# Financial Report 2017
## Table of Contents

# Consolidated Statement of Profit or Loss

| | NOTE | 2017 $M | 2016[1] $M |
|---|---|---|---|
| **Continuing Operations** | | | |
| Revenue from the sale of goods and services | | **55,475.0** | 53,473.9 |
| Other operating revenue | | **193.6** | 189.8 |
| **Total operating revenue** | | **55,668.6** | 53,663.7 |
| Cost of sales | | **(39,739.7)** | (38,538.6) |
| **Gross profit** | | **15,928.9** | 15,125.1 |
| Other revenue | | **244.2** | 275.5 |
| Branch expenses | | **(10,671.4)** | (10,683.9) |
| Administration expenses | | **(3,175.7)** | (3,221.8) |
| **Earnings before interest and tax** | | **2,326.0** | 1,494.9 |
| Financing costs | 2.2 | **(193.6)** | (245.6) |
| **Profit before income tax** | | **2,132.4** | 1,249.3 |
| Income tax expense | 3.6 | **(650.4)** | (486.4) |
| **Profit for the period from continuing operations** | | **1,482.0** | 762.9 |
| **Discontinued Operations** | | | |
| Profit/(Loss) from discontinued operations, after tax | 5.1 | **111.4** | (3,110.8) |
| **Profit/(Loss) for the period** | | **1,593.4** | (2,347.9) |
| | | | |
| **Profit/(Loss) attributable to:** | | | |
| Equity holders of the parent entity | | **1,533.5** | (1,234.8) |
| Non-controlling interests | | **59.9** | (1,113.1) |
| | | **1,593.4** | (2,347.9) |
| **Profit/(Loss) attributable to equity holders of the parent entity relates to:** | | | |
| Profit from continuing operations | | **1,422.1** | 726.3 |
| Profit/(Loss) from discontinued operations | | **111.4** | (1,961.1) |
| | | **1,533.5** | (1,234.8) |

| | | CENTS | CENTS |
|---|---|---|---|
| **Earnings Per Share (EPS) attributable to equity holders of the parent entity** | | | |
| Basic EPS | 4.1 | **119.4** | (97.7) |
| Diluted EPS | 4.1 | **119.1** | (97.7) |
| **EPS attributable to equity holders of the parent entity from continuing operations** | | | |
| Basic EPS | 4.1 | **110.8** | 57.5 |
| Diluted EPS | 4.1 | **110.5** | 57.5 |

1 In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the comparatives have been restated for discontinued operations that have arisen during the year (refer to Note 5.1).

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying Notes to the Consolidated Financial Statements.

# Consolidated Statement of Other Comprehensive Income

| | NOTE | 2017 $M | 2016 $M |
|---|---|---|---|
| **Profit/(Loss) for the period** | | **1,593.4** | (2,347.9) |
| **Other comprehensive income** | | | |
| ***Items that may be reclassified to profit or loss*** | | | |
| *Hedging reserve* | | | |
| Movement in the fair value of cash flow hedges | 4.4 | **3.8** | (2.7) |
| Income tax effect | 4.4 | **1.0** | (1.7) |
| *Foreign currency translation reserve (FCTR)* | | | |
| Movement in translation of foreign operations taken to equity | | **(3.9)** | 207.9 |
| Income tax effect | | **(3.0)** | (24.5) |
| ***Items that will not be reclassified to profit or loss*** | | | |
| *Equity instrument reserve* | | | |
| Movement in the fair value of investments in equity securities | 4.4 | **2.2** | 13.5 |
| *Retained earnings* | | | |
| Actuarial gain/(loss) on defined benefit superannuation plans | | **3.2** | (5.6) |
| Income tax effect | | **(1.0)** | 1.7 |
| **Other comprehensive income (net of tax)** | | **2.3** | 188.6 |
| Total comprehensive income from continuing operations | | **1,480.0** | 955.4 |
| Total comprehensive income/(loss) from discontinued operations | | **115.7** | (3,114.7) |
| **Total comprehensive income/(loss) for the period** | | **1,595.7** | (2,159.3) |
| | | | |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Equity holders of the parent entity | | **1,535.8** | (1,046.2) |
| Non-controlling interests | | **59.9** | (1,113.1) |
| | | **1,595.7** | (2,159.3) |
| **Total comprehensive income from continuing operations attributable to:** | | | |
| Equity holders of the parent entity | | **1,420.1** | 918.9 |
| Non-controlling interests | | **59.9** | 36.5 |
| | | **1,480.0** | 955.4 |

The above Consolidated Statement of Other Comprehensive Income should be read in conjunction with the accompanying Notes to the Consolidated Financial Statements.

# Consolidated Statement of Financial Position

| | NOTE | 2017 $M | 2016 $M |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 4.5 | **909.4** | 948.1 |
| Trade and other receivables | 3.1 | **744.7** | 763.9 |
| Inventories | | **4,080.4** | 4,558.5 |
| Other financial assets | 3.2 | **16.1** | 56.0 |
| | | **5,750.6** | 6,326.5 |
| Assets held for sale | 5.2 | **1,243.6** | 1,100.5 |
| **Total current assets** | | **6,994.2** | 7,427.0 |
| **Non-current assets** | | | |
| Trade and other receivables | 3.1 | **72.1** | 85.9 |
| Other financial assets | 3.2 | **506.9** | 638.2 |
| Property, plant and equipment | 3.3 | **8,437.5** | 8,262.8 |
| Intangible assets | 3.4 | **6,532.8** | 6,590.6 |
| Deferred tax assets | 3.6.3 | **372.3** | 497.7 |
| **Total non-current assets** | | **15,921.6** | 16,075.2 |
| **Total assets** | | **22,915.8** | 23,502.2 |
| **Current liabilities** | | | |
| Trade and other payables | 3.7 | **6,684.7** | 6,266.1 |
| Borrowings | 4.6 | **253.5** | 490.7 |
| Current tax payable | | **80.9** | 39.5 |
| Other financial liabilities | 3.8 | **313.8** | 120.3 |
| Provisions | 3.9 | **1,470.6** | 1,873.5 |
| | | **8,803.5** | 8,790.1 |
| Liabilities directly associated with assets held for sale | 5.2 | **20.7** | 202.6 |
| **Total current liabilities** | | **8,824.2** | 8,992.7 |
| **Non-current liabilities** | | | |
| Borrowings | 4.6 | **2,777.0** | 3,870.9 |
| Other financial liabilities | 3.8 | **115.7** | 179.8 |
| Provisions | 3.9 | **1,010.9** | 1,382.4 |
| Other non-current liabilities | 3.10 | **311.9** | 294.5 |
| **Total non-current liabilities** | | **4,215.5** | 5,727.6 |
| **Total liabilities** | | **13,039.7** | 14,720.3 |
| **Net assets** | | **9,876.1** | 8,781.9 |
| **Equity** | | | |
| Contributed equity | 4.3 | **5,615.0** | 5,252.2 |
| Reserves | 4.4 | **113.8** | 93.9 |
| Retained earnings | | **3,797.2** | 3,124.5 |
| **Equity attributable to equity holders of the parent entity** | | **9,526.0** | 8,470.6 |
| Non-controlling interests | | **350.1** | 311.3 |
| **Total equity** | | **9,876.1** | 8,781.9 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes to the Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

| 2017 | SHARE CAPITAL $M | SHARES HELD IN TRUST $M | RESERVES $M | RETAINED EARNINGS $M | TOTAL $M | NON-CONTROLLING INTERESTS $M | TOTAL EQUITY $M |
|---|---|---|---|---|---|---|---|
| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT ENTITY | | | | | | |
| **Balance at 26 June 2016** | 5,347.0 | (94.8) | 93.9 | 3,124.5 | 8,470.6 | 311.3 | 8,781.9 |
| Profit after income tax expense | – | – | – | 1,533.5 | 1,533.5 | 59.9 | 1,593.4 |
| Other comprehensive income (net of tax) | – | – | 0.1 | 2.2 | 2.3 | – | 2.3 |
| **Total comprehensive income (net of tax)** | – | – | 0.1 | 1,535.7 | 1,535.8 | 59.9 | 1,595.7 |
| Dividends paid | – | – | – | (859.6) | (859.6) | (21.5) | (881.1) |
| Dividends received – Treasury shares | – | – | – | 2.2 | 2.2 | – | 2.2 |
| Issue of shares under employee long-term incentive plans | – | 37.1 | (37.1) | – | – | – | – |
| Issue of shares under the dividend reinvestment plan (DRP) | 316.5 | – | – | – | 316.5 | – | 316.5 |
| Issue of shares from underwrite of DRP | 55.5 | – | – | – | 55.5 | – | 55.5 |
| Purchase of shares by the Woolworths Employee Share Trust | – | (46.3) | – | – | (46.3) | – | (46.3) |
| Share-based payments expense | – | – | 51.6 | – | 51.6 | – | 51.6 |
| Other | – | – | 5.3 | (5.6) | (0.3) | 0.4 | 0.1 |
| **Balance at 25 June 2017** | 5,719.0 | (104.0) | 113.8 | 3,797.2 | 9,526.0 | 350.1 | 9,876.1 |

| 2016 | SHARE CAPITAL $M | SHARES HELD IN TRUST $M | RESERVES $M | RETAINED EARNINGS $M | TOTAL $M | NON-CONTROLLING INTERESTS $M | TOTAL EQUITY $M |
|---|---|---|---|---|---|---|---|
| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT ENTITY | | | | | | |
| **Balance at 28 June 2015** | 5,064.9 | (155.9) | 95.1 | 5,830.1 | 10,834.2 | 297.8 | 11,132.0 |
| Loss after income tax expense | – | – | – | (1,234.8) | (1,234.8) | (1,113.1) | (2,347.9) |
| Other comprehensive income/(loss) (net of tax) | – | – | 192.5 | (3.9) | 188.6 | – | 188.6 |
| **Total comprehensive income/(loss) (net of tax)** | – | – | 192.5 | (1,238.7) | (1,046.2) | (1,113.1) | (2,159.3) |
| Dividends paid | – | – | – | (1,471.2) | (1,471.2) | (32.4) | (1,503.6) |
| Dividends received – Treasury shares | – | – | – | 4.3 | 4.3 | – | 4.3 |
| Issue of shares under employee long-term incentive plans | – | 61.1 | (61.1) | – | – | – | – |
| Issue of shares under the DRP | 282.1 | – | – | – | 282.1 | – | 282.1 |
| Issue of shares to non-controlling interests | – | – | – | – | – | 120.0 | 120.0 |
| Share-based payments expense | – | – | 20.8 | – | 20.8 | – | 20.8 |
| Reclassification of non-controlling interests for recognition of financial liability | – | – | – | – | – | 886.5 | 886.5 |
| Transactions with non-controlling interests | – | – | (153.4) | – | (153.4) | 153.4 | – |
| Other | – | – | – | – | – | (0.9) | (0.9) |
| **Balance at 26 June 2016** | 5,347.0 | (94.8) | 93.9 | 3,124.5 | 8,470.6 | 311.3 | 8,781.9 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes to the Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

