and other activities. Support included in excess of 104,000 hours of team member support for activities and projects, product contributions and financial assistance. This involvement helped raise and contribute more than \$26 million to local, regional and national charities and community organisations across Australia and New Zealand.



John Gillam Managing Director, Home Improvement and Office Supplies with team member Vania Ferreria at the Bunnings Warehouse in Caroline Springs, Victoria

## GROWTH STRATEGIES

### Home Improvement

**Profitable sales growth:** Key growth drivers are stronger customer service, enhancing the offer, investing in and expanding the network, and further developing a multi-channel commercial offer

**Better stock flow and profitability:** Improving the end-to-end supply chain

**Stronger team engagement and development:** Continue strong investments in product knowledge, investment and safety

**Improving productivity and execution:** Reduce the cost of doing business through systems development and other business improvement and productivity projects

**Sustainability:** Ongoing commitment to store-based community involvement work, reducing water and energy consumption and wastage, plus improved affordability of sustainability projects for customers

### Office Supplies

**Improve the customer offer:** Develop new services, categories and ranges; more merchandising initiatives; and capitalise on emerging trends and technologies

**Improve customer service:** Listen to, learn from and act on customer feedback; build stronger customer relationships; more product knowledge training

**Team development and engagement:** Continue to focus on improving safety and delivering team programs that support and enhance the business strategy and underlying culture

**Reduce costs and complexity:** Rebuild an efficient and cost effective supply chain; reduce shrinkage; and continue to work on removing costs, duplication and complexity

**Drive sales and profitability:** Lift product range authority; expand and refresh the store network; improve stock management; and look after business customers better



Bunnings caters for do-it-yourself customers, as well as builders and contractors, and provides the widest range of home improvement and outdoor living products at the lowest everyday prices.

## Key financial indicators

For the year ended 30 June	2007	2008*	2009	2010	2011
Revenue (\$m)	4,939	6,160	7,151	7,822	<b>8,251</b>
Earnings before interest and tax (\$m)	528	625	724	802	<b>882</b>
Capital employed (R12) – Home Improvement (\$m)	1,879	1,925	2,185	2,398	<b>2,863</b>
Return on capital employed – Home Improvement (%)	28.1	31.2	30.2	30.4	<b>28.0</b>
Capital employed (R12) – Officeworks (\$m)	nm	1,080	1,145	1,178	<b>1,195</b>
Return on capital employed – Officeworks (%)	nm	nm	5.7	6.3	<b>6.7</b>
Capital expenditure (\$m)	196	302	378	446	<b>613</b>

nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.  
 \* Officeworks' contribution for the ownership period from 23 November 2007 to 30 June 2008.

### Revenue (\$m)

**\$8,251**

2011	<b>8,251</b>
2010	7,822
2009	7,151
2008*	6,160
2007	4,939

### EBIT (\$m)

**\$882**

2011	<b>882</b>
2010	802
2009	724
2008*	625
2007	528



## Office Supplies: Officeworks

### THE BUSINESS

Officeworks is Australia's leading retailer and supplier of office products and solutions for home, business and education. Operating through an Australia-wide network of stores plus the [www.officeworks.com.au](http://www.officeworks.com.au) website and customer service centre, Officeworks has a broad range of customers, including small-to-medium businesses, large corporates, students, teachers, education institutions and everyday personal shoppers.

The Office Supplies portfolio also includes Harris Technology, which caters predominantly for small-to-medium businesses and early adopter technology customers. Given Officeworks' focus on expanding its technology and technical services offer to business customers, the decision has been made to integrate the two businesses, which will occur as soon as practical.

### STRATEGY

Officeworks aims to provide customers with the widest range of products and great service at the lowest price while providing a safe, rewarding and engaging place of work for all team members. Officeworks continues to grow and develop the business by improving the customer offer, opening more stores, refurbishing existing stores, and enhancing its website and customer service centre operations.

### RESULTS

Operating revenue for the office supplies businesses was \$1.5 billion for the full year, which was 4.4 per cent higher than in the previous year. Earnings before interest and tax grew 8.1 per cent to \$80 million. Headline sales growth across the Officeworks store network for the year was 5.2 per cent, which was underpinned by strong transaction growth. The Officeworks business channel continued to gain traction with customers.

Harris Technology sales were adversely affected by a lack of confidence amongst its core customer base of small-to-medium sized businesses.

### YEAR IN BRIEF

New products and services were added to the range, while the Officeworks website was further enhanced. The ongoing focus on improving customer service remained at the forefront of the agenda with a range of different initiatives rolled out.

During the year, 10 new Officeworks stores were opened and six Officeworks stores were fully upgraded. At year-end, there were 135 Officeworks stores and four Harris Technology business centres operating across the country. The primary focus remains on reinvigorating the business through a range of inter-linked strategic initiatives. Investment to further enhance the customer offer while expanding and renewing the store network will continue, as will work to lower costs and remove operational complexity. Growing the business-to-business offer will remain an area of focus while an ongoing investment in the Officeworks team will underpin all strategic initiatives.

Disappointingly, safety performance did not improve during the year. The rolling 12 month All Injuries Frequency Rate increased marginally from 35.9 to 36.4. Safety receives a very high profile in the business through the B.S.A.F.E. program, and efforts will be increased in the 2012 financial year to achieve better safety outcomes.

### OUTLOOK

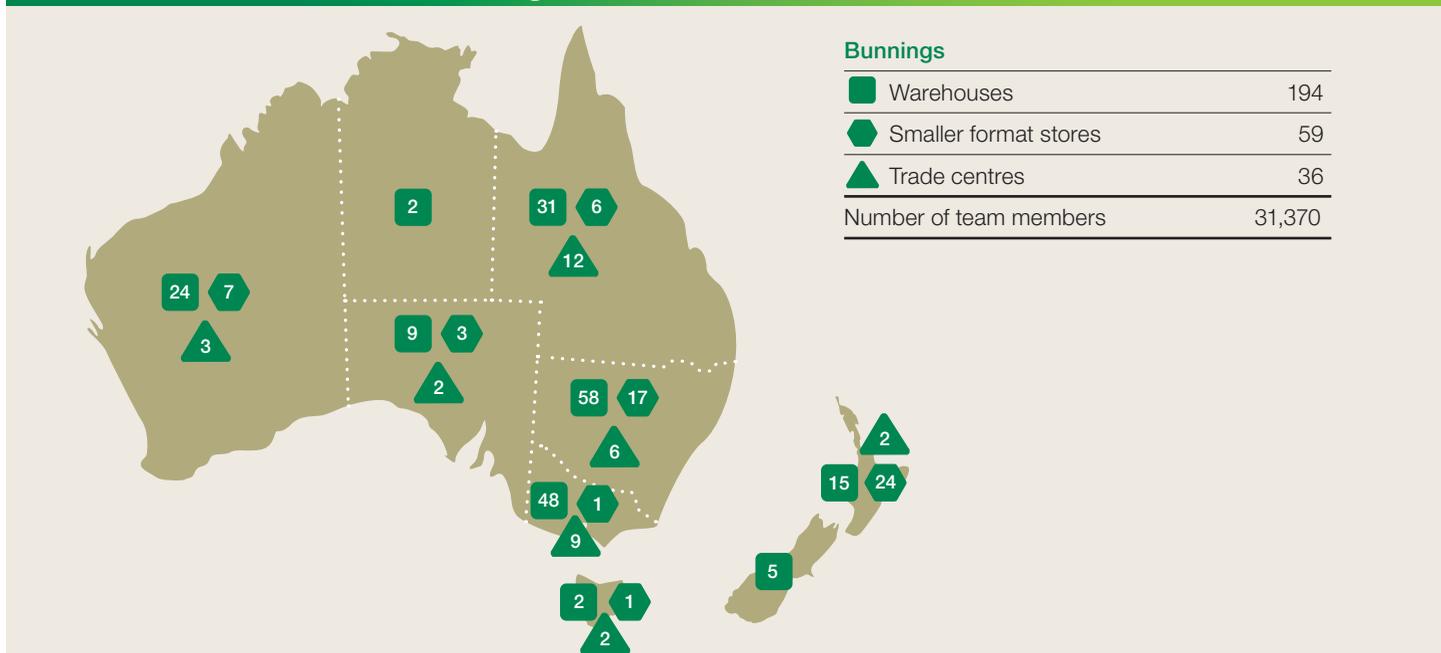
The business is well positioned for continued sales growth in an increasingly competitive environment. The focus in the business remains on five growth drivers: service; category expansion and enhanced merchandising; network expansion and reinvestment; light and heavy commercial markets and the investment of productivity gains in lower prices to drive volume.

### Business websites

[www.bunnings.com.au](http://www.bunnings.com.au)

[www.bunnings.co.nz](http://www.bunnings.co.nz)

## Business statistics – Bunnings



## BUSINESS SUSTAINABILITY

Officeworks' commitment to social responsibility evolved further throughout the year. Contributions to the wellbeing of the communities in which we operate were made via initiatives such as Blue September and the introduction of the Helping Kids Grow reusable jute bags, with part of the proceeds going to the Australian Literacy and Numeracy Foundation. Fundraising for the Queensland Premier's Disaster Relief Appeal and numerous other national and local activities saw Officeworks contribute more than \$1.3 million across the course of the year. Partnerships with Cartridges for Planet Ark and Mobile Muster resulted in over 110 tonnes and 700 kilograms, respectively, of waste diverted from landfill. Solar powered car park lighting has been trialled throughout the year, while the rollout of rainwater tanks continued. Power factor correction devices are now standard in all new stores.

The All Injury Frequency Rate for the period reduced from 47.2 to 36.2. The StaySafe program introduced in February 2009 operated in conjunction with the StayHealthy program to ensure that the health and wellbeing of Officeworks team members remained a priority.

## OUTLOOK

Given the challenging economic and competitive landscape, moderate sales growth is expected throughout the 2012 financial year. Pressure on sales and margin is expected to continue. The focus on executing the strategic agenda will continue by improving the customer offer, expanding and upgrading the network, and reducing operational complexity and the cost of doing business.

The ongoing focus on improving customer service remained at the forefront of the agenda.



## Business websites

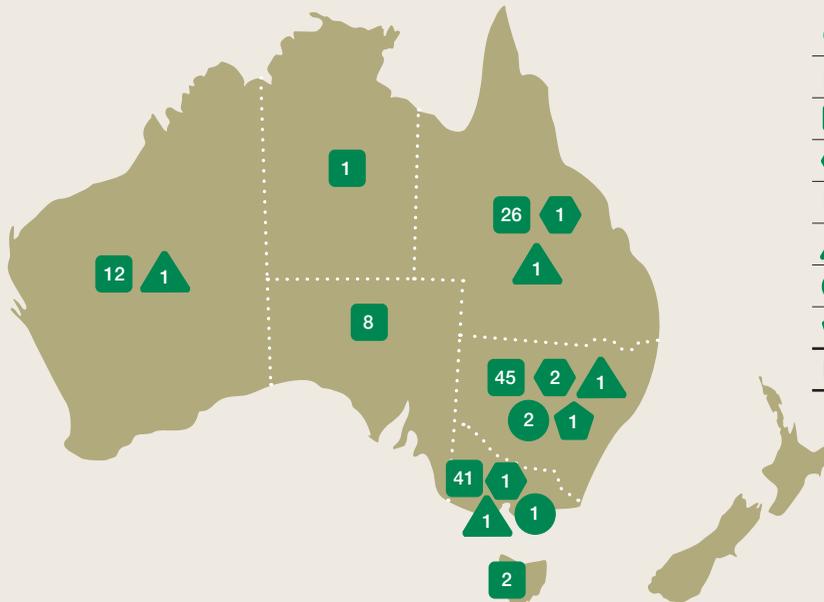
[www.officeworks.com.au](http://www.officeworks.com.au)

[www.ht.com.au](http://www.ht.com.au)

Far left image: Team member Jodie Zerafa in the paint department at the Bunnings Warehouse in Caroline Springs, Victoria

Above: Team member Zac Anthony at Officeworks in Fitzroy, Victoria

## Business statistics – Officeworks



### Officeworks and Harris Technology

#### Retail Stores

■ Officeworks	135
⬡ Harris Technology	4

#### Business

▲ Fulfilment centres	4
● Service centres	3
⬠ Print Hub	1
Number of team members	5,737

# Target

Target posted a solid EBIT margin in a challenging trading period, with increased units sold compared to the prior year combined with tight management of expenses.

## THE BUSINESS

Target is a mid-market retailer, appealing to a broad section of the Australian community across 291 Target and Target Country stores.

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

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

The division employs 24,093 people and its stores can be found in metropolitan and regional areas in every state and territory. The stores range in size from Target branded selling floor areas of 2,200 to 8,800 square metre stores to Target Country branded selling floor areas of 300 to 1,700 square metre stores.

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

## STRATEGY

Target's aim is to provide customers with a differentiated shopping experience that is easy and convenient, and a product offer that is great style, great quality and great value, all delivered with a great shopping experience.

There is continued focus on reinvesting in price to provide the customer with increased value without compromising quality.

Through the increased use of in-house design and development capabilities, Target will strengthen its position as a leading customer destination for fashionable clothing and homewares. This will be further embedded into everyday practice, and will enable the business to have greater control and improve speed to market in the development of new and differentiated product.

This disciplined approach extends to buying merchandise for the space available, improving the ability to flow product as customers want to buy it, resulting in better in-store presentation and stock handling efficiencies for stores and ultimately customers.

Increasing the store footprint and investing in the existing store network is still a key priority for the business, as it underpins the focus on providing an easy and convenient shopping experience. In addition, the business continues to expand its online retail offering and will further explore other alternate ways of servicing and communicating to customers with the increased use of technology.

## RESULTS

Operating revenue for Target was \$3.8 billion, with comparable store sales declining 1.2 per cent<sup>1</sup>. Earnings before interest and tax (EBIT) were \$280 million, with an EBIT margin of 7.4 per cent.

In a challenging and highly competitive environment, Target's margin came under pressure as the market contracted and the prices of many items were affected by deflation. Margin was also lost as inventories were managed and cleared to ensure that the product offer remained fresh and relevant to the customer. Tight management of expenses could not offset this decline in revenue.

