News Release

11 April 2016

Target update – Supplier rebate arrangements investigation

On 23 February 2016, Wesfarmers announced a restructure of Kmart and Target into a single Department Store division, led by Guy Russo as Chief Executive Officer and Marina Joanou as Finance Director.

On 24 March 2016, it was brought to the new management team's attention that the accounting treatment of a number of Target supplier arrangements negotiated in December 2015 required scrutiny.

Wesfarmers, with its external auditors, Ernst & Young, immediately commenced an extensive internal investigation, with particular focus on Target's rebate income receivable as at 31 December 2015 and supply arrangements. The investigation identified that the collective effect of agreed rebates of $18.1 million for past activity and subsequent product cost increases negotiated in December with 31 overseas suppliers did not meet the Group's accounting policies and operating standards. Additionally, a number of supply arrangements amounting to less than $3 million were found to not comply strictly with the Group's accounting policies.

While these arrangements had no cash flow implications for the six months ended 31 December they did support income of $21 million recognised in Target's earnings for the period. Adjusting for this in accordance with Group policies, Target's earnings before interest and tax would have been $53 million as compared to the $74 million reported. At a Group level, the financial impact would not have been material, with earnings after tax assessed at $15 million or 1.1 per cent lower than reported and in line with the previous corresponding period.

For the full Financial Year to 30 June 2016, these arrangements would have had a negligible impact on the Group's and Target's financial results, as any benefit recorded in the first half would have substantially reversed over the second half of 2016 due to higher product costs.

Target is now working with suppliers to unwind the arrangements.

The investigation into this matter was swift and comprehensive. It identified that the full arrangements were not disclosed to Wesfarmers or its auditors. Appropriate action is being taken against the Target employees who were found to be directly involved.

As announced on 8 April 2016, Target Managing Director Stuart Machin has stated he was not aware of the accounting issues in the first half but has accepted his share of the responsibility given his leadership role and has chosen to resign from the Wesfarmers Group.

Wesfarmers Managing Director, Richard Goyder, expressed his disappointment with the actions of those involved.

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"There is no excuse for this conduct," Mr Goyder said. "We set very clear direction and expectations at Wesfarmers crystallised in our Code of Conduct, and supported by detailed Group policies, divisionally specific accounting policies, and regular staff training. We encourage and expect adherence to a strong culture of managing for long term sustainable growth over short term gain, which is regularly reinforced by the Wesfarmers Board and which should have guided behaviour.

"Wesfarmers will take immediate action throughout the Group to reinforce the importance of compliance with its policies and governance practices."

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