| | NOTE | 2017[1] $M | 2016[1] $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **65,498.9** | 65,329.8 |
| Payments to suppliers and employees | | **(61,474.8)** | (61,834.5) |
| Net interest paid | | **(234.0)** | (289.3) |
| Income tax paid | | **(668.1)** | (848.5) |
| **Net cash provided by operating activities** | 4.5 | **3,122.0** | 2,357.5 |
| **Cash flows from investing activities** | | | |
| Proceeds from the sale of property, plant and equipment and assets held for sale | | **279.8** | 722.0 |
| Payments for property, plant and equipment – property development | | **(253.2)** | (473.3) |
| Payments for property, plant and equipment (excluding property development) | | **(1,633.6)** | (1,465.0) |
| Payments for intangible assets | | **(23.0)** | (44.6) |
| Proceeds from the sale of subsidiaries and investments, net of cash disposed | | **200.7** | 15.0 |
| Payments for the purchase of businesses, net of cash acquired | | **(5.6)** | (22.7) |
| Payments for the purchase of investments | | **–** | (1.3) |
| Dividends received | | **3.5** | 3.2 |
| **Net cash used in investing activities** | | **(1,431.4)** | (1,266.7) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares – underwrite of DRP | | **55.5** | – |
| Proceeds from the issue of equity securities in subsidiary to non-controlling interest | | **–** | 120.0 |
| Transactions with non-controlling interests | | **–** | (12.1) |
| Proceeds from borrowings | | **184.1** | 628.5 |
| Repayment of borrowings | | **(1,406.5)** | (994.1) |
| Dividends paid | 4.2 | **(540.9)** | (1,184.8) |
| Dividends paid to non-controlling interests | | **(21.5)** | (32.4) |
| **Net cash used in financing activities** | | **(1,729.3)** | (1,474.9) |
| **Net decrease in cash and cash equivalents** | | **(38.7)** | (384.1) |
| Effects of exchange rate changes on foreign currency | | **(0.6)** | 6.7 |
| Cash and cash equivalents at start of period | | **956.0** | 1,333.4 |
| **Cash and cash equivalents at end of period** | 4.5 | **916.7** | 956.0 |

1 The above Consolidated Statement of Cash Flows includes both continuing and discontinued operations. Amounts related to discontinued operations are disclosed in Note 5.1.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes to the Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements
for the year ended 25 June 2017

## 1 BASIS OF PREPARATION

### 1.1 Basis of preparation

Woolworths Limited (the 'Company') is a for-profit company which is incorporated and domiciled in Australia. The Financial Report of the Company is for the 52-week period ended 25 June 2017 and comprises the Company and its subsidiaries (together referred to as the 'Group'). The comparative period is for the 52-week period ended 26 June 2016.

The Financial Report was authorised for issue by the directors on 23 August 2017.

The Consolidated Financial Statements are presented in Australian dollars and amounts have been rounded to the nearest tenth of a million dollars unless otherwise stated, in accordance with ASIC Corporations Legislative Instrument 2016/191.

The Consolidated Financial Statements have been prepared on the historical cost basis except for financial assets at fair value through other comprehensive income, derivative assets and liabilities, and certain financial liabilities which have been measured at fair value, as explained in the accounting policies.

The accounting policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated. Changes in accounting policies in the current year are included in the following Notes:

- Note 3.6 – Deferred taxes on indefinite life intangible assets; and
- Note 3.8 – Put options over non-controlling interests.

Certain comparative amounts have been reclassified to conform with the current period's presentation to better reflect the nature of the financial position and performance of the Group. The comparative financial information in the Consolidated Statement of Profit or Loss and associated Notes and the Consolidated Statement of Other Comprehensive Income have been restated for discontinued operations that have arisen during the year (refer to Note 5.1).

#### STATEMENT OF COMPLIANCE

The Consolidated Financial Statements of the Group are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* (Cth), and Australian Accounting Standards and Interpretations.

Compliance with Australian Accounting Standards ensures that the Financial Report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this Financial Report has been prepared in accordance with and complies with IFRS as issued by IASB.

### 1.2 Significant accounting policies

This section sets out the significant accounting policies upon which the Group's Consolidated Financial Statements are prepared as a whole and significant accounting policies not otherwise described in the Notes to the Consolidated Financial Statements. Specific accounting policies are described in their respective Notes to the Consolidated Financial Statements. This section also shows information on new accounting standards, amendments and interpretations, and whether they are effective in 2017 or later years.

#### 1.2.1 Basis of consolidation

The Consolidated Financial Statements of the Company incorporate the assets, liabilities and results of all subsidiaries as at 25 June 2017. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

#### 1.2.2 Revenue

Revenue is measured as the fair value of consideration received or receivable on the basis that it meets the recognition criteria set out as follows:

Sale of goods and services

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, when it is probable the revenue will be received and the amount of revenue can be reliably measured. Service revenue is recognised based on the stage of completion of the contract with the customer.

## 1.2 Significant accounting policies (continued)

### 1.2.3 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

### 1.2.4 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes supplier rebates, settlement discounts and other costs incurred to bring inventory to its present condition and location for sale.

For continuing operations, net realisable value of inventory has been determined as the estimated selling price in the ordinary course of business, less estimated selling expenses. For discontinued operations, net realisable value of inventory has been determined using judgement based on the likely recovery rates in an orderly exit scenario.

As at the reporting date, all inventories are valued at cost (2016: $447.8 million held at net realisable value).

#### Supplier rebates

Supplier rebates represent discounts provided by suppliers. Rebates include standard discounts on the purchase of goods, discounts based on purchase or sales volumes and contributions towards promotional activity for a supplier's product.

### 1.2.5 Foreign currency

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in Australian dollars (AUD), which is the Company's functional currency.

#### (ii) Transactions and balances (entities with a functional currency of AUD)

Foreign currency transactions are translated into Australian dollars using the exchange rates at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated to Australian dollars at reporting date at the following exchange rates:

| FOREIGN CURRENCY AMOUNT | APPLICABLE EXCHANGE RATE |
|---|---|
| Monetary assets and liabilities | Reporting date |
| Non-monetary assets and liabilities measured at historical cost | Date of transaction |

Foreign exchange differences arising on translation are recognised in profit or loss in the period in which they arise except:

- Exchange differences on transactions entered to hedge certain foreign currency risks (refer to Note 4.8); and
- Items noted within paragraph (iii) below.

#### (iii) Financial statements of foreign operations (entities with a functional currency other than AUD)

The results and financial position of foreign operations are translated to Australian dollars at the following exchange rates:

| FOREIGN CURRENCY AMOUNT | APPLICABLE EXCHANGE RATE |
|---|---|
| Revenues and expenses of foreign operations | Average for the period |
| Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation | Reporting date |
| Equity items | Historical rates |

The following foreign exchange differences are recognised in other comprehensive income:

- Foreign currency differences arising on translation of foreign operations; and
- Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future. These monetary items and related hedges are considered to form part of the net investment in a foreign operation and are reclassified into profit or loss upon disposal of the net investment.

## 1.2 Significant accounting policies (continued)

### 1.2.6 Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of GST, except where the GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the expense or cost of the asset.

Receivables and payables are stated with the amount of GST included. The net amounts of GST recoverable from or payable to the taxation authorities are included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to taxation authorities are classified as operating cash flows.

### 1.2.7 New and amended standards adopted by the Group

The Group has adopted all relevant new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) which are effective for annual reporting periods beginning on or after 27 June 2016.

None of the new standards or amendments to standards that are mandatory for the first time materially affected any of the amounts recognised in the current period or any prior period and are not likely to significantly affect future periods.

### 1.2.8 Issued standards and interpretations not early adopted

The table below lists the standards and amendments to standards on issue but not yet effective that were available for early adoption and were applicable to the Group. The reported results and financial position of the Group are not expected to change on adoption of any of the amendments to current standards listed below, unless stated otherwise, as they do not result in any changes to the Group's existing accounting policies. However, amendments to AASB 107 will introduce additional disclosures in respect of changes in liabilities from financing activities.

| EFFECTIVE DATE | NEW STANDARDS OR AMENDMENTS | REFERENCE | NOTE |
|---|---|---|---|
| 1 January 2017 | *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to AASB 112)* | AASB 2016-1 | |
| | *Disclosure Initiative (Amendments to AASB 107)* | AASB 2016-2 | |
| 1 January 2018 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to AASB 10 and AASB 128)* | AASB 2014-10 & 2015-10 | |
| | *Revenue from Contracts with Customers* and the relevant amending standards | AASB 15 | 1.2.8 (i) |
| | *Financial Instruments* and the relevant amending standards | AASB 9 (2014) | 1.2.8 (ii) |
| | *Classification and Measurement of Share-based Payment Transactions (Amendments to AASB 2)* | AASB 2016-5 | |
| 1 January 2019 | *Leases* | AASB 16 | 1.2.8 (iii) |
| 1 January 2021 | *Insurance Contracts* | AASB 17 | |

#### (i) AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* establishes a principle-based approach for goods, services and construction contracts which requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised only when the performance obligation is satisfied and the control of goods or services is transferred, typically at the point of sale.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The group will apply AASB 15 in the financial year beginning 25 June 2018. An initial assessment has been performed on existing revenue streams. Based upon this assessment, it is not expected that AASB 15 will have a material impact to the Group's Consolidated Statement of Profit or Loss. The Group is yet to conclude which transition method will be applied.

#### (ii) AASB 9 *Financial Instruments (2014)*

AASB 9 *Financial Instruments* is a new standard which replaces AASB 139 *Financial Instruments: Recognition and Measurement*. In previous years, the Group early adopted AASB 9 *Financial Instruments* (2009), AASB 9 (2010), and related amendments. The Group is yet to adopt AASB 9 (2014) which supersedes AASB 9 (2009) and AASB 9 (2010) and introduces a new impairment model for financial assets and a new measurement category 'fair value through other comprehensive income' for certain debt instruments.

AASB 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018. The Group will apply AASB 9 (2014) in the financial year beginning 25 June 2018. An assessment has been performed and the impact of the credit loss model will not be material to the Group. The Group does not hold any investments in debt securities at the end of the reporting period and, as a result, does not expect to be impacted by the introduction of the new measurement category.

## 1.2 Significant accounting policies (continued)

### 1.2.8 Issued standards and interpretations not early adopted continued

(iii) AASB 16 *Leases*

AASB 16 *Leases* will replace existing accounting requirements for leases under AASB 117 *Leases*. Under current requirements, leases are classified based on their nature as either finance leases, which are recognised on the Consolidated Statement of Financial Position, or operating leases, which are not recognised on the Consolidated Statement of Financial Position. The Group's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Consolidated Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard. The Group's accounting for leases as a lessor remains unchanged under AASB 16.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group will apply AASB 16 in the financial year beginning 1 July 2019. A project has been established to ensure a high quality implementation in compliance with the accounting standard. The project has members from finance, treasury and property functions with oversight from the Chief Financial Officer. Key responsibilities of the project include setting accounting policy, finalising an impact assessment, budgeting and costing of implementation, identifying data and system requirements, and finalising the implementation plan.

As at the end of the reporting period, the Group has non-cancellable undiscounted operating lease commitments of $24,438.8 million as disclosed in Note 4.9.1. These commitments predominantly relate to its retail premises, warehousing facilities, distribution centres, and support offices which will require recognition of ROU assets and associated lease liabilities. The Group is currently assessing the impact of the new requirements on the Group's Consolidated Financial Statements; however the impact is expected to materially 'gross-up' the Group's Consolidated Statement of Financial Position impacting key financial ratios. As the project develops further, quantitative and qualitative disclosure will be provided.