<sup>1</sup> For the 52 week period 27 June 2010 to 25 June 2011.



Launa Inman Managing Director, Target with team member Fatima Kaya at the Target store in Chadstone, Victoria

## GROWTH STRATEGIES

### Profitable sales growth:

- Continue investment in the store portfolio with new stores and refurbishments
- Continue to explore alternative ways of communicating to customers with increased use of digital technology
- Launch of the first new store format, Urban by Target (South Yarra, Victoria), with additional locations planned

### Product leader:

- Ongoing refinement of product presentation in stores and delivery of product to market
- Continue focus on core customer destination categories, supported by new and differentiated product development and speed to market improvements

### In-store environment:

- Disciplined in-store presentation for ease of customer shopping

Target aims to offer customers a differentiated shopping experience that is easy and convenient.



## Key financial indicators

For the year ended 30 June	2008*	2009	2010	2011
Revenue (\$m)	2,198	3,788	3,825	<b>3,782</b>
Earnings before interest and tax (\$m)	221	357	381	<b>280</b>
Capital employed (R12) (\$m)	3,352	3,441	3,264	<b>3,359</b>
Return on capital employed (%)	nm	10.4	11.7	<b>8.3</b>
Capital expenditure (\$m)	60	91	91	<b>95</b>

nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.  
 \* For the ownership period from 23 November 2007 to 30 June 2008.

### Revenue (\$m) \$3,782

2011	<b>3,782</b>
2010	3,825
2009	3,788
2008*	2,198

### EBIT (\$m) \$280

2011	<b>280</b>
2010	381
2009	357
2008*	221



## Business statistics



### Target

Target stores (Includes 119 Target Country)	291
Number of team members	24,093

# There is continued focus on reinvesting in price to provide the customer with increased value without compromising quality.



## Business websites

[www.target.com.au](http://www.target.com.au)

Higher sales volumes were noted in the entry and medium price points, with inventory increased in these areas to meet this demand. Overall, the retail environment was challenging, with cautious customers shopping for value and requiring incentive to spend.

Sales in homewares and intimate apparel delivered positive growth for the year, as the customer responded positively to the quality and value of the homewares offering, and the expanded range of intimate apparel. Target's core destination departments for children – childrenswear and baby-related products – also had positive growth for the year, while ladieswear had a marginal decrease. Sales of electrical items declined compared to the previous year, with a significant decline in demand for videos, DVDs and interactive toys.

### YEAR IN BRIEF

During the past year, three stores were opened (including two replacement stores). At the year-end, there were 172 full line Target stores and 119 Target Country stores.

Continued investment in the existing store network resulted in 65 store refurbishments, with a focus on Target Country stores. During the year, improved design layouts in Target stores, in response to customer feedback, included a new beauty area, Baby Shop and Cook Shop.

Consumers continued to be cautious, requiring significant incentive to spend, with value a key priority and higher sales volumes in entry and medium price points evident. In response, inventory was increased in these categories to meet this demand with no compromise in the quality of the product.

The product design and development capabilities continue to be embedded into everyday practice and will ensure Target's continued differentiation in the market.

### BUSINESS SUSTAINABILITY

Sustainability remained a key priority at Target with a strong focus on advancing our team member safety and training, reviewing our environmental impact, and working closely with our key community partners.

During the year, we continued our commitment to providing and maintaining a safe and healthy environment for all team members, contractors, customers and visitors. We introduced a new training package for management team members, highlighting the importance of leadership in safety and continued to implement new equipment and modifications to reduce exposure to manual handling risks. This commitment led to a reduction in workplace incidents, reducing our Lost Time Injury Frequency Rate from 7.97 to 6.96.

We achieved a high response rate to our ongoing team survey with 87.4 per cent or 20,869 team members providing feedback on the level of team member engagement in the business.

A key highlight for the year was achieved in October 2010 when we reached \$1 million raised for The Alannah and Madeline Foundation's Buddy Bags Program.

In the area of environmental performance, we continued to achieve success in reducing excess packaging from key merchandise areas. For example, by suppliers excluding cardboard inserts from slippers, we removed 15.8 tonnes of excess packaging, with further savings to be gained by other departments. Based on results from an energy efficiency trial, we identified an opportunity to reduce our energy consumption in stores by changing the temperature setting on the selling floor.

### OUTLOOK

The challenging and competitive trading environment is expected to continue into the 2012 financial year.

Alternative customer offerings will continue to be explored, as the online range is expanded and the use of social media to communicate to customers increases.

Continued investment in the network is planned, with approximately 10 (net) new stores and 25 to 30 refurbishments in the 2012 financial year, including the opening of a new store format, Urban by Target.

Main image: Team member Cimonne Fuller dressing mannequins at the Target store in Chadstone, Victoria

# Kmart

Following three years of change, Kmart is now offering all products at consistently low prices across the store, every day.

## THE BUSINESS

Established more than 40 years ago, Kmart is one of Australia's largest discount department store retailers with 187 stores throughout Australia and New Zealand, product sourcing offices in Hong Kong, China, Bangladesh and India and 25,452 team members.

Key categories for Kmart include menswear, womenswear, childrenswear, beauty, footwear, toys and sporting, events and food, entertainment, newsagency and home.

Kmart Tyre & Auto Service is one of Australia's largest retail automotive service, repair and tyre businesses with 251 centres and is Australia's largest employer of mechanics and apprentice mechanics with a team of 1,410 people.

## STRATEGY

This year, Kmart repositioned its offer by moving away from a high/low pricing model with excessive discounting; it has improved its supply chain; reduced administration costs; and increased research on key customers.

Customers were invited back into Kmart to see how the business has improved its stores and to experience team members who are focused on fast and friendly service.

This strategy has proven to be successful with the direction in the latter half of the year mainly targeted at getting ready to promote the 'new' Kmart to customers: A retailer that now offers the lowest prices possible on everyday items, every day of the year.

Another achievement in the past 12 months is the establishment of Kmart Australia Sourcing based in Hong Kong. The team is working hard to find the best suppliers from around the world who can deliver the volume and prices the business demands to ensure that customers can buy what they want, when they want it, at the lowest possible price.

## RESULTS

Kmart's operating revenue for the year was \$4.0 billion with underlying earnings before interest and tax of \$201 million<sup>1</sup>.

Comparable store sales growth for the year increased 0.3 per cent<sup>2</sup>, with the business being reset from a promotional model to an everyday low price one.

While customer transactions and volumes continued to grow year on year, with customers responding to Kmart's everyday low price offer, this was offset by our reduced prices, which delivered modest top line growth.

During the year apparel, toys and home categories performed well. Selected hard goods categories declined due to a combination of maturing categories (such as music) and categories that traditionally performed well during promotions and heavy discounts.

## BUSINESS SUSTAINABILITY

Reducing the number of injuries in all sites remains a key focus. Safety improvements introduced include providing improved materials handling equipment, new storage racks in selected stores and boom gates and safety rails to reduce the risk of falls from loading docks.

<sup>1</sup> Excludes \$3 million earnings related to Coles Group Asia overseas sourcing operations.

<sup>2</sup> For the 52 week period 28 June 2010 to 26 June 2011.



Guy Russo Managing Director, Kmart with team member Caitlin Loyer at the Knox City Kmart store, Victoria

## GROWTH STRATEGIES

Kmart is a low price retailer where families come first for the lowest prices on everyday items.

Customers are the number one focus, along with products, price, promotion, people, place (where we operate) and profit.



Kmart team members are focused on fast and friendly service.



## Key financial indicators

For the year ended 30 June	2008*	2009	2010	2011
Revenue (\$m)	2,454	3,998	4,019	<b>4,036</b>
Earnings before interest and tax (\$m) <sup>^</sup>	111	109	196	<b>204</b>
Capital employed (R12) (\$m)	996	1,038	873	<b>856</b>
Return on capital employed (%)	nm	10.5	22.5	<b>23.8</b>
Capital expenditure (\$m)	41	63	79	<b>101</b>

nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

\* For the ownership period from 23 November 2007 to 30 June 2008.

<sup>^</sup> 2011 includes \$3 million earnings related to Coles Group Asia overseas sourcing operations (2010: \$6 million).

### Revenue (\$m) \$4,036

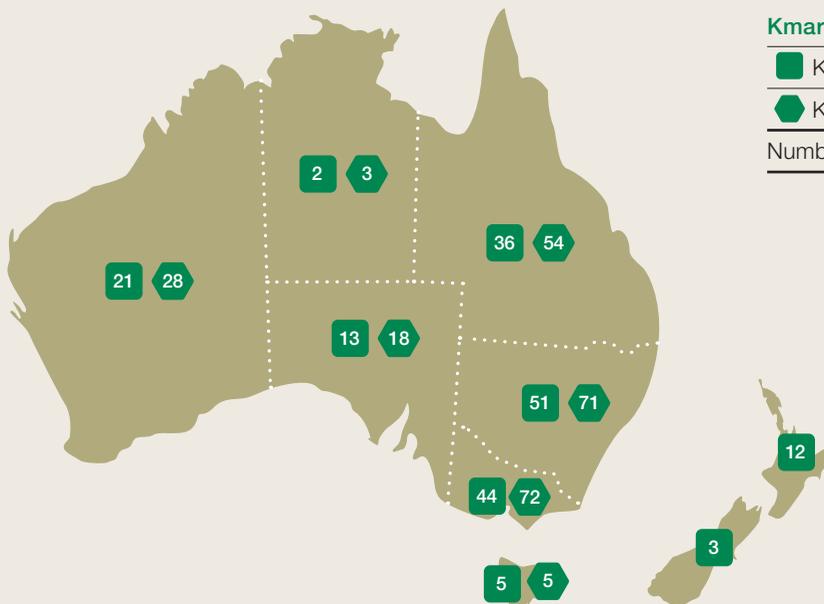
2011	4,036
2010	4,019
2009	3,998
2008*	2,454

### EBIT (\$m) \$204<sup>^</sup>

2011 <sup>^</sup>	204
2010 <sup>^</sup>	196
2009	109
2008*	111



## Business statistics



### Kmart

<span style="color: green;">■</span> Kmart stores	187
<span style="color: green;">◆</span> Kmart Tyre & Auto Service centres	251
Number of team members	25,452

## A range of initiatives has been identified to reduce energy use.



### Business websites

[www.kmart.com.au](http://www.kmart.com.au)

[www.kmart.co.nz](http://www.kmart.co.nz)

[www.ktas.com.au](http://www.ktas.com.au)

The aim for this past year was to reduce lost time injuries by 50 per cent. Unfortunately this target was not met with the business recording 167 lost time injuries for the year. This resulted in a 29 per cent reduction on the previous year.

The main focus areas from an environmental perspective have been reducing the amount of energy used and ensuring packaging is cost effective and meets the requirements of the Australian Packaging Covenant.

Significant improvements to the packaging of products have been made throughout the year. Some key highlights include:

- removing backing cards from kitchen utensils and bath mats, replacing them with a small sticker
- changing the way Kmart's Homemaker-branded kettle is packed to reduce packaging by 25 per cent
- moving from blister packs for power leads, power boards and audiovisual accessories to cardboard packaging or shelf-ready packaging
- removing the stuffing from footwear

A range of initiatives has been identified to reduce energy use including using natural light and natural ventilation, introducing more energy efficient lighting and being able to centrally control when and where energy is used. These initiatives will soon be trialled in selected stores. Initiatives to reduce water consumption and energy use have been incorporated in Kmart's New South Wales and Victorian distribution centres.

Reusable shopping bags are now made using 100 per cent recycled material.

Support for the annual Kmart Wishing Tree Appeal has increased, collecting more than 464,000 gifts, \$295,000 in cash donations and \$100,000 from the sale of Wishing Tree-branded merchandise.

Over 7,800 primary school students entered the 2010 Kmart's Art of Giving competition. To highlight the generosity of people willing to help others in need, the 2011 competition focuses on 'why helping others is important'.

More than \$400,000 has been raised through Kmart's Coin Collection Program which supports the work of charities including Variety, the Children's Charity, TLC for kids and various local community groups. In addition, the business continues to support hundreds of schools, kindergartens and community groups through the provision of Kmart gift cards or products.

A comprehensive review of the business' Ethical Sourcing Program is being undertaken. Working closely with the Target team to ensure that both business programs are aligned, the updated program is due to be rolled out by the end of the 2011 calendar year.

Kmart continues to focus its attention on sustainable purchasing which includes sourcing ethically, supplier collaboration, meeting compliance standards, reputation management and process and reporting system improvements.

### OUTLOOK

As Kmart continues its turnaround, delivery of low prices and value to families on everyday items has become embedded in its business operations. Customers have continued to respond to the 'new Kmart', with pleasing growth in customer transactions and volumes. The ongoing focus during the 2012 financial year is on connecting more customers with the 'new Kmart'.

Opportunity remains in having the right product across the entire store that connects with the customer, and operating as efficiently as possible, from sourcing to the shop floor.

While the business continues to be cautious about the short-term trading environment, further work to source product at lowest cost, and a focus on reducing the cost of doing business, remains a high priority for the business.

One new Kmart store and six Kmart Tyre & Auto Service stores are planned to open in the 2012 financial year.



# Industrial and other businesses

Wesfarmers' industrial and insurance operations were resilient in challenging environments.





The industrial and insurance operations continue to provide growth opportunities.



## Insurance

Providing insurance underwriting and broking operations across Australia, New Zealand and the United Kingdom.

PAGE 36



## Resources

A significant Australian open-cut coal miner with operations in three states.

PAGE 40



## Chemicals, Energy and Fertilisers

Operates chemical, gas and fertiliser businesses, servicing customers domestically and internationally.

PAGE 44



## Industrial and Safety

A leading provider of industrial and safety products and services through nine businesses in Australia and New Zealand.

PAGE 48

# Insurance

**Wesfarmers Insurance provides insurance and risk management solutions to corporates, small-to-medium sized businesses, not-for-profit organisations and individuals across Australia, New Zealand and the United Kingdom.**

## THE BUSINESS

The insurance underwriting operations include WFI, Lumley Australia and Lumley New Zealand. The insurance broking operations are OAMPS Australia, OAMPS UK and Crombie Lockwood in New Zealand.