## 1.3 Critical accounting estimates and judgements

In applying the Group's accounting policies, the directors are required to make estimates, judgements and assumptions that affect amounts reported in this Financial Report. The estimates, judgements and assumptions are based on historical experience, adjusted for current market conditions and other factors that are believed to be reasonable under the circumstances and are reviewed on a regular basis. Actual results may differ from these estimates.

The estimates and judgements which involve a higher degree of complexity or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are included in the following Notes:

- Notes 3.3 and 3.4 – Estimation of useful life of assets, and carrying value of properties;
- Note 3.5 – Impairment of non-financial assets;
- Note 3.9 – Provisions including onerous leases; and
- Note 5.1 – Discontinued operations including impairments, exit liabilities and associated tax balances.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period and future periods if the revision affects both current and future periods.

## 1.4 Individually significant items from continuing operations

### 2017

There are no individually significant items from continuing operations in 2017.

### 2016

Included in 2016 Consolidated Statement of Profit or Loss were significant expenses before tax of $958.6 million incurred outside the ordinary course of trading operations resulting from a Group-wide review of all aspects of the business. In particular, these items related to operating model and strategic changes of $154.9 million, store network optimisation and property rationalisation of $344.2 million, and General Merchandise impairment of $459.5 million. The total income tax benefit recognised from the significant expenses was $193.1 million, resulting in a $765.5 million impact on profit for the period[1].

Individually significant items relating to the impairment of Home Improvement assets and store exit costs are separately presented in Note 5.1 as the Home Improvement business has been classified as a discontinued operation.

1 Comprised of $754.7 million attributable to equity holders of the parent entity and $10.8 million attributable to non-controlling interests.

# 2 GROUP PERFORMANCE

## 2.1 Segment disclosures from continuing operations

### 2.1.1 Operating segment reporting

Reportable segments are identified on the basis of internal reports on the business units of the Group that are regularly reviewed by the Chief Executive Officer in order to allocate resources to the segment and assess its performance. These business units offer different products and services and are managed separately.

The Group's reportable segments are as follows:

- **Australian Food** – procurement of food products for resale to customers in Australia;
- **New Zealand Food** – procurement of food and drinks for resale to customers in New Zealand;
- **Endeavour Drinks** – procurement of drinks for resale to customers in Australia;
- **BIG W** – procurement of discount general merchandise products for resale to customers in Australia; and
- **Hotels** – provision of leisure and hospitality services including food and drinks, accommodation, entertainment and gaming in Australia.

On 18 January 2016, the Company announced that it intended to pursue an orderly prospective exit of the Home Improvement business. Consequently, the Home Improvement business has been classified as a discontinued operation (refer to Note 5.1) and this segment is not presented in the segment disclosures for 2017 and 2016.

On 24 December 2016, the Company entered into a binding agreement to sell the Petrol business to BP for $1.785 billion. Consequently, the Petrol business has been classified as a discontinued operation (refer to Note 5.1). The Petrol business was previously presented together with Australian Food and is no longer included in the segment disclosures for 2017 and 2016.

The Unallocated group consists of the Group's other operating segments that are not separately reportable as well as various support functions including property and other central overhead costs. The revenue from the sale of goods and services included in the Unallocated group relates to EziBuy and is derived from the procurement of general merchandise products for predominately online resale to customers. The sale of EziBuy Holdings Limited and its subsidiaries was completed on 25 June 2017.

There are varying levels of integration between the Australian Food, Endeavour Drinks and Hotels reportable segments. This includes the common usage of property and services and administration functions. Inter-segment pricing is determined on an arm's length basis.

Performance is measured based on segment earnings before interest and tax (EBIT) before individually significant items (refer to Note 1.4) which is consistent with the way management monitor and report the performance of these segments.

## 2.1 Segment disclosures from continuing operations (continued)

### 2.1.1 Operating segment reporting continued

| 2017 | AUSTRALIAN FOOD[1] $M | NEW ZEALAND FOOD $M | ENDEAVOUR DRINKS $M | BIG W $M | HOTELS $M | UNALLOCATED[2] $M | CONSOLIDATED CONTINUING OPERATIONS $M |
|---|---|---|---|---|---|---|---|
| Revenue from the sale of goods and services | 36,370.9 | 5,887.1 | 7,912.9 | 3,598.0 | 1,553.2 | 152.9 | 55,475.0 |
| Other operating revenue | 188.4 | 4.9 | – | 0.3 | – | – | 193.6 |
| Inter-segment revenue | – | – | – | – | – | 1,009.2 | 1,009.2 |
| **Segment revenue** | 36,559.3 | 5,892.0 | 7,912.9 | 3,598.3 | 1,553.2 | 1,162.1 | 56,677.8 |
| Eliminations | | | | | | (1,009.2) | (1,009.2) |
| Unallocated revenue – other[3] | | | | | | 244.2 | 244.2 |
| **Total revenue** | 36,559.3 | 5,892.0 | 7,912.9 | 3,598.3 | 1,553.2 | 397.1 | 55,912.8 |
| **Earnings before interest and tax[4]** | 1,603.1 | 292.3 | 502.5 | (150.5) | 232.9 | (154.3) | 2,326.0 |
| Financing costs | | | | | | | (193.6) |
| **Profit before income tax** | | | | | | | 2,132.4 |
| Income tax expense | | | | | | | (650.4) |
| **Profit for the period from continuing operations** | | | | | | | 1,482.0 |
| **Depreciation and amortisation[4]** | 561.6 | 110.9 | 75.7 | 76.4 | 105.1 | 107.9 | 1,037.6 |
| **Impairment of non-financial assets[5]** | – | – | 17.0 | 21.1 | – | – | 38.1 |
| **Capital expenditure[6]** | 917.7 | 182.4 | 116.0 | 31.3 | 112.0 | 481.1 | 1,840.5 |

| 2016 | AUSTRALIAN FOOD[1] $M | NEW ZEALAND FOOD $M | ENDEAVOUR DRINKS $M | BIG W $M | HOTELS $M | UNALLOCATED[2] $M | CONSOLIDATED CONTINUING OPERATIONS $M |
|---|---|---|---|---|---|---|---|
| Revenue from the sale of goods and services | 34,798.0 | 5,592.2 | 7,589.3 | 3,819.7 | 1,512.2 | 162.5 | 53,473.9 |
| Other operating revenue | 179.0 | 10.2 | – | 0.6 | – | – | 189.8 |
| Inter-segment revenue | – | – | – | – | – | 979.9 | 979.9 |
| **Segment revenue** | 34,977.0 | 5,602.4 | 7,589.3 | 3,820.3 | 1,512.2 | 1,142.4 | 54,643.6 |
| Eliminations | | | | | | (979.9) | (979.9) |
| Unallocated revenue – other[3] | | | | | | 275.5 | 275.5 |
| **Total revenue** | 34,977.0 | 5,602.4 | 7,589.3 | 3,820.3 | 1,512.2 | 438.0 | 53,939.2 |
| **Segment earnings/(loss) before interest, tax and significant items[4]** | 1,642.0 | 284.4 | 483.8 | (14.9) | 208.5 | (157.8) | 2,446.0 |
| Significant items | | | | | | | (951.1) |
| **Earnings before interest and tax** | | | | | | | 1,494.9 |
| Financing costs | | | | | | | (245.6) |
| **Profit before income tax** | | | | | | | 1,249.3 |
| Income tax expense | | | | | | | (486.4) |
| **Profit for the period from continuing operations** | | | | | | | 762.9 |
| **Depreciation and amortisation[4]** | 523.6 | 106.3 | 74.8 | 83.1 | 99.3 | 98.2 | 985.3 |
| **Impairment of non-financial assets[5]** | 66.8 | 19.3 | – | 32.5 | 23.3 | 373.9 | 515.8 |
| **Capital expenditure[6]** | 646.1 | 195.9 | 94.1 | 46.7 | 141.2 | 673.5 | 1,797.5 |

1 Previously reported as Australian Food and Petrol; prior period has been restated to exclude Petrol which is now a discontinued operation.
2 Revenue from the sale of goods in Unallocated group relates to EziBuy.
3 Unallocated revenue is comprised of rent and other revenue from non-operating activities across the Group.
4 Depreciation and amortisation in Unallocated group is in relation to central assets (e.g. Enterprise Resource Planning system) for which a service charge is made to the reportable operating segments and reflected in the segment earnings/loss results.
5 Refer to Note 3.5 for further detail on the impairment of non-financial assets.
6 Capital expenditure is comprised of property, plant and equipment additions and intangible asset acquisitions.

## 2.1 Segment disclosures from continuing operations (continued)

### 2.1.2 Geographical information

The table below provides information on the geographical location of revenue from continuing operations and non-current assets (excluding financial instruments, deferred tax assets and intercompany receivables). Revenue from external customers is allocated to a geography based on the location in which the sales originated. Non-current assets are allocated based on the location of the operation to which they relate.

| | AUSTRALIA | | NEW ZEALAND | | CONSOLIDATED CONTINUING OPERATIONS | |
|---|---|---|---|---|---|---|
| | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M |
| Revenue from the sale of goods and services | **49,400.9** | 47,674.8 | **6,074.1** | 5,799.1 | **55,475.0** | 53,473.9 |
| Other operating revenue | **188.7** | 179.6 | **4.9** | 10.2 | **193.6** | 189.8 |
| Other revenue | **200.9** | 238.5 | **43.3** | 37.0 | **244.2** | 275.5 |
| **Revenue from external customers** | **49,790.5** | 48,092.9 | **6,122.3** | 5,846.3 | **55,912.8** | 53,939.2 |
| Non-current assets | **11,873.3** | 11,847.1 | **3,287.3** | 3,200.7 | **15,160.6** | 15,047.8 |

## 2.2 Financing costs from continuing operations

| | 2017 $M | 2016 $M |
|---|---|---|
| Interest expense | **(231.5)** | (298.2) |
| Less: interest capitalised[1] | **29.9** | 42.3 |
| Other[2] | **8.0** | 10.3 |
| **Total** | **(193.6)** | (245.6) |

1 Weighted average capitalisation rate on funds borrowed for continuing operations was 6.77% (2016: 6.75%).
2 Includes interest income and dividend income.

### SIGNIFICANT ACCOUNTING POLICIES

**FINANCING COSTS**
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for its intended use or sale) are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# 3 ASSETS AND LIABILITIES

## 3.1 Trade and other receivables

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current** | | |
| Trade receivables | **120.9** | 135.4 |
| Provision for impairment | **(14.8)** | (10.6) |
| | **106.1** | 124.8 |
| Other receivables | **323.7** | 330.3 |
| Provision for impairment | **(19.3)** | (21.6) |
| | **304.4** | 308.7 |
| Prepayments | **334.2** | 330.4 |
| **Total current trade and other receivables** | **744.7** | 763.9 |
| **Non-current** | | |
| Prepayments | **1.5** | 5.2 |
| Other receivables | **70.6** | 80.7 |
| **Total non-current trade and other receivables** | **72.1** | 85.9 |
| **Total** | **816.8** | 849.8 |

### SIGNIFICANT ACCOUNTING POLICIES

**TRADE AND OTHER RECEIVABLES**
Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. They generally have terms of up to 30 days.

**IMPAIRMENT OF TRADE AND OTHER RECEIVABLES**
The Group assesses at the end of each reporting period whether there is objective evidence that the Group's receivables are impaired.

The recoverable amount of the Group's receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. A provision for impairment of receivables is not recognised until objective evidence is available that a loss event has occurred.

## 3.2 Other financial assets

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current** | | |
| Derivatives | **16.1** | 56.0 |
| | **16.1** | 56.0 |
| **Non-current** | | |
| Derivatives | **388.7** | 529.7 |
| Listed equity securities | **79.8** | 77.3 |
| Investments in associates | **37.8** | 30.3 |
| Other | **0.6** | 0.9 |
| | **506.9** | 638.2 |
| **Total** | **523.0** | 694.2 |

### SIGNIFICANT ACCOUNTING POLICIES

**DERIVATIVES**
Refer to Note 4.8 for details of derivatives.

**LISTED EQUITY SECURITIES**
The Group's investments in listed equity securities are designated as financial assets at 'fair value through other comprehensive income'. Investments are initially measured at fair value net of transaction costs and in subsequent periods, are measured at fair value with any change recognised in other comprehensive income. Upon disposal, the cumulative gain or loss recognised in other comprehensive income is transferred within equity.

## 3.3 Property, plant and equipment

| 2017 | DEVELOPMENT PROPERTIES $M | FREEHOLD LAND, WAREHOUSE, RETAIL AND OTHER PROPERTIES $M | LEASEHOLD IMPROVEMENTS $M | PLANT AND EQUIPMENT $M | TOTAL[4] $M |
|---|---|---|---|---|---|
| Cost | 519.0 | 1,435.4 | 3,135.1 | 14,015.4 | 19,104.9 |
| Less: accumulated depreciation/amortisation | (1.3) | (117.8) | (1,438.9) | (9,109.4) | (10,667.4) |
| **Carrying amount at end of period** | 517.7 | 1,317.6 | 1,696.2 | 4,906.0 | 8,437.5 |
| *Movement:* | | | | | |
| Carrying amount at start of period | 356.7 | 1,319.5 | 1,795.5 | 4,791.1 | 8,262.8 |
| Additions | 198.3 | 113.5 | 228.5 | 1,322.2 | 1,862.5 |
| Acquisition of businesses | – | 2.6 | – | 0.1 | 2.7 |
| Disposals[1] | (6.3) | (39.0) | (18.7) | (47.1) | (111.1) |
| Transfer from/(to) assets held for sale[2] | 51.5 | (146.2) | (139.5) | (276.9) | (511.1) |
| Disposal of business | – | – | 0.3 | – | 0.3 |
| Depreciation expense[3] | (0.1) | (24.8) | – | (845.9) | (870.8) |
| Amortisation expense[3] | – | – | (172.1) | – | (172.1) |
| Impairment expense | – | – | 2.0 | (23.1) | (21.1) |
| Transfers and other | (83.1) | 89.0 | (0.9) | (18.7) | (13.7) |
| Effect of movements in foreign exchange rates | 0.7 | 3.0 | 1.1 | 4.3 | 9.1 |
| **Carrying amount at end of period** | 517.7 | 1,317.6 | 1,696.2 | 4,906.0 | 8,437.5 |

1 Net loss on disposal and write off of property, plant and equipment during the year from continuing operations was $46.6 million.
2 Includes transfer of Home Improvement properties from assets held for sale.
3 Includes $23.3 million relating to discontinued operations.
4 Includes an accumulated provision for impairment of $258.8 million (2016: $193.3 million).

## 3.3 Property, plant and equipment (continued)

| 2016 | DEVELOPMENT PROPERTIES $M | FREEHOLD LAND, WAREHOUSE, RETAIL AND OTHER PROPERTIES $M | LEASEHOLD IMPROVEMENTS $M | PLANT AND EQUIPMENT $M | TOTAL $M |
|---|---|---|---|---|---|
| Cost | 358.3 | 1,435.5 | 3,269.6 | 13,937.0 | 19,000.4 |
| Less: accumulated depreciation/amortisation | (1.6) | (116.0) | (1,474.1) | (9,145.9) | (10,737.6) |
| **Carrying amount at end of period** | 356.7 | 1,319.5 | 1,795.5 | 4,791.1 | 8,262.8 |
| *Movement:* | | | | | |
| Carrying amount at start of period | 927.9 | 2,345.7 | 1,798.0 | 4,990.5 | 10,062.1 |
| Additions | 343.9 | 69.5 | 241.6 | 1,187.4 | 1,842.4 |
| Acquisition of businesses | – | 1.3 | – | 1.9 | 3.2 |
| Disposals [1] | (47.3) | (44.7) | (21.7) | (19.0) | (132.7) |
| Transfer to assets held for sale | (268.6) | (501.0) | (7.6) | (65.5) | (842.7) |
| Depreciation expense [2] | (0.5) | (48.1) | – | (836.7) | (885.3) |
| Amortisation expense [2] | – | – | (167.5) | – | (167.5) |
| Impairment expense | (183.2) | (900.6) | (55.2) | (494.1) | (1,633.1) |
| Transfers and other | (419.1) | 386.9 | – | (5.3) | (37.5) |
| Effect of movements in foreign exchange rates | 3.6 | 10.5 | 7.9 | 31.9 | 53.9 |
| **Carrying amount at end of period** | 356.7 | 1,319.5 | 1,795.5 | 4,791.1 | 8,262.8 |

1 Net loss on disposal and write off of property, plant and equipment during the year from continuing operations was $24.0 million.
2 Includes $89.3 million relating to discontinued operations.

### SIGNIFICANT ACCOUNTING POLICIES

**CARRYING VALUE**
The Group's property, plant and equipment are measured at cost less accumulated depreciation/amortisation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and a proportion of overheads. The cost of development properties (those being constructed or developed for future use) includes borrowing, holding and development costs until the asset is complete.

**DEPRECIATION**
Assets are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortised over the shorter of the remaining period of the individual leases or the estimated useful life of the improvement to the Group. Useful lives are reassessed each period. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets.

The expected useful lives are as follows:

| | |
|---|---|
| Buildings | 25 – 40 years |
| Plant and equipment | 2.5 – 10 years |
| Leasehold improvements | Up to a maximum of 25 years (retail properties) or 40 years (hotels) |

**PROCEEDS FROM SALE OF ASSETS**
The gross proceeds from asset sales are recognised at the date that an unconditional contract of sale is exchanged with the purchaser. The net gain/(net loss) is recognised in the Consolidated Statement of Profit or Loss.

**IMPAIRMENT**
Property, plant and equipment are tested for impairment in accordance with the policy for impairment of non-financial assets disclosed in Note 3.5.

In 2016, Home Improvement assets were transferred to assets held for sale after impairment recognised in that year.

## 3.3 Property, plant and equipment (continued)

**CRITICAL ACCOUNTING ESTIMATES**

**ESTIMATION OF USEFUL LIFE OF ASSETS**
Estimates of remaining useful lives require significant management judgement and are reviewed at least annually. Where useful lives are changed, the net written-down value of the asset is depreciated or amortised from the date of the change in accordance with the revised useful life. Depreciation recognised in prior financial years is not changed.

**CARRYING VALUE OF PROPERTIES**
An assessment of the carrying amount of the Group's freehold properties as at 25 June 2017 was performed. The basis of the assessment was a combination of external market assessments and/or valuations and internal value in use (VIU) assessments. External valuations are obtained every three years.

## 3.4 Intangible assets

### 3.4.1 Carrying amounts of and movements in intangible assets

| 2017 | GOODWILL $M | BRAND NAMES $M | LIQUOR, GAMING LICENCES AND OTHER $M | TOTAL $M |
|---|---|---|---|---|
| Cost | 4,319.9 | 256.5 | 2,263.0 | 6,839.4 |
| Less: accumulated amortisation | (103.5) | (0.8) | (202.3) | (306.6) |
| **Carrying amount at end of period** | 4,216.4 | 255.7 | 2,060.7 | 6,532.8 |
| *Movement:* | | | | |
| Carrying amount at start of period | 4,249.6 | 253.9 | 2,087.1 | 6,590.6 |
| Acquisition of businesses | – | – | 2.4 | 2.4 |
| Other acquisitions | – | – | 7.5 | 7.5 |
| Disposals, transfers and other | (43.4) | 0.1 | (11.7) | (55.0) |
| Amortisation | – | 0.1 | (18.1) | (18.0) |
| Impairment | (9.5) | – | (7.5) | (17.0) |
| Effect of movements in foreign exchange rates | 19.7 | 1.6 | 1.0 | 22.3 |
| **Carrying amount at end of period** | 4,216.4 | 255.7 | 2,060.7 | 6,532.8 |

| 2016 | GOODWILL $M | BRAND NAMES $M | LIQUOR, GAMING LICENCES AND OTHER $M | TOTAL $M |
|---|---|---|---|---|
| Cost | 4,343.6 | 285.4 | 2,319.5 | 6,948.5 |
| Less: accumulated amortisation | (94.0) | (31.5) | (232.4) | (357.9) |
| **Carrying amount at end of period** | 4,249.6 | 253.9 | 2,087.1 | 6,590.6 |
| *Movement:* | | | | |
| Carrying amount at start of period | 4,438.5 | 272.5 | 2,145.8 | 6,856.8 |
| Acquisition of businesses | 5.7 | – | 13.6 | 19.3 |
| Other acquisitions | – | – | 8.7 | 8.7 |
| Disposals, transfers and other | 4.3 | – | (0.6) | 3.7 |
| Amortisation[1] | – | – | (23.1) | (23.1) |
| Impairment | (350.9) | (30.6) | (57.9) | (439.4) |
| Effect of movements in foreign exchange rates | 152.0 | 12.0 | 0.6 | 164.6 |
| **Carrying amount at end of period** | 4,249.6 | 253.9 | 2,087.1 | 6,590.6 |

1 Includes $1.3 million relating to discontinued operations (refer to Note 5.1).

## 3.4 Intangible assets (continued)

### 3.4.2 Allocation of indefinite life intangible assets to groups of cash-generating units

| | GOODWILL | | BRAND NAMES | | LIQUOR, GAMING LICENCES AND OTHER | |
|---|---|---|---|---|---|---|
| | 2017 $M | 2016 $M | 2017 $M | 2016 $M | 2017 $M | 2016 $M |
| Australian Food [1] | **360.2** | 360.2 | **0.1** | 0.1 | **–** | – |
| New Zealand Food | **2,180.8** | 2,159.3 | **248.6** | 246.8 | **–** | – |
| Endeavour Drinks [2] | **510.2** | 530.6 | **7.0** | 7.0 | **271.9** | 269.0 |
| ALH Group | **1,164.9** | 1,164.9 | **–** | – | **1,697.3** | 1,702.0 |
| Petrol [1] | **–** | 34.3 | **–** | – | **–** | 0.2 |
| Unallocated | **0.3** | 0.3 | **–** | – | **–** | – |
| | **4,216.4** | 4,249.6 | **255.7** | 253.9 | **1,969.2** | 1,971.2 |

1 The goodwill attributable to Petrol was previously included within Australian Food and Petrol. In 2017, the goodwill balance is held for sale (refer to Note 5.2).
2 Excludes ALH owned retail sites, which are included in ALH Group.