## STRATEGY

The underwriting operations serve both direct and intermediary distribution channels. WFI distributes its insurance products and services directly to clients through a national network in rural and regional Australia, while the Australian and New Zealand Lumley operations focus on sales through brokers and other intermediaries with specialisation in the fleet and commercial motor, property and liability, engineering and marine sectors. Wesfarmers Insurance also provides personal motor and home insurance through retailers and other intermediaries such as Coles and Kmart Tyre & Auto Service and Westpac in New Zealand.

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

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

## RESULTS

Wesfarmers Insurance earnings before interest, tax and amortisation (EBITA) declined to \$30 million, compared with \$131 million for the previous year, a decrease of 77.1 per cent. Operating revenue of \$1.7 billion was an increase of 2.4 per cent.

The combined operating ratio for underwriting was 109.3 per cent and the EBITA margin for the broking businesses was 27.5 per cent.

Earnings before interest and tax for the year were \$20 million. This included amortisation of intangibles of \$10 million.

The decline in earnings was driven by the unprecedented number of catastrophe events in Australia and New Zealand. Event claims and reinsurance reinstatement costs exceeded allowances by \$110 million. The impact of the unprecedented event claims has resulted in higher reinsurance costs for the 2012 financial year.

## YEAR IN BRIEF

The unprecedented number of natural disasters in Australia and New Zealand has been extremely challenging for the insurance industry and has resulted in a record number of claims. The response by the teams across Wesfarmers Insurance to clients and business partners has been encouraging and a strong endorsement of the claims capabilities across the businesses.

Despite the difficult year, the underlying underwriting performance improved on the prior year. Further, broking operations generated growth in revenues and earnings.

Lumley's operations in Australia and New Zealand both delivered a below budget result primarily attributable to the net event claims and reinsurance reinstatement costs arising from the catastrophe events in Australia, including the floods in Queensland and Victoria and Cyclone Yasi, and the Christchurch earthquakes in New Zealand. The distribution of home and motor insurance through Coles continues to deliver sales ahead of expectations.

WFI was significantly affected by the catastrophe events in Australia with proportionately higher losses affecting rural and regional areas. WFI did, however, deliver strong growth in gross written premium with a high level of renewal business.



**Rob Scott** Managing Director, Wesfarmers Insurance with team member at the Rhodes Claims Centre, New South Wales

## GROWTH STRATEGIES

- **Improve and grow underwriting margin**
- **Sales growth in broking**
- **Focus on customer needs**
- **Further develop capabilities in personal lines**
- **Building the best team**
- **Leverage scale and capabilities**



In Australia, the underwriting operations serve both direct and intermediary distribution channels.



## Key financial indicators

For the year ended 30 June	2007	2008	2009	2010	2011
Revenue (\$m)	1,410	1,649	1,720	1,698	<b>1,739</b>
Earnings before interest and tax (\$m)	120	122	91	122	<b>20</b>
Earnings before interest and tax and amortisation (\$m)	130	135	103	131	<b>30</b>
Capital employed (R12) (\$m)	764	1,146	1,337	1,343	<b>1,260</b>
Return on capital employed (%)	15.8	11.5	6.8	9.1	<b>1.6</b>
Capital expenditure (\$m)	15	18	26	26	<b>47</b>

### Revenue (\$m)

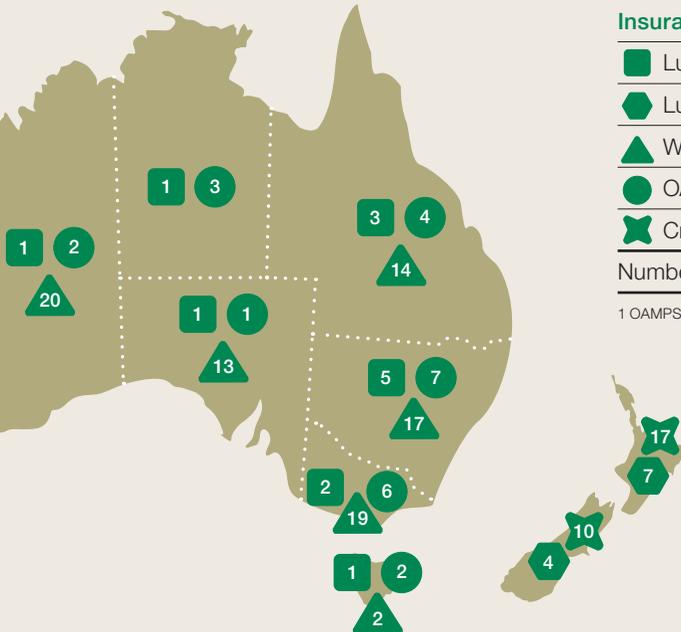
<b>\$1,739</b>	
<b>2011</b>	<b>1,739</b>
2010	1,698
2009	1,720
2008	1,649
2007	1,410

### EBIT (\$m)

<b>\$20</b>	
<b>2011</b>	<b>20</b>
2010	122
2009	91
2008	122
2007	120



## Business statistics



### Insurance

■ Lumley Insurance Australia	14
◆ Lumley General New Zealand	11
▲ WFI	85
● OAMPS <sup>1</sup>	31
✕ Crombie Lockwood	27
Number of team members	3,684

<sup>1</sup> OAMPS New Caledonia location not shown.

## The business focused on several growth strategies and achieved important milestones this year.



### Business websites

[www.wesfarmersinsurance.com.au](http://www.wesfarmersinsurance.com.au)

[www.wfi.com.au](http://www.wfi.com.au)

[www.lumley.com.au](http://www.lumley.com.au)

[www.lumley.co.nz](http://www.lumley.co.nz)

[www.oamps.com.au](http://www.oamps.com.au)

[www.crombielockwood.co.nz](http://www.crombielockwood.co.nz)

[www.oamps.co.uk](http://www.oamps.co.uk)

Insurance broking revenues and earnings were higher than those of the previous year, despite adverse currency movements. Premium funding also delivered a strong performance due to growth in client numbers and improved operating margins.

Crombie Lockwood continued to strengthen its position in the New Zealand corporate market and achieved solid revenue and earnings growth. The acquisition of FMR Risk in April 2011 has provided greater scale and capabilities, particularly in the corporate market.

OAMPS Australia reported strong growth in earnings driven by higher fee and commission income, increased revenue from premium funding and the realisation of cost efficiencies. New client wins during the final quarter also contributed to the positive result.

OAMPS UK increased fee and commission income in local currency but this was offset by higher employee costs associated with the expansion of the London markets team and an increase in operating costs associated with investment in improved capabilities. This investment is expected to generate increased earnings in the 2012 financial year.

The business focused on several growth strategies and achieved important milestones this year, most notably:

- the national rollout of a personal insurance offering distributed through Coles and Kmart Tyre & Auto Service with online transaction capabilities
- continued expansion of Lumley Australia's 'my.place' products to the broker market with strong new business growth
- the acquisition of FMR Risk in New Zealand – Crombie Lockwood is now the leading broker in New Zealand
- continued improvement in underlying underwriting performance in Australia and New Zealand
- improved sales effectiveness and investment in corporate capabilities for OAMPS Australia
- strong growth from premium funding including OAMPS' Monument facility.

### BUSINESS SUSTAINABILITY

Our business sustainability depends primarily on the skills, commitment and behaviour of our employees. We continue to focus our efforts on attracting, retaining and developing the best industry talent and have undertaken key initiatives to ensure we keep improving our organisational capability.

During the last 12 months we have invested in our leadership and culture. We have continued to improve our management and governance processes, structures and policies to help ensure compliance with regulations. Strategy and risk oversight remain core functions of our leadership team.

The responsiveness of our teams to the record number of claims experienced from the recent natural disasters in Australia and New Zealand was a key focus over the past year. Our investment in claims capabilities and ongoing training and development is fundamental to delivering to our clients in their time of need.

We worked with the Insurance Council of Australia on a range of matters affecting the industry and the future of insurance in Australia. We also contributed to local communities where our businesses operate through our ongoing community support program.

### OUTLOOK

In the absence of significant catastrophe events, the Insurance division is expected to generate higher earnings in the 2012 financial year. The impact of higher reinsurance costs from 1 July 2011 will, however, place pressure on underwriting margins. The division will continue to focus on enhancing underwriting capabilities and pricing in order to drive improvement in underlying performance. The underwriting operations will benefit from investments in capability and expected further growth in premium from electronic distribution of commercial lines, corporate commercial business and capitalising on the strong consumer response to the retail personal lines initiatives with Coles and Kmart Tyre & Auto Service. The broking businesses will focus on business improvements, organic growth, and selective bolt-on acquisitions across Australia, New Zealand and the United Kingdom.

Main image: Steve Van Leeuwen,  
Branch Manager OAMPS Parramatta,  
New South Wales, with Penrith Panthers client  
Above: Claims Assist Adviser, Vanessa Burton

# Resources

Stronger export coal prices saw earnings increase 123.6 per cent on the previous year, notwithstanding the impact on production at the Curragh mine from major flooding in central Queensland. Export capacity expansions are proceeding at both the Curragh and Bengalla mines.

## THE BUSINESS

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

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

## STRATEGY

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

The division seeks to achieve this on a sustainable basis through: excellence in mining operations and customer relationships; the safety and development of our people; making a positive contribution to the communities in which the division operates; the pursuit of growth in shareholder value through expansion of existing mines; and, subject to appropriate opportunities, expansion of the division's portfolio through acquisition of additional mines and/or development of greenfields projects.

## RESULTS

Revenue of \$1.8 billion for the year was 25.6 per cent above the \$1.4 billion recorded in the preceding year. Earnings before interest and tax of \$369 million were 123.6 per cent higher than the \$165 million earned last year.

Higher export prices from both the Curragh and Bengalla mines were the major factor in the improved result, notwithstanding the significant impact of major flooding in central Queensland and subsequent groundwater inflows to mining areas at Curragh which constrained metallurgical coal exports to 5.3 million tonnes for the year. (The previous year's results had also been affected by \$85 million of locked-in foreign exchange losses dating back to late 2008, all of which were discharged before the commencement of the 2011 financial year.)

Curragh's Stanwell royalty cost (paid to the Queensland Government-owned Stanwell Corporation) was \$113 million. Additionally, the division paid ordinary government royalties in Queensland, New South Wales and Western Australia totalling \$116 million for the year.



Stewart Butel Managing Director, Wesfarmers Resources (right) with Laurie Morris at the Curragh mine in Blackwater, Queensland

## GROWTH STRATEGIES

### Mine expansions

**Curragh:** A decision was taken in November 2009 to invest \$286 million to expand the Curragh mine to 8.0 – 8.5 million tonnes annual export capacity; expansion is now underway and due for completion in early 2012. A feasibility study with respect to a further expansion of Curragh to 10 million tonnes annual export capacity has commenced.

**Bengalla:** A decision was taken in November 2010 to invest \$56 million (Wesfarmers' 40 per cent share) in expansion of the Bengalla mine to 9.3 million tonnes annual Run of Mine capacity, with that expansion also expected to be complete in early 2012. A feasibility study for further expansion of Bengalla to 10.7 million tonnes Run of Mine capacity has commenced.

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

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

**Portfolio growth:** Evaluation of acquisitions and other 'step-out' opportunities – as an established large-scale Australian open-cut miner, this includes coal, other carbon-steel raw materials and energy.

Wesfarmers Resources aims to maximise metallurgical coal export sales from the Curragh mine through efficiencies and market growth.



## Key financial indicators

For the year ended 30 June	2007	2008	2009	2010	2011
Revenue (\$m)	1,134	1,311	2,411	1,416	<b>1,778</b>
Earnings before interest and tax (\$m)	338	423	885	165	<b>369</b>
Capital employed (R12) (\$m)	870	984	1,075	1,146	<b>1,293</b>
Return on capital employed (%)	38.8	43.0	82.4	14.4	<b>28.5</b>
Capital expenditure (\$m)	178	146	252	228	<b>372</b>

### Revenue (\$m) \$1,778

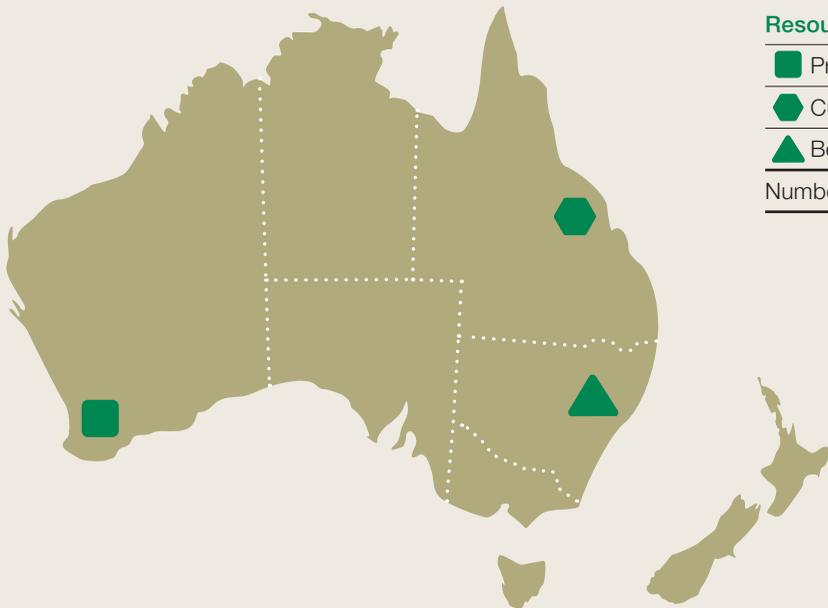
2011	1,778
2010	1,416
2009	2,411
2008	1,311
2007	1,134

### EBIT (\$m) \$369

2011	369
2010	165
2009	885
2008	423
2007	338



## Business statistics



### Resources

 Premier Coal

 Curragh

 Bengalla (40%)

Number of team members	809
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# Earnings are expected to benefit in the coming financial year from increased production as flood rectification and recovery is completed at Curragh.



## Business websites

[www.wesresources.com.au](http://www.wesresources.com.au)

[www.curragh.com.au](http://www.curragh.com.au)

[www.premiercoal.com.au](http://www.premiercoal.com.au)

## YEAR IN BRIEF

**Curragh (Qld):** Total production of 7.9 million tonnes (5.4 million tonnes of metallurgical coal and 2.5 million tonnes of steaming coal) was down 13.5 per cent on last year, reflecting the impact of significant flood events and associated groundwater inflow into mining areas. Coal sales volumes were closely aligned to production volumes and were 13.1 per cent below the sales volumes achieved last year. EBIT was up significantly on last year's result by 274.0 per cent due to higher export prices during the period.

**Premier Coal (WA):** Total production of 3.5 million tonnes was up 26.0 per cent on last year and sales of 3.6 million tonnes were up 37.2 per cent. Premier Coal became sole supplier to Verve Energy from 1 July 2010 and continued to develop the Premier Power Sales business. EBIT was down on the previous year due to lower prices received from Verve. A strategic review process with respect to future options for Premier Coal commenced in March 2011.

**Bengalla (NSW)** (Wesfarmers' 40 per cent share): Production of 2.2 million tonnes was in line with last year. Sales volumes of 2.4 million tonnes were up 14.2 per cent on last year. EBIT remained strong and was up 40.8 per cent on the previous year's result, reflecting a higher export price environment.

## BUSINESS SUSTAINABILITY

Throughout the 2011 financial year, action was taken at our sites to improve the efficiency of mining processes, to develop our people's capability, to support our local communities, to grow the business through expansion plans and to reduce our environmental footprint.

At the heart of our sustainability strategy is the safety and wellbeing of our employees.

A focus for the year was on consolidating and improving upon the safety performance achieved in the previous year. The Lost Time Injury Frequency Rate (LTIFR) was reduced to 1.29 from 2.14. Curragh had a 20 per cent reduction in its LTIFR to 1.24. While this year's performance was positive, our aim remains to achieve zero workplace incidents.

Although we reduced our LTIFR by 38 per cent and achieved 474 days LTI free at our Premier Coal mine, sadly the death of a contract worker in a single light vehicle accident at our Curragh mine in August 2010 is a reminder that we must continue to focus on preventing workplace accidents.

Throughout the year diversity has been the subject of increased attention with Curragh implementing an Equity and Diversity Strategy, along with the development of an Aboriginal Employment and Engagement Strategy.

The division's community partnerships continued with extensions announced to our successful partnerships with Life Education Australia, Queensland Theatre Company, Blackwater International Coal Centre and The Smith Family. Curragh and Premier Coal continued to support numerous community-based organisations such as cultural and sporting associations, clubs, festivals and schools to help develop strong, vibrant and healthy communities in which they operate.

## OUTLOOK

Earnings are expected to benefit in the coming financial year from increased production as flood rectification and recovery is completed at Curragh. Metallurgical coal sales from the Curragh mine are expected to be in the range of 6.8 to 7.2 million tonnes for the 2012 financial year, subject to mine operating performance and infrastructure constraints.

Consistent with global markets, 100 per cent of Curragh's metallurgical coal sales are now subject to quarterly price resets.

Main image: Construction of the coal handling and preparation plant at the Curragh mine in Blackwater, Queensland

Above: Curragh apprentices in the workshop with supervisor Wayne Coleman

# Chemicals, Energy and Fertilisers

The division performed well throughout the year and made good progress with the proposed expansion of its ammonium nitrate capacity in Western Australia.

## THE BUSINESS

From 1 July 2010, the Chemicals and Fertilisers division and the Energy division merged to form Wesfarmers Chemicals, Energy & Fertilisers. In addition Coregas, formerly part of the Energy division, became part of Wesfarmers Industrial and Safety.

The activities of Wesfarmers Chemicals, Energy & Fertilisers include the manufacture and marketing of chemicals for mining, minerals processing and industrial sectors through brands including CSBP, Australian Gold Reagents (75 per cent owned), Queensland Nitrates (50 per cent owned) and Australian Vinyls. The division also produces, markets and distributes liquefied petroleum gas (LPG) and liquefied natural gas (LNG) through its Kleenheat Gas business. The division also manufactures and markets broadacre and horticultural fertilisers through its CSBP brand and manufactures, markets and distributes industrial, medical and specialty gases through Air Liquide WA (40 per cent owned). In the 2011 financial year, the division also provided power generation for remote towns and mines through its enGen business<sup>1</sup>.

## STRATEGY

Develop a portfolio of successful and innovative industrial businesses that deliver satisfactory shareholder returns and continually strengthen our reputation for the management of health, safety and the environment.

## RESULTS

Operating revenue of \$1.6 billion was 4.5 per cent higher than last year, largely as a result of increased chemicals sales volumes and the impact of higher international LPG pricing. Earnings before interest and tax were \$283 million, and included \$42 million (\$5 million in the previous year) from the finalisation of the Varanus Island gas disruption insurance claims.

This compared to earnings from the previous year of \$196 million which included a \$25 million fertiliser inventory writedown.

## YEAR IN BRIEF

### Chemicals

Excluding insurance proceeds, earnings from the chemicals businesses were in line with last year. Solid growth across most businesses was largely offset by increased gas input costs into sodium cyanide production, the higher Australian dollar which affected both sodium cyanide and Australian Vinyls and the continuing higher PVC input costs relative to selling prices experienced by Australian Vinyls.

### Kleenheat

Excluding insurance proceeds, Kleenheat earnings were in line with the previous year. Lower content in the Dampier to Bunbury natural gas pipeline resulted in LPG production for the year being 161,651 tonnes, 14.0 per cent, lower than last year. This led to a reduction in export sales during the year. Higher domestic LPG sales volumes, higher international LPG pricing and cost reductions offset the lower export sales and the higher gas input costs since October 2010. LNG earnings (excluding insurance) were in line with the previous year.

### Fertilisers

Despite fertiliser sales volumes being 6.5 per cent lower than last year, earnings from the business recovered from the previous year which was affected by significant carryover of highly-priced inventory. This resulted in a \$25 million inventory writedown in December 2009, and low margin sales throughout the 2010 financial year.

### Air Liquide WA (40 per cent)

Earnings were in line with the previous year.

### Power generation<sup>1</sup>

Excluding insurance proceeds, enGen earnings were higher than last year as a result of increased design and construction project work.



Tom O'Leary Managing Director, Wesfarmers Chemicals, Energy and Fertilisers with team member Laurette McLoughlin at the Kleenheat Gas House in Joondalup, Western Australia

## GROWTH STRATEGIES

- Invest in our businesses' capacity to meet the needs of our customers.
- Execute opportunities for growth in existing and new markets, including progressing the proposed ammonium nitrate expansion.
- Foster a culture that recognises that people are central to our success.
- Focus on sustainable operations for the benefit of our team members, customers and communities in which we operate.

<sup>1</sup> On 31 August 2011, Wesfarmers completed the sale of enGen for \$101 million.



Divisional earnings were up 26.2 per cent on last year excluding insurance proceeds, as strong demand from the resource sector and higher fertiliser margins offset increased gas costs.



## Key financial indicators

For the year ended 30 June	2007 <sup>1</sup>	2008 <sup>1</sup>	2009 <sup>1</sup>	2010 <sup>2</sup>	2011
Revenue (\$m)	1,055	1,562	1,760	1,570	<b>1,641</b>
Earnings before interest and tax (\$m)	176	214	127	196	<b>283</b>
Capital employed (R12) (\$m)	1,026	1,728	2,022	1,371	<b>1,298</b>
Return on capital employed (%)	17.2	12.4	6.3	14.3	<b>21.8</b>
Capital expenditure (\$m)	277	370	84	49	<b>63</b>

<sup>1</sup> 2007 to 2009 combines the results of the Energy (which included Coregas) and the Chemicals and Fertilisers divisions.

<sup>2</sup> On July 2010, the Energy, and Chemicals and Fertilisers divisions merged to form WesCEF, and Coregas (formerly part of the Energy division) was transferred to the Industrial and Safety division. The 2010 figures have been restated to reflect WesCEF's post-merger operating structure.

### Revenue (\$m)

\$1,641

2011	<b>1,641</b>
2010 <sup>2</sup>	1,570
2009 <sup>1</sup>	1,760
2008 <sup>1</sup>	1,562
2007 <sup>1</sup>	1,055

### EBIT (\$m)

\$283

2011	<b>283</b>
2010 <sup>2</sup>	196
2009 <sup>1</sup>	127
2008 <sup>1</sup>	214
2007 <sup>1</sup>	176



## Business statistics



### Chemicals, Energy and Fertilisers

■ CSBP fertilisers	16
◆ CSBP chemicals	6
◆ AGR (75%)	3
▲ Australian Vinyls	2
● QNP (50%)	4
★ ALWA (40%)	8
● Kleenheat Gas	49
◆ enGen	20
Number of team members	1,472

**A good start to the season has seen solid fertiliser sales volumes in the initial weeks of the 2012 financial year, but full-year earnings will depend on a good seasonal break in the second half and farmers' terms of trade.**



### Business websites

[www.wescef.com.au](http://www.wescef.com.au)

[www.csbp.com.au](http://www.csbp.com.au)

[www.av.com.au](http://www.av.com.au)

[www.modwood.com.au](http://www.modwood.com.au)

[www.airliquidewa.com.au](http://www.airliquidewa.com.au)

[www.kleenheat.com.au](http://www.kleenheat.com.au)

[www.engen.com.au](http://www.engen.com.au)

Main image: CSBP Area Manager Clynton Edwards with farmer Craig Dennis at Broomehill, Western Australia

Above: The ammonium nitrate despatch facility at CSBP in Kwinana, Western Australia

### BUSINESS SUSTAINABILITY

The division continued its focus on the sustainable operation of its businesses for the benefit of team members, customers and the communities in which it operates. As at 30 June 2011 we employed 1,472 team members, excluding contractors but including casuals.

The division remains committed to the safe operation of its facilities in a way that minimises any adverse impact. A number of initiatives targeting key risk activities resulted in a reduction in Total Recordable Injuries from 67 in 2009/10 (excluding Coregas) to 55 in 2010/11. The Total Recordable Injury Frequency Rate also decreased from 17.6 in 2009/10 (excluding Coregas) to 15.8 this year.

In the 2011 financial year there were 16 reportable environmental events, a decrease of three on last year. In November 2010, CSBP released the Public Environmental Review document for its proposed ammonium nitrate expansion project for a 10 week public consultation period. The WA Environmental Protection Authority released its report and recommendations for the project in July 2011.

In January 2011, Kleenheat Gas announced the shutdown of the 110-year-old tempered liquid petroleum gas reticulation system in Armidale (New South Wales). Communication was provided about the shutdown, and a range of subsidies and incentives were offered to help customers convert to LPG alternatives.

In February 2011, CSBP started trials of nitrous oxide reduction technology in one of its nitric acid plants at Kwinana (Western Australia) to help reduce greenhouse gas emissions. Nitrous oxide emissions represent approximately half of the division's total carbon dioxide equivalent greenhouse emissions.

CSBP also completed design work and started fabrication of a regenerative thermal oxidiser that will broaden supply options for the superphosphate manufacturing operation at Kwinana and help reduce dependence on phosphate rock from Western Sahara.

Kleenheat Gas completed a trial of a patented dual-fuel system that converts existing diesel engines in heavy vehicles to operate on diesel and LNG.

This provides lower operating costs and reduced emissions through the displacement of diesel by LNG.

EVOL LNG was awarded the WA Department of Mines and Petroleum Resources Safety – Dangerous Goods Innovation Company of the Year award. CSBP Fertilisers was awarded the Fertiliser Industry Federation of Australia's Platypus Environment Award for achievements in reducing nutrient levels in wastewater at CSBP's Kwinana operations.

The division also provided support to a range of community organisations, and continued support of Youth Focus, the Salvation Army, the Asthma Foundation WA and the Clontarf Foundation.

### OUTLOOK

Strong demand for ammonia, ammonium nitrate and sodium cyanide is expected to continue, however a planned major 35 day shutdown of the ammonia plant will affect earnings in the 2012 financial year by approximately \$15 million. Continued pressure on margins at Australian Vinyls is expected until the relativity between its raw material costs and PVC pricing returns to more typical levels. Similarly, continuation of a high Australian dollar will continue to impact on sodium cyanide and Australian Vinyls earnings.

Board consideration of the proposed ammonium nitrate capacity expansion at Kwinana is expected in the first half of the 2012 financial year.

LPG earnings will be affected by a full-year impact of increased domestic gas prices in Western Australia as well as new gas transport arrangements effective from July 2011. In addition, earnings will continue to be dependent on international LPG prices and LPG content in the Dampier to Bunbury natural gas pipeline which has, in recent times, trended to lower levels. As a result, next year's earnings are expected to be \$25 to \$30 million lower.

A good start to the season has seen solid fertiliser sales volumes in the initial weeks of the 2012 financial year, however, full-year earnings remain dependent upon a good seasonal break in the second half of the financial year and farmers' terms of trade.

# Industrial and Safety

**Strong sales momentum in contracts, projects, services and eBusiness was supported by strong delivery performance and customer service.**

## THE BUSINESS

Wesfarmers Industrial and Safety is the leading provider of industrial and safety products and services in Australia and New Zealand. It services customers across mining, oil and gas, construction and infrastructure, retail, manufacturing, health and government.

The division comprises nine businesses, including Blackwoods, the leading industrial supplier in Australia with an extensive national network and broad product range. Protector Alsofe, Bullivants and Total Fasteners complement Blackwoods with specialist market offers. Additionally, Coregas joined the division on 1 July 2010 with an industrial, medical and specialty gases offering. In New Zealand, Blackwoods Paykels Protector's generalist offer is complemented by three specialists: NZ Safety; Packaging House; and Safety Source.

The division operates from a network of 219 industrial and safety locations and 121 gas distribution points. The network is supported by large distribution centres, hundreds of external and internal sales resources, as well as eBusiness, websites and telesales channels.

## STRATEGY

The businesses in the division support a diverse range of customer needs by providing security of supply of the broadest range of products, with strong delivery performance and customer service. They deliver cost efficiency through local and global procurement, supply chain and eBusiness solutions, as well as critical value-add services such as Vendor Managed Inventory, testing of lifting and rigging equipment, gas detection and occupational health and safety accredited training.