#### SIGNIFICANT ACCOUNTING POLICIES

**GOODWILL**
Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

**OTHER INTANGIBLE ASSETS**
Other intangible assets are measured at cost less accumulated amortisation and impairment losses (if any). Where acquired in a business combination, cost represents the fair value at the date of acquisition.

Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives. Useful lives are reassessed each period. The useful lives of intangible assets have been assessed as follows:

| | |
|---|---|
| Brand names | Generally indefinite useful life |
| Liquor and gaming licences | Indefinite useful life |
| Victorian gaming entitlements | Life of the gaming entitlement (10 years) |
| Other (primarily customer relationships and property development rights) | Indefinite and finite up to 20 years |

**IMPAIRMENT**
Intangible assets are tested for impairment in accordance with the policy for impairment of non-financial assets disclosed in Note 3.5.

#### CRITICAL ACCOUNTING ESTIMATES

**ESTIMATION OF USEFUL LIFE OF ASSETS**
Assessments of useful lives and estimates of remaining useful lives require significant management judgement. Brand names are generally assessed as having an indefinite useful life on the basis of brand strength, ongoing expected profitability and continuing support. Brand names incorporate complementary assets such as store formats, networks and product offerings. Liquor and gaming licences (excluding Victorian gaming entitlements) have been assessed to have an indefinite useful life on the basis that the licences are expected to be renewed in line with ongoing regulatory requirements.

## 3.5 Impairment of non-financial assets

The following impairments/(reversals of impairments) were recognised during 2017:

| 2017 | CONTINUING OPERATIONS $M | DISCONTINUED OPERATIONS $M | TOTAL $M |
|---|---|---|---|
| Property, plant and equipment | 21.1 | – | 21.1 |
| Assets held for sale | – | (23.7) | (23.7) |
| Intangible assets | 17.0 | – | 17.0 |
| **Total impairment/(reversal of impairment)** | 38.1 | (23.7) | 14.4 |

The following impairments were recognised during 2016:

| 2016 | CONTINUING OPERATIONS $M | DISCONTINUED OPERATIONS $M | TOTAL $M |
|---|---|---|---|
| Property, plant and equipment | 195.8 | 1,437.3 | 1,633.1 |
| Assets held for sale | – | 46.4 | 46.4 |
| Intangible assets | 320.0 | 119.4 | 439.4 |
| **Total impairment** | 515.8 | 1,603.1 | 2,118.9 |

### Continuing operations

During the year ended 25 June 2017, a charge of $35.3 million has been recorded in branch expenses, $21.1 million of which relates to impairment of store property, plant and equipment, and $14.2 million relating to provisions for onerous leases in respect of BIG W's undiscounted lease commitments of approximately $3.0 billion. Refer to the 'critical accounting estimates' for further detail on the impairment assessment for BIG W.

During the year an impairment of $20.7 million was recorded in relation to Summergate, $17.0 million of which relates to impairment of intangibles, and $3.7 million relates to impairment of trade and other receivables.

### Discontinued operations

On 18 January 2016, the Company announced its planned exit from the Home Improvement market. The recoverable amounts of the assets in the Home Improvement business have been re-assessed at 25 June 2017. Valuations of property assets included in the Home Consortium transaction were determined with regard to the financial impact of the transaction. Valuations of property assets excluded from the transaction were determined with regard to the Group's asset disposal strategy and investment yields reflective of the characteristics and location of the individual properties based on management's best estimate of the expected net proceeds. The resulting reversal of impairment of assets held for sale of $23.7 million has been included within 'Loss from discontinued operations' during the financial year ended 25 June 2017. Refer to Note 5.1, Note 5.2 and Note 6.5 for further details.

#### SIGNIFICANT ACCOUNTING POLICIES

**IMPAIRMENT OF NON-FINANCIAL ASSETS**
The carrying amounts of the Group's property, plant and equipment (refer to Note 3.3), goodwill and intangible assets (refer to Note 3.4) are reviewed for impairment as follows:

| | |
|---|---|
| Property, plant and equipment and finite life intangibles | When there is an indication that the asset may be impaired (assessed at least each reporting date) or when there is an indication that a previously recognised impairment may have changed |
| Goodwill and indefinite life intangibles | At least annually and when there is an indication that the asset may be impaired |

1 PERFORMANCE HIGHLIGHTS
2 BUSINESS REVIEW
3 DIRECTORS' REPORT
4 FINANCIAL REPORT
5 OTHER INFORMATION

## 3.5 Impairment of non-financial assets (continued)

### SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**CALCULATION OF RECOVERABLE AMOUNT**

In assessing impairment, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of an asset is the greater of its value in use (VIU) and its fair value less costs to dispose (FVLCTD). For an asset that does not generate largely independent cash inflows, recoverable amount is assessed at the cash generating unit (CGU) level, which is the smallest group of assets generating cash inflows independent of other CGUs that benefit from the use of the respective asset. Goodwill is allocated to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments and grouped at the lowest levels for which goodwill is monitored for internal management purposes.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Profit or Loss.

Impairment losses recognised in respect of a CGU will be allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU on a pro-rata basis to their carrying amounts.

**REVERSAL OF IMPAIRMENT**

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### CRITICAL ACCOUNTING ESTIMATES

Key assumptions used in determining the recoverable amount of assets include expected future cash flows, long-term growth rates (terminal value assumptions) and discount rates.

In assessing VIU, estimated future cash flows are based on the Group's most recent board approved business plan covering a period not exceeding five years. Cash flows beyond the approved business plan period are extrapolated using estimated long-term growth rates.

Long-term growth rates are based on past experience, expectations of external market operating conditions, and other assumptions which take account of the specific features of each business unit. Long-term growth rates do not exceed industry growth rates for the business in which the CGU operates.

The recoverable amount has been determined using a VIU discounted cash flow model. In assessing VIU, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. Pre-tax discount rates used vary depending on the nature of the business and the country of operation.

The ranges of rates used in determining recoverable amounts are set out below:

| | 2017 % | 2016 % |
|---|---|---|
| Long-term growth rate | 2.5 | 0.5 – 2.5 |
| Pre-tax discount rate | 13 – 17.3 | 13 – 16.5 |

The Group believes that any reasonably possible change in the key assumptions applied would not cause the carrying value of assets to exceed their recoverable amount and result in a material impairment based on current economic conditions and CGU performance.

## 3.5 Impairment of non-financial assets (continued)

**CRITICAL ACCOUNTING ESTIMATES CONTINUED**

**BIG W**
As disclosed in the half year ended 1 January 2017, the BIG W business was assessed for impairment using the assumptions included in the business turnaround strategy at that time. As a result, an impairment charge of $35.3 million was recognised for store asset impairments and onerous lease provisions on certain underperforming stores.

During the second half of the fiscal year, the board formally approved the revised BIG W turnaround plan. This has been used as the basis for the value in use (VIU) discounted cash model used for determining the recoverable amount of BIG W. The turnaround plan assumes improvements in BIG W's operating and financial performance as well as working capital improvements over a five-year period. At 25 June 2017, the recoverable amount of the business is higher than its carrying amount of $514.3 million (2016: $555.2 million). Consistent with the half year ended 1 January 2017, management has applied a long-term terminal growth rate of 2.5% and a pre-tax discount rate of 14.3% (post-tax of 10%).

The impairment assessment incorporates the planned outcomes of the key initiatives underpinning the turnaround plan and is expected to be implemented over a number of years. A key element of the turnaround plan includes investing across future periods to improve BIG W's market position and to deliver an improved customer value proposition. As a result, the business is expected to initially remain loss making before returning to profitability and achieving sustained growth in the later years of the turnaround plan.

There are a number of risks and uncertainties associated with the execution of the BIG W turnaround plan, including adverse changes in trading conditions, the competitive landscape, and the inability of BIG W to execute the multi-year plan in line with the assumptions made. The assessment of the recoverable amount represents management's best estimate of the recovery of BIG W over the next five years, taking into account risks, uncertainties and opportunities for improvement in the business. Management will continue to reassess the progress of the BIG W business against these estimates and it is possible that the Company may require further asset impairments and onerous lease provisions in relation to the BIG W store and support network in future periods.

Sensitivity analysis was performed to determine the impact on the recoverable amount of reasonably possible changes in key assumptions. Consequently, with all other assumptions remaining the same, a 125 basis point increase in the post-tax discount rate or a 20% reduction in the forecast EBIT that drives the terminal value would result in a 45% reduction to the available headroom.

## 3.6 Income taxes

### 3.6.1 Income tax recognised in the Consolidated Statement of Profit or Loss

| | 2017 $M | 2016 $M |
|---|---|---|
| **Income tax expense** | | |
| Current tax expense | **729.9** | 796.6 |
| Adjustments recognised in the current year in relation to the current tax of prior years | **(11.6)** | 1.2 |
| Deferred tax relating to the origination and reversal of temporary differences | **119.4** | (383.4) |
| | **837.7** | 414.4 |
| *Income tax expense is attributable to:* | | |
| Profit from continuing operations (as reported in the Consolidated Statement of Profit or Loss) | **650.4** | 486.4 |
| Profit/(Loss) from discontinued operations (refer to Note 5.1) | **187.3** | (72.0) |
| | **837.7** | 414.4 |

### 3.6.2 Reconciliation between tax expense and profit before income tax

| | 2017 $M | 2016 $M |
|---|---|---|
| Profit before income tax expense – continuing operations | **2,132.4** | 1,249.3 |
| Profit/(Loss) before income tax expense – discontinued operations (refer to Note 5.1) | **298.7** | (3,182.8) |
| **Profit/(Loss) before income tax expense** | **2,431.1** | (1,933.5) |
| Income tax expense/(benefit) using the Australian corporate tax rate of 30% | **729.3** | (580.0) |
| ***Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:*** | | |
| Non-deductible expenses | **96.2** | 27.6 |
| Non-deductible impairment expense | **5.1** | 723.6 |
| Tax losses no longer able to be carried forward as a deferred tax asset | **–** | 182.5 |
| Unrecognised tax losses from the current year | **24.4** | 74.6 |
| Impact of differences in offshore tax rates | **(5.0)** | (4.7) |
| Other | **(0.7)** | (10.4) |
| | **849.3** | 413.2 |
| Adjustments relating to prior years | **(11.6)** | 1.2 |
| **Income tax expense** | **837.7** | 414.4 |

## 3.6 Income taxes (continued)

### 3.6.3 Deferred tax balances recognised in the Consolidated Statement of Financial Position

| 2017 | OPENING BALANCE $M | CREDITED/ (CHARGED) TO INCOME $M | CREDITED/ (CHARGED) TO OCI $M | TRANSFERS TO ASSETS HELD FOR SALE $M | CLOSING BALANCE $M |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Property, plant and equipment | **123.8** | **(15.3)** | **–** | **0.6** | **109.1** |
| Provisions and accruals | **1,004.2** | **(104.2)** | **(1.0)** | **(2.0)** | **897.0** |
| Cash flow hedges | **27.6** | **–** | **1.0** | **–** | **28.6** |
| Unrealised foreign exchange differences | **(38.3)** | **(0.5)** | **(3.0)** | **–** | **(41.8)** |
| Other | **6.8** | **(2.2)** | **0.5** | **–** | **5.1** |
| | **1,124.1** | **(122.2)** | **(2.5)** | **(1.4)** | **998.0** |
| **Deferred tax liabilities** | | | | | |
| Intangible assets | **(626.3)** | **–** | **–** | **–** | **(626.3)** |
| Prepayments | **(3.6)** | **(0.5)** | **–** | **–** | **(4.1)** |
| Other | **3.5** | **3.3** | **–** | **(2.1)** | **4.7** |
| | **(626.4)** | **2.8** | **–** | **(2.1)** | **(625.7)** |
| **Net deferred tax asset/(liability)** | **497.7** | **(119.4)** | **(2.5)** | **(3.5)** | **372.3** |

| 2016 | OPENING BALANCE $M | CREDITED/ (CHARGED) TO INCOME $M | CREDITED/ (CHARGED) TO OCI $M | TRANSFERS TO ASSETS HELD FOR SALE $M | CLOSING BALANCE $M |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Property, plant and equipment | 51.5 | 72.7 | – | (0.4) | 123.8 |
| Provisions and accruals | 556.4 | 455.7 | 1.7 | (9.6) | 1,004.2 |
| Cash flow hedges | 29.3 | – | (1.7) | – | 27.6 |
| Unrealised foreign exchange differences | (14.1) | 0.3 | (24.5) | – | (38.3) |
| Tax losses (revenue) | 182.5 | (182.5) | – | – | – |
| Other | 3.7 | 3.1 | – | – | 6.8 |
| | 809.3 | 349.3 | (24.5) | (10.0) | 1,124.1 |
| **Deferred tax liabilities** | | | | | |
| Intangible assets | (626.3) | – | – | – | (626.3) |
| Prepayments | (3.8) | (0.1) | – | 0.3 | (3.6) |
| Other | (36.5) | 34.2 | 2.0 | 3.8 | 3.5 |
| | (666.6) | 34.1 | 2.0 | 4.1 | (626.4) |
| **Net deferred tax asset/(liability)** | 142.7 | 383.4 | (22.5) | (5.9) | 497.7 |

## 3.6 Income taxes (continued)

### SIGNIFICANT ACCOUNTING POLICIES

Income tax in the Consolidated Statement of Profit or Loss for the period presented comprises current and deferred tax.

**CURRENT TAX**
Income tax payable represents the amount expected to be paid to taxation authorities on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

**DEFERRED TAX**
Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the rates that are expected to apply in the period in which the liability is settled or asset realised, based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit or in relation to the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is recognised in the Consolidated Statement of Profit or Loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

*Deferred taxes on indefinite life intangible assets*
In November 2016, the IFRS Interpretations Committee (IC) published a summary of its discussions following a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purpose of measuring deferred taxes in accordance with IAS 12 – Income Taxes. The IC noted that the fact that an entity does not amortise an intangible asset with an indefinite useful life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use.

The benefit of intangible assets with an indefinite useful life will flow to the Company on an annual basis, therefore the carrying amount will be recovered through use. In response to this clarification, the Company retrospectively changed its accounting policy for the deferred tax liabilities recorded in relation to these intangibles assets.

The following table summarises the impact of this change in accounting policy on the Consolidated Statement of Financial Position. This change did not have an impact on the 2016 comparative figures reported in the Consolidated Statement of Profit or Loss or Consolidated Statement of Other Comprehensive Income and Consolidated Statements of Cash Flows.

| INCREASE/(DECREASE) OF PREVIOUSLY REPORTED BALANCES | NOTE | 2016 $M |
|---|---|---|
| Goodwill | 3.4 | 612.3 |
| Deferred tax liabilities | 3.6.3 | 612.3 |

**TAX CONSOLIDATION**
The Company and its wholly-owned Australian resident entities formed a tax consolidated group with effect from 1 July 2002. Woolworths Limited is the head entity of the tax consolidated group and has assumed the current tax liabilities of the members in the tax consolidated group.

Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised by each subsidiary where the subsidiary would have been able to recognise the deferred tax asset or deferred tax liability on a standalone basis.

## 3.6 Income taxes (continued)

### SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**TAX CONSOLIDATION CONTINUED**

The members of the tax consolidated group have entered into a tax funding agreement with the Company which sets out the funding obligations in respect of income tax amounts. The agreement requires payments by the subsidiary to the Company equal to the income tax liability assumed by the Company. The Company is required to make payment to the subsidiary equal to the current tax asset assumed by the Company.

In respect of carried-forward tax losses brought into the group on consolidation by subsidiary members, the Company will pay the subsidiary member for such losses when these losses are transferred to the tax consolidated group, where the subsidiary member would have been entitled to recognise the benefit of these losses on a standalone basis.

Income tax expense of $68.0 million (2016: $89.6 million) was charged by the Company to subsidiaries during the period through at-call intercompany accounts.

## 3.7 Trade and other payables

| | 2017 $M | 2016 $M |
|---|---|---|
| Trade payables | **5,068.2** | 4,809.1 |
| Accruals | **1,418.7** | 1,278.7 |
| Unearned income | **197.8** | 178.3 |
| | **6,684.7** | 6,266.1 |

## 3.8 Other financial liabilities

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current** | | |
| Gaming entitlement liability | **–** | 9.0 |
| Derivatives | **63.0** | 109.4 |
| Put option held over non-controlling interest in Hydrox Holdings Pty Ltd | **250.8** | – |
| Other | **–** | 1.9 |
| | **313.8** | 120.3 |
| **Non-current** | | |
| Derivatives | **115.7** | 148.9 |
| Other | **–** | 30.9 |
| | **115.7** | 179.8 |
| **Total** | **429.5** | 300.1 |

### Put option over non-controlling interest in Hydrox Holdings Pty Ltd (Hydrox)

As at 25 June 2017, the Company owned 66.7% of Hydrox with the remaining 33.3% held by a subsidiary of Lowe's Companies, Inc. (Lowe's). As part of the terms of the Joint Venture Agreement (JVA) between the parties, Lowe's held a put option, which became exercisable after 20 October 2015. On 16 January 2016, Lowe's issued a notice setting an exercise date for the option triggering a 13-month notice period after which the option could be exercised. On 18 January 2016, Woolworths announced that it intended to exercise its call option over Lowe's 33.3% interest in Hydrox. On 16 February 2016, the Company provided Lowe's with a notice of exercise of its call option.

The Group has valued the put option liability as at 25 June 2017 at $250.8 million as a result of the payment to Lowe's on 4 August 2017 for the acquisition of their 33.3% shareholding (refer to Note 6.5 for further details).

## 3.8 Other financial liabilities (continued)

### SIGNIFICANT ACCOUNTING POLICIES

**DERIVATIVES**
Refer to Note 4.8 for details on derivatives.

**PUT OPTIONS OVER NON-CONTROLLING INTERESTS**
Put options held by non-controlling interests are measured at fair value.

In 2016 the fair value of the put option in Hydrox of $nil was determined with reference to the valuation provided to the Company by the independent expert it appointed in accordance with the process outlined in the JVA. The Group's accounting policy was to recognise changes in the fair value of put options over non-controlling interests directly in equity within general reserves, as these related to a transaction with a non-controlling interest.

In 2017 the change in valuation of the put option liability during the period has been charged to the Consolidated Statement of Profit or Loss. This change results in the Group's accounting policy being more consistent with the substance of the Home Improvement exit.

The change in accounting policy has been applied in the current year as the impact to the prior year is not considered material to the Group. If the change in accounting policy had been applied retrospectively, the prior year charge to General Reserve of $153.4 million would have been reflected in the 2016 Consolidated Statement of Profit or Loss increasing the total loss for the period from $2,347.9 million to $2,501.3 million.

## 3.9 Provisions

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current** | | |
| Employee benefits | **915.0** | 902.4 |
| Self-insured risks | **178.6** | 170.3 |
| Restructuring, onerous contracts, store exit costs and other | **377.0** | 800.8 |
| | **1,470.6** | 1,873.5 |
| **Non-current** | | |
| Employee benefits | **172.4** | 165.4 |
| Self-insured risks | **415.3** | 439.5 |
| Restructuring, onerous contracts, store exit costs and other | **423.2** | 777.5 |
| | **1,010.9** | 1,382.4 |
| **Total** | **2,481.5** | 3,255.9 |

### Movements in total self-insured risks, restructuring, onerous contracts, store exit costs, and other provisions

| | SELF-INSURED RISKS | | RESTRUCTURING, ONEROUS CONTRACTS, STORE EXIT COSTS, AND OTHER | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| *Movement:* | | | | |
| Balance at start of period | **609.8** | 597.7 | **1,578.3** | 69.7 |
| Additional provisions recognised/(reversed) | **141.1** | 160.4 | **(571.9)** | 1,705.3 |
| Reductions arising from payments | **(151.3)** | (141.6) | **(309.1)** | (173.9) |
| Other | **(5.7)** | (7.0) | **61.7** | (24.5) |
| Arising from the disposal of controlled entities | **–** | – | **41.0** | – |
| Effect of movements in foreign exchange rates | **–** | 0.3 | **0.2** | 1.7 |
| **Balance at end of period** | **593.9** | 609.8 | **800.2** | 1,578.3 |
| **Current** | **178.6** | 170.3 | **377.0** | 800.8 |
| **Non-current** | **415.3** | 439.5 | **423.2** | 777.5 |

## 3.9 Provisions (continued)

### SIGNIFICANT ACCOUNTING POLICIES

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made as to the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

**EMPLOYEE BENEFITS**
A liability is recognised for benefits accruing to employees in respect of annual leave and long service leave.

Liabilities expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

**SELF-INSURANCE**
The provision for self-insured risks primarily represents the estimated liability for workers' compensation and public liability claims.

**RESTRUCTURING**
Provision for restructuring is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected by the restructuring that the restructuring will occur.

**ONEROUS CONTRACTS AND STORE EXIT COSTS**
An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

### CRITICAL ACCOUNTING ESTIMATES

**DISCOUNT RATES**
Where a provision is measured using the cash flows estimated to settle the obligation, the cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Rates are reviewed periodically and given the nature of the estimate, reasonably possible changes are not considered likely to have a material impact.

**EMPLOYEE BENEFITS ASSUMPTIONS**
In estimating the value of employee benefits, consideration is given to expected future salary and wage levels (including on-cost rates), experience of employee departures and periods of service. The assumptions are reviewed periodically and given the nature of the estimate, reasonably possible changes in assumptions are not considered likely to have a material impact.

**ACTUARIAL ASSUMPTIONS**
Self-insurance provisions are determined based on independent actuarial assessments, which consider numbers, amounts and duration of claims, and allow for future inflation and investment returns. Allowance is included for injuries which occurred before the balance sheet date, but where the claim is expected to be notified after the reporting date. The assumptions are reviewed periodically and given the nature of the estimate, reasonably possible changes in assumptions are not considered likely to have a material impact.

## 3.9 Provisions (continued)

**CRITICAL ACCOUNTING ESTIMATES CONTINUED**

**RESTRUCTURING, ONEROUS CONTRACTS, AND STORE EXIT COSTS**

The Group has recognised a provision for store closures and onerous leases based on the lower of the estimated unavoidable net costs of meeting all leases and other obligations under the stores and associated contracts, and management's best estimate of the compensation expected to be payable to landlords and other third parties as a result of early termination of contracts. Estimates differ depending on the rent, location, the respective lease exit terms, and management's assessment of the timing and likely termination costs.