The division continues to strengthen its relationships with large customers by enhancing sales force effectiveness, broadening its product range and continuously improving its delivery performance. A key priority continues to be the expansion into higher growth sectors, and to complement organic growth with value-creating acquisitions.

Focusing on improving the use of working capital and process enhancements will continue to lower the cost of doing business, for our customers and our own businesses.

The division is committed to safety, sustainability and community support, while investing in its people.

## RESULTS

The division delivered a strong result in the year, benefiting from the resurgence in the resource sector and major project activity. The result also reflected continuing improvements in business operations which have benefited from significant enhancements to business process efficiency. Operating revenue increased by 10.3 per cent to \$1.6 billion.

Earnings before interest and tax increased by 20.3 per cent to \$166 million. This result compared with the same period last year (adjusted to include Coregas) reflects earnings improvements in all businesses.

The rolling 12 month return on capital of 13.1 per cent improved from 10.5 per cent last year.



**Olivier Chretien** Managing Director, Wesfarmers Industrial and Safety with team member **Joy Meredith** at the Blackwoods branch in Darwin, Northern Territory

## GROWTH STRATEGIES

- Increase share of customers' product and service spend through strong delivery performance and customer service, wider range and greater value proposition.
- Capture resource and infrastructure projects momentum.
- Ongoing diversification of the customer base.
- Continue Coregas improvements, leveraging existing customer relationships.
- Grow through acquisitions.
- Continue to improve supply chain and organisation effectiveness.
- Ongoing commitment to safety, sustainability and employee development.



The Industrial and Safety division supplies a broad range of products and services to a diverse customer base.



## Key financial indicators

For the year ended 30 June	2007 <sup>1</sup>	2008 <sup>1</sup>	2009 <sup>1</sup>	2010 <sup>2</sup>	2011
Revenue (\$m)	1,208	1,309	1,294	1,412	<b>1,557</b>
Earnings before interest and tax (\$m)	115	130	114	138	<b>166</b>
Capital employed (R12) (\$m)	734	775	808	1,312	<b>1,272</b>
Return on capital employed (%)	15.6	16.8	14.1	10.5	<b>13.1</b>
Capital expenditure (\$m)	26	20	25	29	<b>32</b>

<sup>1</sup> 2007 to 2009 excludes the results of Coregas (formerly part of the Energy division).  
<sup>2</sup> Restated to reflect the current divisional structure.

### Revenue (\$m)

**\$1,557**

<b>2011</b>	<b>1,557</b>
2010 <sup>2</sup>	1,412
2009 <sup>1</sup>	1,294
2008 <sup>1</sup>	1,309
2007 <sup>1</sup>	1,208

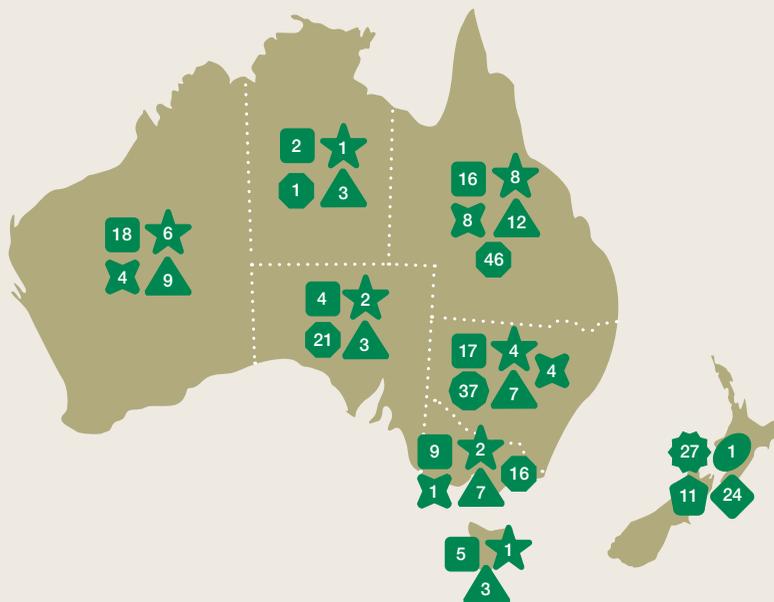
### EBIT (\$m)

**\$166**

<b>2011</b>	<b>166</b>
2010 <sup>2</sup>	138
2009 <sup>1</sup>	114
2008 <sup>1</sup>	130
2007 <sup>1</sup>	115



## Business statistics



### Industrial and Safety

■ Blackwoods	71
▲ Protector Alsafe	44
★ Bullivants	24
✕ Total Fasteners	17
● Coregas <sup>1</sup>	121
⚙ Blackwoods Paykels Protector (NZ)	27
◆ NZ Safety	24
🏠 Packaging House (NZ)	11
● Safety Source	1
Number of team members	3,455

<sup>1</sup> Includes 10 Coregas owned branches and 111 gas distribution points. Note: Blackwoods includes Bakers; Coregas includes Migomag; Joint Blackwoods Paykels Protector branches counted as single locations.

# Delivering great customer service, delivery performance and security of supply.



## Business websites

[www.blackwoods.com.au](http://www.blackwoods.com.au)  
[www.protectoralsafe.com.au](http://www.protectoralsafe.com.au)  
[www.coregas.com](http://www.coregas.com)  
[www.bullivants.com](http://www.bullivants.com)  
[www.totalfasteners.com.au](http://www.totalfasteners.com.au)  
[www.blackwoodsprotector.co.nz](http://www.blackwoodsprotector.co.nz)  
[www.nzsafty.co.nz](http://www.nzsafty.co.nz)  
[www.packaginghouse.co.nz](http://www.packaginghouse.co.nz)  
[www.safetysource.co.nz](http://www.safetysource.co.nz)

Main image: Coregas representative, Mayur Kora (right) with a customer in the gas supply room at Ipswich Hospital, Queensland

Above: Protector Alsafe Account Manager Natalie Page with client Brad Burge at the Francis Bay Marina, Darwin, Northern Territory

## YEAR IN BRIEF

Sales growth was achieved in all business segments, with the best results being delivered by Blackwoods, Protector Alsafe and Bullivants. Regions with higher exposure to the resource sector and major project activity delivered the strongest growth, but pleasingly good results were achieved in most areas as the business benefited from the diversification of its customer base.

Good sales growth was achieved by Coregas, with a strengthening of the sales teams, a business restructure and the benefits of collaboration with other businesses in the division starting to show positive signs over recent months.

The New Zealand businesses showed improvement across the year, however they were affected by the subdued state of the New Zealand economy and the Christchurch earthquakes. A small gas detection business was acquired to expand the range of services.

Improving business portfolio performance also resulted from the divestment of Motion Industries and the merger of Blackwoods Paykels and Protector Safety in New Zealand.

The solid sales momentum was also supported by range expansion including industrial electrical in Blackwoods, and a strong growth in services. The division further improved its strong supplier relationships with leading industrial brands, enabling the businesses to support customer requirements and to bring new product ranges to the market.

During the year, the division significantly increased the proportion of eBusiness transactions with customers and this, combined with ongoing work on improving delivery performance, continues to strengthen its competitive position.

International supply chain capability continued to improve, with the opening of the multi-country consolidation distribution centre in Shenzhen, southern China. Supply chain improvements also resulted from technology investments and ongoing upgrades to the branch networks.

Focus on operational efficiency delivered cost and capital management improvements, contributing to improved returns.

## BUSINESS SUSTAINABILITY

Safety continues to be a major focus, with further improvements in the All Injury Frequency Rate and Injury Severity measures over the year.

Progress has been made on energy, water and paper efficiency initiatives, and a program has been implemented to improve the environmental efficiency of new locations.

Attracting, retaining and developing quality employees remains a priority for the division. New initiatives focused on in-house recruitment, training and development, and gender diversity.

Community support through ongoing employee involvement, donations and financial contributions, included the floods in Queensland and Victoria, Cyclone Yasi, the Christchurch earthquakes, as well as national support for the Fred Hollows Foundation and its indigenous health program. Good progress was made on the division's Aboriginal strategy in Australia.

## OUTLOOK

Operational improvements implemented over recent years have positioned the division well to support customer growth in key market sectors, meet delivery performance expectations, and continue to provide outstanding customer service, strengthening its market leading position.

Over the next year, the division is expected to continue to benefit from the sales momentum and project activity of major mining and oil and gas projects, and the ongoing diversification of its customer base. Cost pressures are expected with increased workforce retention challenges, especially in resource-related areas, and ongoing competitive margin pressure. Additionally, the outlook remains uncertain for a number of non-resource sectors and New Zealand.

The division will continue to target acquisition opportunities to complement organic growth.

## Other activities

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



### GRESHAM PARTNERS

Wesfarmers has a 50 per cent shareholding in Gresham Partners Group Limited, the holding company for the Gresham Partners investment banking operations. Gresham is a leading independent investment house focused primarily on the provision of financial advisory services, structured finance, and property and private equity funds management.

In addition, Wesfarmers is a participant in the Gresham Private Equity wholesale investment funds with underlying investments in mining services, retail, logistics and other specialist sectors.

During the 2011 financial year, Gresham Private Equity Funds recorded a loss of \$60 million due to downward non-cash revaluations following a difficult year for some of the funds' trading businesses and generally lower industry valuation multiples.

Gresham participated in a number of significant corporate advisory transactions during the year, including mergers and acquisitions, corporate restructurings and refinancings on behalf of a range of domestic and international clients.

Its property funds management business, which is the manager of three established funds with total capital commitments of more than \$325 million, continued to support a range of projects primarily in New South Wales, Victoria and Queensland.

### WESPINE INDUSTRIES

The 50 per cent-owned Wespine Industries, which operates a plantation softwood sawmill in Dardanup in Western Australia, contributed earnings of \$7 million after tax, a 16.7 per cent increase on last year. Despite a weakening housing market and competitive pressure on prices, Wespine achieved record sales into the Western Australian market and improved profitability by focusing on customer service, product rationalisation and stock management combined with cost control.

After a good safety performance in recent years, with no Lost Time Injuries (LTIs) recorded during the period September 2008 to September 2010, three LTIs were incurred in the year to June 2011.

Wespine is targeting a reduction in total recordable injuries in an endeavour to improve overall safety performance.

The weak local housing market, combined with continued import competition driven by the strong Australian dollar and subdued housing construction in overseas markets, is expected to put downward pressure on sales and earnings in the coming months.

### BWP TRUST (FORMERLY BUNNINGS WAREHOUSE PROPERTY TRUST)

Wesfarmers' investment in BWP Trust contributed earnings of \$19 million, compared to \$27 million recorded last year.

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

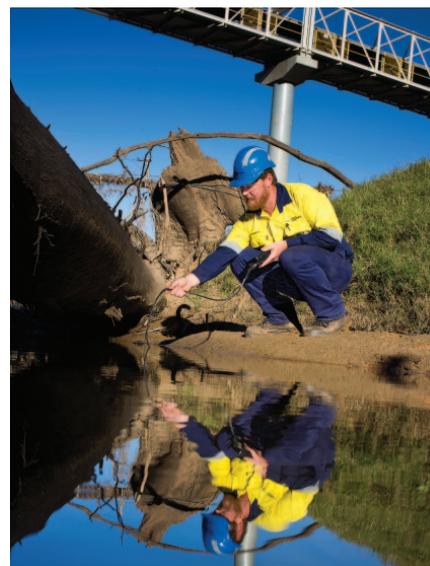
Units in the Trust are listed on the Australian Securities Exchange and Wesfarmers holds, through a wholly-owned subsidiary, 23.3 per cent of the total units issued by the Trust.

In March 2011, the Trust conducted a \$242 million acquisition of a portfolio of 13 Bunnings Warehouse properties and development sites from Bunnings Group Limited. In conjunction with this acquisition, the Trust also changed its name from 'Bunnings Warehouse Property Trust' to 'BWP Trust', in recognition of having established its own position as a premium commercial real estate investment product.

The Trust's current portfolio consists of a total of 70 properties: 60 established Bunnings Warehouses; two Bunnings Warehouse with other showrooms; one Bunnings distribution centre; three development sites for Bunnings Warehouses; three office/warehouse industrial properties; and one retail/bulky goods showrooms complex.

# Sustainability

**Wesfarmers is committed to operating its businesses in a sustainable way, and continually strives for improvement to benefit all of its stakeholders.**



## WESFARMERS' SUSTAINABILITY PRIORITIES

With businesses spanning a wide range of industries – from retail operations to coal mining – Wesfarmers is acutely aware of its obligations to the communities in which it operates. Wesfarmers has long recognised the value of social, environmental and financial outcomes, understanding that these are all required to meet our objective of delivering satisfactory returns to our shareholders. Each year, Wesfarmers publishes a comprehensive sustainability report, which details a full account of the company's sustainability policies, practices and performance. This year's report will be available in November, and is the fourteenth such document.

As part of our commitment to a sustainable future, we have identified five key areas of focus which each of the Group's businesses – while providing different goods and services and making their own particular economic and social contributions – has oriented their sustainability efforts around:

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

This approach provides a structure under which consistently sustainable outcomes can be delivered across the Wesfarmers Group, while a very wide and diverse range of sustainability activities are pursued by the various businesses.

## THE IMPORTANCE OF PEOPLE

With approximately 200,000 employees – we are one of Australia's largest private sector employers – Wesfarmers is committed to continually improving our people-related policies and procedures and our talent management systems. Our employees are crucial to our success, and while each of our businesses is ultimately responsible for the management and development of its people, there are a number of overarching principles and practices across the Group. These include a consistent performance-based remuneration system for senior executives and management systems that focus on increasing the number and capacity of our high-potential people. Ongoing investment in the development of all of our people is critical in enabling individuals to achieve their potential and for our businesses to deliver sound results. In the 2011 financial year, more than 2.2 million hours was invested on training and development across the Group.

Our commitment to safety for our employees, customers and visitors is absolute and we have a number of systems in place to focus on, and drive, safety performance in our businesses. The Group's LTIFR was 12.8 compared to 11.0 in the previous year, indicating that there is a lot more to be done, and we will continue to prioritise this across all of our businesses.