The estimates and judgements applied with respect to the recognition of onerous leases in relation to the Home Improvement business involve a high degree of complexity and have a risk of causing a material adjustment within subsequent periods. Any changes to carrying values in subsequent periods due to revisions to estimates or assumptions or as a result of the final realisation of the Home Improvement assets and liabilities upon exit of the business will be recognised in the Group's profit or loss as part of discontinued operations up to the sale of the Home Improvement business and continuing operations subsequent to the sale.

The decrease in onerous contract and store exit costs is primarily attributable to the re-assessment of provisions associated with the Group's planned exit from the Home Improvement business (refer to Note 5.1).

## 3.10 Other non-current liabilities

| | 2017 $M | 2016 $M |
|---|---|---|
| Straight-line lease, and incentive liability | **249.2** | 232.9 |
| Net defined benefit liability | **62.7** | 61.6 |
| | **311.9** | 294.5 |

# 4 CAPITAL STRUCTURE, FINANCING, AND RISK MANAGEMENT

## 4.1 Earnings per share

| | 2017 | 2016 |
|---|---|---|
| **Profit/(loss) for the period attributable to equity holders of the parent entity used in earnings per share ($m)** | | |
| Continuing operations | **1,422.1** | 726.3 |
| Discontinued operations | **111.4** | (1,961.1) |
| | **1,533.5** | (1,234.8) |
| **Weighted average number of shares used in earnings per share (shares, millions)** | | |
| Basic earnings per share [1] | **1,283.9** | 1,263.5 |
| Diluted earnings per share [1,2] | **1,287.3** | 1,263.9 |
| **Basic earnings per share (cents per share) [1]** | | |
| Continuing operations | **110.8** | 57.5 |
| Discontinued operations | **8.6** | (155.2) |
| | **119.4** | (97.7) |
| **Diluted earnings per share (cents per share) [1,2]** | | |
| Continuing operations | **110.5** | 57.5 |
| Discontinued operations | **8.6** | (155.2) |
| | **119.1** | (97.7) |

1 Weighted average number of shares has been adjusted to remove Treasury shares held by Woolworths Custodian Pty Ltd (as trustee of various employee share trusts).
2 Includes 3.4 million (2016: 0.4 million) shares deemed to be issued for no consideration in respect of employee options and performance rights.

## 4.2 Dividends

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | CENTS PER SHARE | TOTAL AMOUNT $M | DATE OF PAYMENT | CENTS PER SHARE | TOTAL AMOUNT $M | DATE OF PAYMENT |
| Current year interim | **34** | **437.6** | **07/04/17** | 44 | 559.2 | 08/04/16 |
| Prior year final | **33** | **422.0** | **07/10/16** | 72 | 912.0 | 09/10/15 |
| **Dividends paid during the year** | **67** | **859.6** | | 116 | 1,471.2 | |
| Issue of shares under the DRP | | **(316.5)** | | | (282.1) | |
| Dividends received on Treasury shares | | **(2.2)** | | | (4.3) | |
| **Net cash outflow** | | **540.9** | | | 1,184.8 | |

All dividends are fully franked at a 30% tax rate.

On 23 August 2017, the board of directors declared a final dividend in respect of the 2017 year of 50 cents (2016: 33 cents) per share fully franked at a 30% tax rate. The amount will be paid on 6 October 2017 (2016: 7 October 2016) and is expected to be $647.2 million (2016: $422.0 million). As the dividend was declared subsequent to 25 June 2017, no provision has been made as at 25 June 2017.

### Dividend Reinvestment Plan (DRP)

The Dividend Reinvestment Plan remains active. Eligible shareholders may participate in the DRP in respect of all or part of their shareholding. There is currently no limit on the number of shares that can participate in the DRP.

The directors have determined that a 1.5% discount will apply to the 2017 final dividend. Shares allocated to shareholders under the DRP for the 2017 final dividend will be allocated at an amount equal to 98.5% of the average of the daily volume weighted average market price of ordinary shares of the Company traded on the ASX over the period of 10 trading days commencing on 12 September 2017. The last date for receipt of election notices for the Dividend Reinvestment Plan is 11 September 2017.

During the year, 37% (2016: 19%) of the dividend paid, excluding the impact of underwriting, was reinvested in the shares of the Company.

1 PERFORMANCE HIGHLIGHTS
2 BUSINESS REVIEW
3 DIRECTORS' REPORT
4 FINANCIAL REPORT
5 OTHER INFORMATION

## 4.2 Dividends (continued)

### Franking credit balance

| | 2017 $M | 2016 $M |
|---|---|---|
| Franking credits available for future financial years (tax paid basis, 30% tax rate) | **2,577.2** | 2,344.3 |

The above amount represents the balance of the franking accounts as at the end of the period, adjusted for:

- Franking credits that will arise from the payment of income tax payable at the end of the period; and
- Franking debits that will arise from the payment of dividends provided at the end of the period.

The above franking credit balance excludes $134.2 million (2016: $114.1 million) attributable to non-controlling interests.

## 4.3 Contributed equity

| | 2017 | | 2016 | |
|---|---|---|---|---|
| SHARE CAPITAL | NUMBER (M) | $M | NUMBER (M) | $M |
| 1,294,416,480 fully paid ordinary shares (2016: 1,278,758,725) | | | | |
| *Movement:* | | | | |
| Balance at start of period | **1,278.8** | **5,347.0** | 1,266.6 | 5,064.9 |
| Issue of shares as a result of the Dividend Reinvestment Plan[1] | **15.6** | **372.0** | 12.2 | 282.1 |
| **Balance at end of period** | **1,294.4** | **5,719.0** | 1,278.8 | 5,347.0 |
| SHARES HELD IN TRUST | | | | |
| *Movement:* | | | | |
| Balance at start of period | **(4.1)** | **(94.8)** | (5.8) | (155.9) |
| Issue of shares under employee long-term incentive plans | **1.0** | **37.1** | 1.7 | 61.1 |
| Shares acquired by share trust | **(1.8)** | **(46.3)** | – | – |
| **Balance at end of period** | **(4.9)** | **(104.0)** | (4.1) | (94.8) |
| **Contributed equity at end of period** | **1,289.5** | **5,615.0** | 1,274.7 | 5,252.2 |

1 A net increase in the issued share capital of the Company of 15,657,755 fully paid ordinary shares (2016: 12,143,526) occurred as a result of the dividend issue on 7 October 2016 of 9,404,383 fully paid ordinary shares and the dividend issue on 7 April 2017 of 6,253,372 fully paid ordinary shares pursuant to the Dividend Reinvestment Plan (DRP).

### Share capital

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

### Share options and performance rights

Refer to Note 6.2 for further details of outstanding options and performance rights. Options and performance rights carry no rights to dividends and no voting rights.

## 4.4 Reserves

Movements in reserves and reserve balances are detailed in the following table:

| | 2017 $M | 2016 $M |
|---|---|---|
| **Hedging reserve** | | |
| Balance at start of period | **(70.5)** | (66.1) |
| Movement in the fair value of cash flow hedges | **3.8** | (2.7) |
| Deferred tax arising on cash flow hedges | **1.0** | (1.7) |
| Transfers | **0.2** | – |
| Balance at end of period | **(65.5)** | (70.5) |
| **Foreign currency translation reserve** | | |
| Balance at start of period | **146.2** | (37.2) |
| Transfer to the Consolidated Statement of Profit or Loss | **(30.7)** | – |
| Movement in translation of foreign operations taken to equity, net of tax | **23.8** | 183.4 |
| Balance at end of period | **139.3** | 146.2 |
| **Remuneration reserve** | | |
| Balance at start of period | **226.5** | 266.8 |
| Shares issued by the Woolworths Employee Share Trust | **(37.1)** | (61.1) |
| Equity settled share-based payments expense, net of tax | **51.6** | 20.8 |
| Balance at end of period | **241.0** | 226.5 |
| **Asset revaluation reserve** | | |
| Balance at start and end of period | **16.5** | 16.5 |
| **Equity instrument reserve** | | |
| Balance at start of period | **22.8** | 9.3 |
| Movement in the fair value of investments in equity securities | **2.2** | 13.5 |
| Balance at end of period | **25.0** | 22.8 |
| **General reserve** | | |
| Balance at start of period | **(247.6)** | (94.2) |
| Transactions with non-controlling interests | **–** | (153.4) |
| Disposals of investments | **5.4** | – |
| Other | **(0.3)** | – |
| Balance at end of period | **(242.5)** | (247.6) |
| **Total reserves** | **113.8** | 93.9 |

## 4.4 Reserves (continued)

### SIGNIFICANT ACCOUNTING POLICIES

The nature and purpose of each reserve account is outlined as follows:

**HEDGING RESERVE**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. The cumulative deferred gain or loss on the hedge is recognised in the Consolidated Statement of Profit or Loss when the hedged transaction impacts the profit or loss, consistent with the applicable accounting policy. Refer to Note 4.8 for details of hedging.

**FOREIGN CURRENCY TRANSLATION RESERVE (FCTR)**

FCTR comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the Group's presentation currency. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are also included in the FCTR. Refer to Note 4.8 for details of hedging.

**REMUNERATION RESERVE**

The employee remuneration reserve comprises the fair value of share-based payment plans recognised as an expense in the Consolidated Statement of Profit or Loss. Refer to Note 6.2 for details of share-based payments. Shares issued by the Woolworths Employee Share Trust are charged against the reserve.

**ASSET REVALUATION RESERVE**

The asset revaluation reserve arose on acquisition of the previously equity accounted investment in MGW Hotels Pty Ltd and relates to the change in fair value of the Group's interest in non-current assets from the date of acquisition of the initial investment to the date control was achieved.

**EQUITY INSTRUMENT RESERVE**

The equity instrument reserve arises on the revaluation of investments in equity securities. Subsequent to initial recognition, they are measured at fair value with any changes recognised in other comprehensive income. Upon disposal, the cumulative gain or loss recognised in other comprehensive income is transferred within equity. Refer to Note 3.2 for details of listed equity securities.

**GENERAL RESERVE**

The general reserve is used to record the cumulative gain or loss recognised in other comprehensive income which is transferred within equity upon disposal of listed equity securities (refer to Note 3.2). The reserve is also used to record differences which may arise as a result of transactions with non-controlling interests that do not result in loss of control.