A diverse workforce is of significant social and commercial value and Wesfarmers recognises the importance of being an inclusive employer. Gender diversity has been and continues to be a priority for the Group. As at 30 June 2011, approximately 57 per cent of our employees are female. Two of our eight non-executive directors (25 per cent), 22 per cent of Wesfarmers' senior executives (general manager level or above), and 26 per cent of all management and professional employees across the Group are female.

In 2009 Wesfarmers prepared and committed to its first Reconciliation Action Plan (RAP), which as its central tenet had a focus on ensuring that Aboriginal people have access to employment opportunities in our businesses. The Group has a long-term objective to have a workforce that reflects the representation of Aboriginal people in the broader community. Each division now has its own plan and programs to ensure that Aboriginal people feel welcomed in our businesses as customers, team members and citizens.

## CARBON EMISSIONS REDUCTION AND ENERGY MANAGEMENT

In Australia, climate change remains at the forefront of public debate, and Wesfarmers has contributed cooperatively and collaboratively with governments where appropriate. We remain committed to reducing our environmental footprint and enhancing our energy efficiency. In as much as this is increasingly becoming an environmental imperative, it also generates commercial benefits. As we invest in new technologies and systems that contribute to the transition to a lower carbon economy, our businesses are improving their environmental outcomes with a commercial focus.

Many energy efficiency initiatives throughout the Group are starting to become evident in reducing our base carbon footprint. In 2010/11 our direct (Scope 1) and indirect (Scope 2) emissions reduced by 1.4 per cent to 5,530,508 tonnes carbon dioxide equivalent compared to last year. This reduction was largely the result of energy efficiency actions in our businesses, offset to an extent by business growth, although it also reflects the business disruption caused by the floods in Queensland in early 2011.

Wesfarmers submitted its third report under the *Energy Efficiency Opportunities Act 2006* (EEO) in December 2010.

We continue to develop systems for monitoring and recording energy use and greenhouse gas emissions to comply with the *National Greenhouse and Energy Reporting Act 2007* (the NGER Act). These systems contribute to the effective planning and managing of a wide range of energy efficiency and conservation initiatives across the Group, which will assist us when the pending constraints on carbon emissions are introduced. In October 2010 we submitted our second report under the NGER Act, and this report and the EEO report are available at [www.wesfarmers.com.au](http://www.wesfarmers.com.au)

## COMMUNITY PARTNERSHIPS AND INVESTMENT

Our businesses interact with millions of people every day, and making a positive contribution to the communities in which we work underpins our licence to operate. One aspect of contributing positively is through community partnerships and investments.

Wesfarmers focuses its key partnerships on the arts, indigenous development, medical research and education in Australia and New Zealand. However, Wesfarmers also responded to several significant natural disasters over the past year affecting local communities. In particular, the floods in Queensland devastated nearly three quarters of that state, with a large loss of life and damage to homes, properties and businesses. Many of our employees were affected, either directly or indirectly. Wesfarmers donated \$5 million to the Queensland Premier's Disaster Relief Appeal, and our businesses made significant contributions of their own. The earthquakes in Christchurch were also devastating to the people of New Zealand, and in the immediate aftermath Wesfarmers donated NZ\$1 million to assist in the re-building effort.

Wesfarmers supports a number of Australia's leading arts companies through the Wesfarmers Arts sponsorship program. Our commitment to the arts stems from a belief that a vibrant cultural sector makes a positive contribution to the life of a community.

In an initiative that is the first of its kind in Australia, in July 2010 we launched the Wesfarmers Arts National Indigenous Fellowships at the National Gallery of Australia. This annual program sees 12 young and emerging indigenous curators from across Australia awarded scholarships to work intensively with the curators and collections of the National Gallery, in a long-term professional development mentoring program. In September 2011 the program was recognised by an Australian Business Arts Foundation Award for innovation.

In 2010/11 through our existing sustainability report external assurance and using the London Benchmark Group verification process, Wesfarmers assessed its direct community support (including cash, in-kind and product support) to be \$34.3 million. This is a 76 per cent increase in our contributions compared to last year, in part because of the one-off contributions to the natural disasters described above, as well as an increase in both our direct and indirect general community partnerships. At a grass-roots level, our individual businesses all run their own programs and partnerships, contributing a further \$43.4 million in indirect community investment.

## A REDUCED OVERALL ENVIRONMENTAL FOOTPRINT

Reducing our environmental footprint is a key focus of our individual businesses. In addition to Wesfarmers' carbon and energy focus, the planning and management of issues such as water usage; packaging; emissions to air; solid and liquid waste; and land rehabilitation are directed at reducing the company's overall environmental footprint.

Across the Group there were many energy efficiency initiatives introduced in 2010/11. Some of the key initiatives during the year included significant progress made by Bunnings towards procuring timber from only accredited sources for its stores; enhanced recycling systems in several of our retail operations; and continuing a program to install night blinds on upright freezers in Coles supermarkets. Packaging also remains a key focus for our retail stores, and many have introduced new initiatives to limit the amount of waste to landfill.



## More information

More information regarding Wesfarmers activities can also be found at:

- Carbon Disclosure Project [www.cdproject.net](http://www.cdproject.net)
- Dow Jones Sustainability Index [www.sustainability-index.com](http://www.sustainability-index.com)
- Australian Packaging Covenant [www.packagingcovenant.org.au](http://www.packagingcovenant.org.au)
- Energy Efficiency Opportunities Act [www.energyefficiencyopportunities.gov.au](http://www.energyefficiencyopportunities.gov.au)
- National Greenhouse and Energy Reporting Act in Australia [www.climatechange.gov.au/reporting](http://www.climatechange.gov.au/reporting)

## Sustainability performance

### Greenhouse gas emissions (tonnes carbon dioxide equivalent)

2011	6,193,319
2010**	6,132,809
2009*	6,546,026
2008 <sup>Δ</sup>	6,318,650

\* The reduction in FY10 is primarily due to more accurate measurement of refrigerant gas emissions in Coles, and nitrous oxide emissions in WesCEF.

<sup>Δ</sup> Includes the former Coles group except Officeworks.

# Data have been re-stated from those reported previously as a result of external assurance audits that happen after the annual report is published. These data were published in the 2010 Sustainability Report.

### Energy use (million gigajoules)

2011	33.4
2010**	32.4
2009*	29.8
2008 <sup>Δ</sup>	31.1

\* The increase in full-year 2010 is primarily due to the full-year availability of gas supplies to our Western Australian industrial businesses.

<sup>Δ</sup> Includes the former Coles group except Officeworks.

### Water use (megalitres)

2011	11.6
2010*	12.2
2009	9.7
2008 <sup>#</sup>	10.0

\* Increase due to improved reporting.

Our commitment to the arts stems from a belief that a vibrant cultural sector makes a positive contribution to the life of a community.



### A STRONG ECONOMIC CONTRIBUTION

Wesfarmers seeks to maximise its contribution to the economy through long-term growth that increases overall economic activity and its capacity to generate additional direct and indirect employment. In 2010/11, Wesfarmers paid \$6,790 million in salaries, wages and other benefits to employees.

Through the taxes it pays, the company plays its part in enabling governments to invest in better development-focused infrastructure and social support networks. In 2010/11, Wesfarmers paid \$1,287 million in taxes and royalties to government.

By providing dividends and other investment returns to the company's owners – its shareholders – Wesfarmers contributes to individual wealth generation and to a more prosperous general community.

The company's businesses all continue to improve the processes supporting the verification and auditing of suppliers, particularly in Asia, to ensure that our sourcing of products and services is responsible.

### WESFARMERS SUSTAINABILITY REPORT

Our 2011 Sustainability Report, to be published in November, contains much more detail – and specific data – on all of the above priorities.

Above: Wesfarmers Arts National Indigenous Fellows with Franchesca Cubillo (third from left), Senior Curator Aboriginal and Torres Strait Islander Art, National Gallery of Australia  
Far left: Bunnings team member Tosca Kamperman with Forest Stewardship Council approved timber furniture

#### Lost time injury frequency rate (LTIFR)

2011	12.8
2010	11.0
2009 <sup>†</sup>	13.1
2008 <sup>†</sup>	9.9

<sup>†</sup> Excludes Coles and Officeworks.

#### Community contributions (\$m)

2011	34.3	43.4	77.7
2010 <sup>†</sup>	19.6	26.2	45.8
2009	25.8	31.8	57.6

Direct, in-kind and product.

Community raised contributions supported by Wesfarmers.

<sup>†</sup> Data have been re-stated from that reported previously as a result of external assurance audits that happen after the annual report is published. This data was published in the 2010 Sustainability Report.

# Board of Directors

## BOB EVERY, AGE 66

### Chairman

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

**Skills and experience:** Bachelor of Science degree, Doctorate of Philosophy (Metallurgy) from the University of New South Wales and is a Fellow of the Australian Academy of Technological Sciences and Engineering. Bob was the Chairman of the New Zealand-based listed company Steel and Tube Holdings Limited and a director of OneSteel Limited. Other executive positions previously held include Managing Director of Tubemakers of Australia Limited, President of BHP Steel, and Managing Director and Chief Executive Officer of OneSteel Limited, a position from which he retired in May 2005. Bob's considerable experience as both an executive officer and a director of major Australian companies has given him a good insight into, and understanding of, the roles and responsibilities of both senior management and directors.

### Directorships of listed entities (last three years)

- Chairman of Boral Limited (appointed May 2010, previously Deputy Chairman with initial appointment in September 2007)
- Chairman of Iluka Resources Limited (appointed March 2004 – resigned May 2010)

### Other directorships/offices (current and recent)

- Chairman Redkite
- Director of O'Connell Street Associates Pty Limited
- Director of OCA Services Pty Limited
- Fellow of AICD

## RICHARD GOYDER, AGE 51

### Managing Director

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

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

### Directorships of listed entities (last three years)

- Nil

### Other directorships/offices (current and recent)

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

- Director of the Business Council of Australia
- Advisory Council Member of the Juvenile Diabetes Research Foundation
- Council Member of the Australian Business Arts Foundation
- Fellow of AICD

## TERRY BOWEN, AGE 44

### Finance Director

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

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

### Directorships of listed entities (last three years)

- Nil

### Other directorships/offices (current and recent)

- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- Member of the National Executive of the Group of 100 Inc
- Member of the Curtin University School of Accounting Advisory Board
- Director of the Western Australian Institute for Medical Research Incorporated
- Director of the Western Australian Opera Company Incorporated

## COLIN CARTER OAM, AGE 68

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

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

### Directorships of listed entities (last three years)

- SEEK Limited (appointed March 2005)

### Other directorships/offices (current and recent)

- Director of World Vision Australia
- Director of the Ladder Project
- President of the Geelong Football Club Limited
- Member of the Board of the Cape York Institute for Indigenous Policy and Leadership
- Ambassador to the Federal Government's Indigenous Employment Initiative
- An adviser to, and former Senior Partner of, the Boston Consulting Group
- Fellow of AICD

## JAMES GRAHAM AM, AGE 63

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

**Skills and experience:** Bachelor of Engineering in Chemical Engineering with Honours from the University of Sydney, a Master of Business Administration from the University of New South Wales and a Fellow of the Australian Academy of Technological Sciences and Engineering. James has had an active involvement in the growth of Wesfarmers since 1976 in his roles as Managing Director of Gresham Partners Limited since 1985 and previously as Managing Director of Rothschild Australia Limited and a director of Hill Samuel Australia Limited.

### Directorships of listed entities (last three years)

- Nil

### Other directorships/offices (current and recent)

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

## TONY HOWARTH AO, AGE 59

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

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

### Directorships of listed entities (last three years)

- Chairman of Mermaid Marine Australia Limited
- Chairman of Home Building Society Limited (delisted December 2007) (appointed June 2003 and resigned July 2010)
- Deputy Chairman of Bank of Queensland Limited (appointed December 2007 – resigned July 2010)
- AWB Limited (appointed March 2005 – resigned December 2010)

### Other directorships/offices (current and recent)

- Chairman of St John of God Health Care Inc
- Senator of the University of Western Australia
- Chairman of the Committee for Perth Limited
- Member of the Rio Tinto WA Future Fund
- Member of the University of Western Australia Business School Advisory Board
- Director and Immediate Past President of the Australian Chamber of Commerce and Industry
- Director of the Chamber of Commerce and Industry of Western Australia (Inc)
- Director of West Australian Rugby Union Inc
- Director of Amber Holdings (appointed March 2011)
- Fellow of AICD



Front: Vanessa Wallace, Richard Goyder, Bob Every, Terry Bowen and Tony Howarth  
Back: Wayne Osborn, Charles Macek, Colin Carter, Diane Smith-Gander and James Graham

#### CHARLES MACEK, AGE 64

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

**Skills and experience:** Bachelor of Economics degree and a Master of Administration from Monash University. Charles is the Chairman of the Sustainable Investment Research Institute Pty Limited, Racing Information Services Australia Pty Limited, and the Vice-Chairman of the (IFRS) Advisory Council (formerly the Standards Advisory Council of the International Accounting Standards Board). He is also a member of the investment committee of Unisuper Limited, the AICD Corporate Governance Committee, and the (ASIC) External Advisory Panel. With a long career in financial services, working at a senior executive level, Charles brings extensive experience in formulating strategy and advising on off-shore and on-shore investment opportunities.

**Directorships of listed entities (last three years)**  
– Telstra Corporation Limited (appointed November 2001 – retired November 2009)

**Other directorships/offices (current and recent)**  
– Director of Thoroughbred Trainers Service Centre Limited  
– Member of the Marsh and McLennan Companies, Inc. Australian Advisory Board  
– Director of Earthwatch Institute Australia  
– Fellow of AICD

#### WAYNE OSBORN, AGE 60

**Status and term:** Appointed in 2010 as a non-executive director (independent). Member of the Remuneration and Nomination committees.

**Skills and experience:** Diploma of Engineering (Electrical) from the Gordon Institute of Technology, a Master of Business Administration from Deakin University and is a Member of the Institution of Engineers, Australia. Wayne started his career in telecommunications and moved to the iron ore industry in the mid-1970s. He joined Alcoa in 1979 and worked in a variety of roles and locations across the Australian business, including accountability for Alcoa's Asia Pacific

operations, prior to being appointed Managing Director in 2001. Wayne was appointed Chairman of the Australian Institute of Marine Science in 2010. He has an interest in whale conservation and wildlife photography and was elected an International Fellow of the New York-based Explorers Club in 2004. His work in support of the arts through the Australian Business Arts Foundation was recognised with the 2007 WA Business Leader Award.

**Directorships of listed entities (last three years)**  
– Director of Leighton Holdings Limited  
– Director of Iluka Resources Limited

**Other directorships/offices (current and recent)**  
– Chairman of Thiess Pty Ltd  
– Trustee of the Western Australian Museum Board  
– Fellow of the Australian Academy of Technological Sciences and Engineering  
– Director of Amber Holdings (appointed March 2011)  
– Fellow of AICD

#### DIANE SMITH-GANDER, AGE 53

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

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

**Directorships of listed entities (last three years)**  
– Transfield Services Limited (appointed October 2010)

**Other directorships/offices (current and recent)**  
– Director of the NBN Co Limited (National Broadband Network)

– Outgoing Chair of Basketball Australia Limited  
– Former Chair of the NBL Commission of Basketball Australia Limited  
– Former Chair of the Australian Sports Drug Agency  
– Director of Co-operative Bulk Handling Limited and CBH Grain Limited  
– Member of the University of Western Australia Business School Advisory Board  
– Fellow of AICD

#### VANESSA WALLACE, AGE 48

**Status and term:** Appointed in 2010 as a non-executive director (independent). Member of the Audit and Nomination committees.

**Skills and experience:** Bachelor of Commerce degree from the University of New South Wales and a Master of Business Administration from the IMD Switzerland. Vanessa currently leads Booz & Company's financial services practice in Australia, New Zealand and South East Asia and previously led the strategy practice. She has held multiple governance roles at the highest level within Booz's global partnership. She is an experienced management consultant who has been with Booz & Company for over 20 years. She is actively involved in the firm's customer, channels and markets activities which focus on areas such as customer experience, offer design and channels to market across a number of industries. She has had hands on experience in mergers and acquisitions and post merger integration.

**Directorships of listed entities (last three years)**  
– Nil

**Other directorships/offices (current and recent)**  
– Member of Board of Directors Booz & Company (2008 – 2010)  
– Director of Booz & Company (Australia) Ltd a number of group subsidiaries and related companies in Australia, New Zealand, Indonesia and Thailand  
– Chairman's Council of the Australian Chamber Orchestra Pty Ltd  
– Member of AICD

# Corporate governance statement

The Board of Wesfarmers Limited is committed to providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders.

The Board is a strong advocate of good corporate governance as evidenced by the policies and practices outlined below.

## INTRODUCTION

This corporate governance statement outlines Wesfarmers' corporate governance policies and practices for the year ended 30 June 2011, and at the date of this report.

The corporate governance framework of Wesfarmers operates according to a series of governance charters and policies which have been adopted by the Board. The Board recognises that corporate governance is not a static concept, and it regularly reviews and updates the company's governance charters and policies by reference to corporate governance developments and best practice in Australia and overseas.

### Compliance with Australian corporate governance standards

In recognition of the revisions made to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASX Principles') in 2010, the Board approved a Group Diversity Policy during the year. Wesfarmers is implementing strategies to achieve the objectives set under that policy and, over the course of the 2012 financial year, will measure the progress in achieving them.

In accordance with the disclosure requirements of the ASX Listing Rules, the Board believes that the governance policies and practices adopted by Wesfarmers during the reporting period for the year ended 30 June 2011 follow the recommendations contained in the ASX Principles.

### Access to information

Corporate governance documentation, including the charters or policies referred to in this statement, together with a checklist cross-referencing the ASX Principles to the relevant sections of this statement and elsewhere in the annual report, are published in the corporate governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

## ROLE AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

### Functions of the Board

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

The Board has a Charter which clearly establishes the relationship between the Board and management and describes their separate functions and responsibilities. The key responsibilities of the Board are set out in the diagram opposite.

### Functions of management

The Wesfarmers Managing Director has responsibility for the day-to-day management of Wesfarmers and its businesses, and is supported in this function by the Wesfarmers leadership team (which comprises the direct reports to the Wesfarmers Managing Director, divisional managing directors and the Executive General Manager, Business Development). The Board maintains ultimate responsibility for strategy and control of Wesfarmers and its businesses.

The key responsibilities of the Wesfarmers Managing Director are to:

- manage and administer the day-to-day operations of Wesfarmers and its businesses in accordance with the strategy, business plans and policies approved by the Board;
- oversee and evaluate the performance of senior executives and develop succession plans for the appointment of senior executives;
- develop Wesfarmers' annual budget and ensure that the financial reports present a true and fair view of Wesfarmers' financial condition and operational results and are in accordance with the relevant accounting standards;
- continue to develop strategies for Wesfarmers, its businesses and management, and make recommendations to the Board on such strategies;
- oversee the maintenance of and review effectiveness of the risk management frameworks and internal control systems;
- keep the Board fully informed about material developments; and
- exercise such additional powers as are delegated to the Wesfarmers Managing Director by the Board from time to time.

## BOARD RESPONSIBILITIES



### Evaluation of the performance of senior executives

Senior executives, comprising members of the Wesfarmers leadership team, who have an incentive or 'at risk' component to their total remuneration package, have defined performance conditions which are set at the start of the plan year for the annual and long-term incentive plans. Annual incentives are based on the achievement of annual performance conditions, heavily weighted to return and earnings-based measures and also include non-financial goals which seek to achieve corporate objectives. Long-term incentives for the 2011 financial year are a share grant with a future three year performance hurdle based on growth in return on equity. Shareholder approval will be obtained for share grants to executive directors.

For the annual incentive plan, incentive awards are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the Wesfarmers Managing Director (and in the case of the Managing Director, by the Board) at the end of the financial year. The Board confirms final annual incentive awards based on overall personal and financial performance after the reviews are completed in August each year. The potential future development of an executive is discussed on an annual basis, along with any training required to enhance the prospects of the development objectives being achieved and progression within Wesfarmers. Annual performance reviews for the 2011 financial year have been undertaken in accordance with the process described above.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on remuneration policies, including, in particular, the policies governing senior executive remuneration.

### STRUCTURE AND COMPOSITION OF THE BOARD

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

The Board is currently comprised of 10 directors, with eight non-executive directors. The Board is of the view that its current directors possess an appropriate mix of skills, experience, expertise and diversity to enable the Board to discharge its responsibilities and deliver the company's corporate objectives.

Mr Archie Norman, who has significant retail experience, was appointed in 2009 as an adviser to the Board on retail issues. In this role, Mr Norman attends Board meetings on a regular basis, as well as the Board's annual planning session. Mr Norman has had a major role in helping guide the turnaround of the former Coles group businesses.

The non-executive directors are:

Director	Year of appointment	Period of office as at September 2011
Bob Every	2006	5 years and 7 months
Colin Carter	2002	8 years and 11 months
James Graham	1998	13 years and 4 months
Tony Howarth	2007	4 years and 2 months
Charles Macek	2001	9 years and 11 months
Wayne Osborn	2010	1 year and 6 months
Diane Smith-Gander	2009	2 years and 1 month
Vanessa Wallace	2010	1 year and 2 months

The executive directors are:

Director	Year of appointment	Period of office as at September 2011
Richard Goyder	2002	9 years and 1 month
Terry Bowen	2009	2 years and 4 months

The skills and experience of the company's directors are detailed on pages 56 and 57 of this annual report.

### **Independence of the Chairman**

The Chairman is elected from the independent non-executive directors. The responsibilities of the Chairman are set out in the Board Charter, and include the following:

- maintain effective communication between the Board and management;
- lead the Board;
- ensure the efficient organisation and conduct of the Board's function;
- brief all directors in relation to issues arising at Board meetings;
- chair general meetings of Wesfarmers; and
- exercise such specific and express powers as are delegated to the Chairman by the Board from time to time.

Bob Every is the present serving Chairman and further information about Dr Every is set out on page 56 of this annual report.

### **Director independence**

Directors are expected to bring views and judgement to the Board's deliberations that are independent of management and free of any business or other relationship or circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement.

The Board regularly reviews the independence of each non-executive director in light of the relevant information disclosed to the Board.

The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, annually and as appropriate.

The test of whether a relationship could, or could be perceived to, materially interfere with the independent exercise of a director's judgement is based on the nature of the relationship and the circumstances of that director. Materiality is considered from the perspective of the company, the director, and the person or entity with which the director has a relationship.

The Board has reviewed the position and associations of all directors in office as at the date of this report and considers that:

- seven of the eight non-executive directors are independent; and
- Mr Graham is deemed not to be independent by virtue of his position as Managing Director of Gresham Partners Limited, which acts as an investment adviser to the company.

Details of Mr Graham's association with the company are set out in note 34 on page 165 of this annual report. The Board has determined that the relationship does not interfere with Mr Graham's exercise of independent judgement and believes that his appointment is in the best interests of Wesfarmers because of the substantial knowledge and expertise he brings to the Board.

### **Retirement and re-election**

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

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

Board support for directors retiring by rotation and seeking re-election is not automatic. The performance of the directors seeking re-election is considered by the Board to enable it to make a recommendation to shareholders.

Wesfarmers also expects directors to voluntarily review their membership of the Board from time to time, taking into account other commitments, length of service, age, qualifications and expertise relevant to the company's business.

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

### **Skills, experience and diversity of the Board**

The Nomination Committee has been delegated responsibility to:

- periodically assess the skill set required to discharge the Board's duties, having regard to the strategic direction of the Wesfarmers Group and assessing the skills currently represented on the Board; and
- regularly review and make recommendations to the Board regarding the structure, size and composition of the Board (including the mix of skills, knowledge and experience); and the effectiveness of the Board as a whole.

### **Nomination and appointment of new directors**

The Nomination Committee makes recommendations to the Board with respect to new director appointments, whether it be to appoint a new director to fill a vacancy on the Board or to complement the existing Board. Where appropriate, external consultants are engaged to assist in searching for candidates.

If a candidate is recommended by the Nomination Committee, the Board will assess that candidate against a range of criteria including background, experience, professional qualifications, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director must have their appointment confirmed at the next annual general meeting by the shareholders.

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

### **Induction of new directors and ongoing director development**

New directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including their duties, rights and responsibilities; the time commitment envisaged; expectations regarding involvement with committee work; and their responsibilities with respect to acting in a capacity other than as a director of Wesfarmers.

As part of a comprehensive induction program covering Wesfarmers' financial, strategic, operational and risk management position, the new director meets with the Chairman, the Audit Committee Chairman, the Wesfarmers Managing Director, divisional managing directors and other key executives to gain an insight into the values and culture of Wesfarmers. The program also includes site visits to some of Wesfarmers' key operations.

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

On an ongoing basis, directors are provided with papers, presentations and briefings on matters which may affect the business or operations of Wesfarmers. Directors are also encouraged to undertake continuing education and training relevant to the discharge of their obligations as directors of the company, as arranged by the Nomination Committee or otherwise. Subject to prior approval by the Company Secretary, the reasonable cost of continuing education and training is met by Wesfarmers.

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

### **Board access to information and independent advice**

All directors have unrestricted access to employees of Wesfarmers and its businesses and, subject to the law, access to all company records and information held by Wesfarmers employees and external advisers.

Each director, the Board and the Board committees may obtain independent professional advice at Wesfarmers' expense, as considered reasonable and necessary, subject to prior consultation with the Chairman.

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

### **Conflicts of interest**

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

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

## **OPERATION OF THE BOARD**

### **Committees of the Board**

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

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

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

Details of the membership, composition and responsibilities of each committee are detailed on page 62.

### **Performance evaluation**

The Nomination Committee is responsible for scheduling at least annually a performance review of the individual directors and formal performance reviews of the Board and its committees at least every two years. The Board then undertakes an evaluation process to review performance. A Board committee performance review was conducted in December 2010 and a Board performance review was conducted in July 2011, both of which were facilitated by an external consultant.

A comprehensive process for the evaluation of the performance of senior executives, comprising members of the Wesfarmers leadership team, is conducted by the Wesfarmers Managing Director on an annual basis (and, in the case of the Wesfarmers Managing Director, by the Board). The results of this review are used by the Remuneration Committee in determining remuneration outcomes. The performance of all executive directors and senior executives was reviewed during the reporting period in accordance with this process.

### **Remuneration**

Full details of the remuneration paid to non-executive and executive directors and senior executives are set out in the remuneration report on pages 72 to 87 of this annual report.

	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>	<b>Gresham Mandate Review Committee</b>
<b>Members</b>	<ul style="list-style-type: none"> <li>• Mr Tony Howarth (Chairman)</li> <li>• Dr Bob Every</li> <li>• Mr Charles Macek</li> <li>• Ms Diane Smith-Gander</li> <li>• Ms Vanessa Wallace</li> </ul>	<ul style="list-style-type: none"> <li>• Dr Bob Every (Chairman)</li> <li>• Mr Colin Carter</li> <li>• Mr James Graham</li> <li>• Mr Charles Macek</li> <li>• Mr Wayne Osborn</li> </ul>	<ul style="list-style-type: none"> <li>• Dr Bob Every (Chairman)</li> <li>• Mr Colin Carter</li> <li>• Mr James Graham</li> <li>• Mr Tony Howarth</li> <li>• Mr Charles Macek</li> <li>• Mr Wayne Osborn</li> <li>• Ms Diane Smith-Gander</li> <li>• Ms Vanessa Wallace</li> </ul>	<p>Any two of:</p> <ul style="list-style-type: none"> <li>• Mr Colin Carter</li> <li>• Mr Charles Macek</li> <li>• Ms Diane Smith-Gander</li> </ul>
<b>Composition</b>	<p>The Committee must comprise:</p> <ul style="list-style-type: none"> <li>• only non-executive directors;</li> <li>• at least three members;</li> <li>• a majority of non-executive directors who satisfy the criteria for independence;</li> <li>• members who have an understanding of financial statements and general accounting principles; and</li> <li>• at least one member who has financial experience. It must be chaired by an independent chair, who is not Chairman of the Board.</li> </ul>	<p>The Committee must comprise:</p> <ul style="list-style-type: none"> <li>• only non-executive directors; and</li> <li>• at least three members.</li> </ul>	<p>The Committee must comprise all non-executive directors.</p>	<p>The Committee must comprise such members as the Board determines from time to time.</p>
<b>Responsibilities include</b>	<ul style="list-style-type: none"> <li>• reviewing financial accounts of the company and discussion of the accounts with the external auditors and management prior to their submission to the Board for approval;</li> <li>• reviewing any changes in accounting policies or practices and subsequent effects on the financial accounts of the company;</li> <li>• reviewing with management the terms of the external audit engagement in order to make recommendations to the Board;</li> <li>• reviewing and assessing non-audit services to be provided by the external auditor;</li> <li>• monitoring and assessing the systems for internal compliance and control, legal compliance and risk management;</li> <li>• advising on the appointment, performance and remuneration of the external auditor; and</li> <li>• reviewing and monitoring the company's continuous disclosure policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• reviewing and making recommendations to the Board on: <ul style="list-style-type: none"> <li>– the remuneration of non-executive directors (including fees, travel and other benefits);</li> <li>– the level of remuneration of executive directors and direct reports to the Wesfarmers Managing Director (including equity grants and plan participation);</li> <li>– new executive incentive plans and amendments to existing plans;</li> </ul> </li> <li>• determining, on the recommendation of the Wesfarmers Managing Director, the level of remuneration of other executives;</li> <li>• ensuring remuneration packages across the Group are equitable and making recommendations to the Board as appropriate, including remuneration by gender;</li> <li>• assisting the Chairman of the Board in the annual performance review of the Wesfarmers Managing Director;</li> <li>• approving new employee incentive plans and amendments to existing plans; and</li> <li>• overseeing preparation of the annual remuneration report and recommending the report to the Board for approval.</li> </ul>	<ul style="list-style-type: none"> <li>• reviewing Board and committee composition and recommending new appointments to the Board and the committees;</li> <li>• identifying the steps to be taken to ensure a diverse range of candidates is considered in selecting new directors;</li> <li>• ensuring an effective induction program for directors;</li> <li>• reviewing Board succession plans to ensure an appropriate mix of skills, experience and diversity is maintained;</li> <li>• reviewing and making recommendations to the Board on the operation and performance of the Board and its Committees; and</li> <li>• making recommendations for the removal of Directors.</li> </ul>	<ul style="list-style-type: none"> <li>• considering and approving the mandate agreement terms and all fees payable to Gresham Partners Limited group of companies where they are to be appointed advisers to the company; and</li> <li>• reporting on the approved mandate terms and fees to the Board.</li> </ul>
<b>Attendance</b>	<p>Details of meeting attendance for members of each committee are set out in the directors' report on page 68 of this annual report.</p>			

## GOVERNANCE POLICIES

### Board Code of Conduct

The Board has adopted a Board Code of Conduct to guide the directors and promote high ethical and professional standards and responsible decision-making. This code embraces the values of honesty, integrity, enterprise, excellence, accountability, fairness, independence and equality of shareholder opportunity. The principles are supported by guidelines for their interpretation.

A summary of the Board Code of Conduct is published in the corporate governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

### Code of Ethics and Conduct

In addition, Wesfarmers has adopted a Code of Ethics and Conduct for all employees (including directors). This code details policies, procedures and guidelines aimed at ensuring that the highest ethical standards, corporate behaviour and accountability are maintained across Wesfarmers.

The managing directors and chief financial officers of each division are required to report annually to the Audit Committee on their division's compliance with the code.

### Whistleblower protection

The Whistleblower Policy of Wesfarmers has been adopted to promote and support a culture of honest and ethical behaviour, corporate compliance and good corporate governance.

This policy encourages employees and contractors to raise any concerns and report instances of unethical, illegal, fraudulent or undesirable conduct either internally with management within his or her division or with a Protected Disclosure Officer, or externally via a telephone helpline managed by an independent third party. Wesfarmers is committed to absolute confidentiality and fairness in all matters raised and will support and protect those who report violations in good faith. The Audit Committee is responsible for overseeing compliance with this policy.

### Diversity Policy

Wesfarmers recognises the social and commercial value of diversity and strives to create a work environment which is inclusive of all people regardless of gender, age, race, disability, sexual orientation, cultural background, religion, family responsibilities or any other area of potential difference.

While Wesfarmers is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group. The Board approved a Diversity Policy during the year, which has particular focus on improving gender balance in the workplace and increasing the representation of women in management roles. Wesfarmers' approach to gender diversity is based on the following objectives:

- fostering an inclusive culture;
- improving talent management;
- enhancing recruitment practices; and
- ensuring pay equity.

The Board is overseeing the implementation of strategies to achieve these objectives and, over the course of the 2012 financial year, will measure the progress in achieving them.

Details on female representation at the Board, senior executive and Group level are set out in the sustainability section on page 53 of this annual report.

A copy of the Diversity Policy is published on the governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

As part of Wesfarmers' commitment to diversity, the company strives to make its businesses a place where Aboriginal and Torres Strait Islander people feel welcome and valued, as employees, customers and citizens. To do this, Wesfarmers has a Reconciliation Action Plan, which outlines specific measurable actions to be undertaken across the Wesfarmers Group, targeting employment and community engagement.

As a large employer, Wesfarmers can provide Aboriginal and Torres Strait Islander peoples with greater opportunities to participate in the country's economic prosperity, through sustainable employment and support through community partnership programs. The Wesfarmers Reconciliation Action Plan acts as an 'umbrella' document to the Aboriginal strategies developed in each of the company's business divisions. More details about the Wesfarmers Reconciliation Action Plan can be found on the community and sustainability section of the company's website at [www.wesfarmers.com.au/community-a-sustainability/community.html](http://www.wesfarmers.com.au/community-a-sustainability/community.html)

### Share Trading Policy

The Share Trading Policy of Wesfarmers states that all employees and directors of the Group are expressly prohibited from trading in Wesfarmers' securities, or securities in other entities in which Wesfarmers has an interest, if they are in possession of 'inside information'.

Directors and senior executives are generally prohibited from trading in the company's securities during 'black out' periods (which are the periods from the close of books to the announcement of the full-year or half-year results). Trading during these periods may only be permitted with prior approval of the Chairman in exceptional circumstances (such as severe financial hardship), subject at all times to the general prohibition on insider trading.

Outside of these periods, a director or senior executive who intends to buy or sell shares must:

- advise the Company Secretary of their intention to trade; and
- confirm that they do not hold unpublished inside information.

Directors, senior executives and their closely related parties are prohibited from entering into arrangements that have the effect of limiting exposure to risk in relation to an element of their remuneration. In addition, they must advise the Company Secretary if they intend to enter into, or have entered into, a margin lending or other security arrangement affecting the company's securities.

A copy of the Share Trading Policy is published on the governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

### Market Disclosure Policy

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

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

The Company Secretary is also responsible for referring matters to the Board's Disclosure Committee, comprising the Wesfarmers Managing Director, the Finance Director and the Group General Counsel. Matters referred to the Disclosure Committee, and decisions made by the committee, are recorded and referred to the Board at its next meeting.

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

A copy of the Market Disclosure Policy is published on the governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

### Shareholder Communications Policy

The Board has developed a strategy for engaging and communicating with shareholders, key aspects of which are set out below.

The Communications Policy of Wesfarmers promotes the communication of information to shareholders through the distribution of an annual report and announcements through the ASX and the media regarding changes in its businesses, and the Chairman's address at the annual general meeting.

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

The company encourages and welcomes shareholder participation at general meetings, with the annual general meeting being the major forum for shareholders to ask questions about the performance of the company and provide valuable feedback.

Wesfarmers conducts live webcasts of company general meetings as well as major institutional investor and analyst briefings, which are available on the company's website. The company provides shareholders with the opportunity to receive email alerts of significant announcements and advises of the availability of reports on the company's website.

A copy of the Communications Policy is published on the governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

## INTEGRITY IN FINANCIAL REPORTING

### Role of the Audit Committee

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

The membership and responsibilities of the Audit Committee are set out on page 62 of this annual report.

The Audit Committee maintains direct, unfettered access to external auditors, Group Assurance (internal audit) and management.

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

The Audit Committee Charter is published on the governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

### Role of the external auditor

#### *Appointment and rotation of auditor*

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

The lead audit partner is required to rotate after a maximum of five years. Mr Greg Meyerowitz is the lead audit partner for Ernst & Young, and was appointed on 3 June 2009.

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

#### *Independence declaration*

Ernst & Young has provided the required independence declaration to the Board for the financial year ended 30 June 2011.

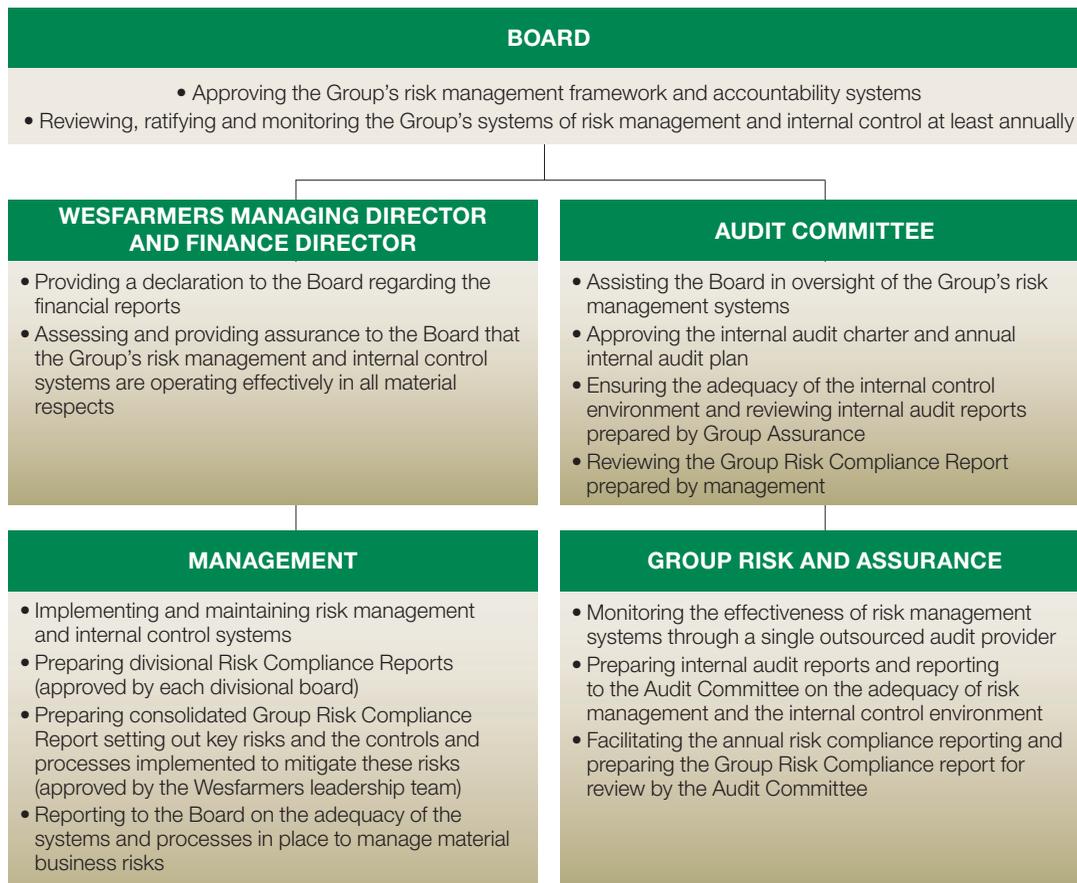
The independence declaration forms part of the directors' report and is provided on page 71 of this annual report.

#### *Restrictions on the performance of non-audit and assurance-related services*

The Board has considered the nature of the non-audit and assurance-related services provided by the external auditor during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of fees paid (or payable) to Ernst & Young for non-audit and assurance-related services provided to the Wesfarmers Group in the year ended 30 June 2011 are set out in the directors' report on page 70 of this annual report.

### Attendance of external auditors at annual general meetings

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



## RISK MANAGEMENT

Risk is an accepted part of doing business and Wesfarmers is committed to the identification, monitoring and management of material business risks associated with its business activities across the Group to create long-term shareholder value.

### Risk Management Policy

The Risk Management Policy of Wesfarmers was approved by the Board. The policy details the overarching risk management controls that are embedded in the Group's risk management framework and reporting systems, including:

- guidelines and limits for approval of all expenditure, including capital expenditure and investments;
- a Group compliance program supported by approved guidelines and standards covering safety, the environment, legal liability, risk identification, quantification and reporting, and financial reporting controls;
- a comprehensive risk financing program, including risk transfer to external insurers;
- policies and procedures for the management of financial risk and treasury operations;
- annual budgeting and monthly reporting systems for all businesses;

- appropriate due diligence procedures for acquisitions and divestments; and
- crisis management systems for all key businesses in the Group.

A copy of the Risk Management Policy is published in the corporate governance section of the company's website at [www.wesfarmers.com.au/about-us/corporate-governance.html](http://www.wesfarmers.com.au/about-us/corporate-governance.html)

This policy is reviewed periodically.

### Risk management oversight and responsibility

The division of the key risk management functions is set out in the diagram above.

### Risk certification

#### Financial risk

The Wesfarmers Managing Director and the Finance Director provided a written statement to the Board in accordance with section 295A of the *Corporations Act 2001*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Wesfarmers Managing Director and the Finance Director that the declaration was founded on a sound system of risk management and internal control and that the system was operating effectively in all material aspects in relation to financial reporting risks.

This statement was also signed by the Executive General Manager Group Accounting, Assurance and Risk.

#### Non-financial risk

Management within each division is required to have in place effective risk management policies, programs and internal control systems to manage the material business risks of the division in accordance with Wesfarmers' risk management framework.

Divisional management is ultimately responsible for the relevant division's internal control and risk management systems.

Management has reported to the Audit Committee on the effectiveness of the internal control and risk management systems throughout the year, and management of its material business risk.

In addition, the Insurance division's Australian licensed insurers are subject to the Australian Prudential Regulatory Authority reporting obligations. These reporting obligations, including a requirement to lodge Risk Management Strategies and Insurance Liability Valuation Reports, have been complied with.