## 4.5 Net cash provided by operating activities

### Cash and cash equivalents as presented in the Consolidated Statement of Cash Flows

| | 2017 $M | 2016 $M |
|---|---|---|
| Cash and cash equivalents (as presented in the Consolidated Statement of Financial Position) | **909.4** | 948.1 |
| Cash and cash equivalents (included within assets held for sale) | **7.3** | 7.9 |
| | **916.7** | 956.0 |

### Reconciliation of profit for the period to net cash provided by operating activities

| | 2017 $M | 2016 $M |
|---|---|---|
| **Profit/(Loss) after income tax expense** | **1,593.4** | (2,347.9) |
| *Adjustments for:* | | |
| Depreciation and amortisation | **1,060.9** | 1,075.9 |
| Put option liability | **250.8** | – |
| Impairment of non-financial assets | **14.4** | 2,118.9 |
| Share-based payments expense | **51.6** | 20.8 |
| Loss/(Profit) on disposal of business | **46.6** | (11.5) |
| Interest capitalised | **(29.9)** | (42.3) |
| Net (profit)/loss on disposal and write-off of property, plant and equipment | **(3.8)** | 17.2 |
| Dividends received | **(3.5)** | (3.2) |
| Other | **31.9** | 8.2 |
| *Changes in:* | | |
| Decrease in inventories | **367.6** | 204.1 |
| Increase/(decrease) in trade payables | **260.2** | (171.8) |
| (Decrease)/increase in provisions[1] | **(821.6)** | 1,655.9 |
| Decrease in trade and other receivables | **2.4** | 29.1 |
| Increase in sundry payables | **134.1** | 225.9 |
| Decrease/(increase) in deferred tax assets | **122.3** | (362.3) |
| Increase/(decrease) in income tax payable | **44.6** | (59.5) |
| **Net cash provided by operating activities** | **3,122.0** | 2,357.5 |

1 Includes restructuring, onerous contracts and store exit costs.

## 4.6 Borrowings

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current, unsecured** | | |
| Short-term money market loans | **170.3** | 45.6 |
| Bank loans | **83.1** | 37.4 |
| Short-term securities | **–** | 407.3 |
| Finance leases | **0.1** | 0.4 |
| | **253.5** | 490.7 |
| **Non-current, unsecured** | | |
| Bank loans | **528.5** | 853.2 |
| Long-term securities | **2,261.7** | 2,331.4 |
| Woolworths Notes II | **–** | 699.1 |
| Unamortised borrowing costs | **(15.5)** | (15.7) |
| Finance leases | **2.3** | 2.9 |
| | **2,777.0** | 3,870.9 |
| **Total** | **3,030.5** | 4,361.6 |

## 4.6 Borrowings (continued)

### Composition of borrowings

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | CARRYING VALUE (NET OF UNAMORTISED BORROWING COSTS) A$M | INSTRUMENT CURRENCY (IF NOT AUD) M | CARRYING VALUE (NET OF UNAMORTISED BORROWING COSTS) A$M | INSTRUMENT CURRENCY (IF NOT AUD) M | MATURITY |
| **Short-term money market loans** | | | | | |
| Short-term loan, on call [1] | **30.4** | **NZ$31.6** | 45.6 | NZ$47.8 | At call |
| Short-term loan, on call | **128.0** | **–** | – | – | At call |
| Short-term loan, on call [1] | **11.9** | **US$9.0** | – | – | At call |
| | **170.3** | | 45.6 | | |
| **Bank loans (current)** | | | | | |
| Committed Revolving Credit Facility [1] | **44.6** | **CNY230.7** | 34.7 | CNY168.8 | At call |
| Committed Revolving Credit Facility [1] | **38.5** | **NZ$40.0** | – | – | Nov 2017 |
| Other | **–** | **–** | 2.7 | – | At call |
| | **83.1** | | 37.4 | | |
| **Short term securities** | | | | | |
| US Senior Notes (private placement) | **–** | **–** | 407.3 | US$300.0 | Apr 2017 |
| | **–** | | 407.3 | | |
| **Bank loans (non-current)** | | | | | |
| Syndicated Bank Loan | **–** | **–** | 300.0 | – | Oct 2019 |
| Syndicated Bank Loan | **–** | **–** | 100.0 | – | Apr 2019 |
| Syndicated Bank Loan | **–** | **–** | 100.0 | – | Oct 2021 |
| Syndicated Bank Loan | **343.5** | **US$260.0** | 353.2 | US$260.0 | Oct 2021 |
| Syndicated Bank Loan | **185.0** | **US$140.0** | – | – | Nov 2020 |
| | **528.5** | | 853.2 | | |
| **Long-term securities** | | | | | |
| US Senior Notes (US 144A market) | **815.2** | **US$617.0** | 837.9 | US$617.0 | Sep 2020 |
| US Senior Notes (US 144A market) | **578.8** | **US$438.0** | 594.9 | US$438.0 | Apr 2021 |
| US Senior Notes (private placement) | **132.1** | **US$100.0** | 135.8 | US$100.0 | Apr 2020 |
| Medium Term Notes | **498.1** | **–** | 497.1 | – | – |
| European Medium Term Notes | **237.1** | **JPY20,000** | 265.3 | JPY20,000 | Nov 2020 |
| Other | **0.4** | **–** | 0.4 | – | – |
| | **2,261.7** | | 2,331.4 | | |
| **Woolworths Notes II** | | | | | |
| Woolworths Notes II | **–** | **–** | 699.1 | – | |

1 Drawn by a subsidiary outside the Woolworths Limited Deed of Cross Guarantee.

#### SIGNIFICANT ACCOUNTING POLICIES

**BORROWINGS**

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost. Any difference between cost and redemption value is recognised in the Consolidated Statement of Profit or Loss over the period of the borrowings.

## 4.7 Financing arrangements

Unrestricted access was available to the Group at the reporting date to the following unused lines of credit:

| | 2017 $M | 2016 $M |
|---|---|---|
| Bank overdrafts | **37.5** | 39.7 |
| Bank loan facilities | **4,320.2** | 3,500.1 |
| | **4,357.7** | 3,539.8 |

Bank loan facilities may be drawn at any time, subject to the terms of the lending agreements. The facilities are denominated in Australian dollars, NZ dollars, Chinese yuan and US dollars. The bank overdraft facilities may be drawn at any time.

The above facilities are subject to certain financial covenants and undertakings. No covenants have been breached during the period.

## 4.8 Financial risk management

The Group's Treasury function is responsible for managing the liquidity requirements of the Group and mitigating any financial risks relating to the operations of the Group through continuous monitoring and evaluation. These financial risks include:

- Market risk (refer to Note 4.8.1);
- Liquidity risk (refer to Note 4.8.2); and
- Credit risk (refer to Note 4.8.3).

These risks affect the fair value measurements applied by the Group, which is discussed in Note 4.8.4.

The Group adheres to a set of policies approved by the board of directors, which provide written principles on liquidity risk, foreign exchange risk, interest rate risk, credit risk and the use of derivative financial instruments for hedging purposes.
The Treasury function reports on its compliance with the policy on a monthly basis to the board of directors and such compliance is reviewed periodically by its internal auditors.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group holds various types of derivative financial instruments to hedge its exposures to variability in interest rates and foreign exchange rates.

## 4.8 Financial risk management (continued)

### SIGNIFICANT ACCOUNTING POLICIES

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into. Subsequently, at each reporting date, the gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Statement of Profit or Loss, unless they qualify for hedge accounting. The Group has cash flow hedge relationships as follows.

**CASH FLOW HEDGE**

A cash flow hedge is a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. The Group's cash flow hedges include:

- Interest rate swap contracts;
- Cross currency interest rate swaps; and
- Forward foreign exchange contracts and options.

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated in a separate cash flow hedge reserve within equity.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were accumulated in equity will be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. The ineffective part of any derivative designated as a hedge is recognised immediately in the Consolidated Statement of Profit or Loss.

When a hedging instrument expires or is sold, terminated or exercised, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss accumulated in equity is reclassified immediately into the Consolidated Statement of Profit or Loss.

Gains or losses removed from equity during the period in relation to interest rate hedge instruments are recognised within 'financing costs' in the Consolidated Statement of Profit or Loss.

### 4.8.1 Market risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates (refer to (i) below), interest rates (refer to Note 4.8.1 (ii)) and equity prices (refer to Note 4.8.1 (iii)).

#### (i) Foreign currency risk

The Group has exposure to movements in foreign currency exchange rates through:

- Term borrowings denominated in foreign currency (transaction risk);
- Anticipated purchases of inventory and equipment (transaction risk); and
- Translation of net investments in foreign subsidiaries denominated in foreign currencies (translation risk).

To hedge against the majority of the transaction risk exposure, the Group enters into forward exchange contracts and cross currency interest rate swap agreements. All foreign currency term borrowings are 100% hedged by cross currency interest rate swap agreements.

*Forward exchange contracts and foreign currency options*

It is the policy of the Group to enter into forward exchange contracts (FEC) and foreign currency options (FCO) to cover foreign currency payments and receipts of up to 100% of the exposure generated. These have been designated as cash flow hedges, hedging foreign currency risk and the Group has established a 100% hedge relationship against the identified exposure.

## 4.8 Financial risk management (continued)

### 4.8.1 Market risk continued

*Foreign exchange contracts and options*

At the reporting date, details of significant outstanding FEC and FCO stated in Australian dollar equivalents for the Group are:

| | AVERAGE EXCHANGE RATE | | FOREIGN CURRENCY | | CONTRACT VALUE | | MARK TO MARKET ASSETS | | MARK TO MARKET LIABILITIES | |
|---|---|---|---|---|---|---|---|---|---|---|
| MATURING | 2017 | 2016 | 2017 M | 2016 M | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M |
| **FEC Hedging imports:** | | | | | | | | | | |
| *Within 12 months* | | | | | | | | | | |
| Buy US dollars | **0.75** | 0.72 | **401.4** | 741.8 | **532.5** | 1,035.1 | **1.2** | 0.1 | **(2.5)** | (24.2) |
| Buy US dollars against NZ dollars | **0.72** | 0.67 | **13.8** | 58.1 | **18.6** | 83.2 | **–** | – | **(0.3)** | (3.8) |
| Buy US dollars against Chinese yuan | **7.00** | 7.30 | **4.3** | 0.9 | **5.8** | 1.3 | **–** | – | **(0.1)** | – |
| Buy Euro | **0.66** | 0.66 | **32.6** | 130.6 | **49.2** | 197.9 | **0.4** | 0.6 | **(1.4)** | (0.9) |
| Buy Euro against NZ dollars | **0.64** | 0.60 | **4.3** | 1.6 | **6.4** | 2.5 | **–** | – | **(0.1)** | (0.1) |
| Buy Euro against Chinese yuan | **7.52** | 6.54 | **0.3** | 1.4 | **0.5** | 1.9 | **–** | – | **–** | – |
| Buy/(sell) NZ dollars | **1.07** | 1.09 | **(9.5)** | 2.2 | **(8.9)** | 1.8 | **–** | 0.4 | **(0.2)** | (0.2) |
| Buy HK dollars against US dollars | **7.80** | – | **54.6** | – | **9.2** | – | **–** | – | **–** | – |
| Buy AU dollars against Chinese yuan | **5.15** | – | **0.8** | – | **0.8** | – | **–** | – | **–** | – |
| Buy British pounds | **–** | 0.46 | **–** | 2.6 | **–** | 5.6 | **–** | – | **–** | (0.8) |
| *Within one to three years* | | | | | | | | | | |
| Buy Euro | **0.65** | 0.65 | **0.1** | 6.1 | **0.2** | 9.3 | **–** | 0.1 | **–** | – |
| Buy British pounds | **0.75** | – | **7.0** | – | **9.3** | – | **–** | – | **–** | – |
| **Total** | | | | | **623.6** | 1,338.6 | **1.6** | 1.2 | **(4.6)** | (30.0) |
| **FCO Hedging imports:** | | | | | | | | | | |
| *Within 12 months* | | | | | | | | | | |
| Buy Euro | **0.68** | – | **8.0** | – | **11.8** | – | **0.1** | – | **–** | – |
| Buy US dollars | **0.74** | – | **50.0** | – | **67.6** | – | **0.5** | – | **–** | – |
| **Total** | | | | | **79.4** | – | **0.6** | – | **–** | – |

At the reporting date, the net amount of unrealised losses under forward foreign exchange contracts and options hedging anticipated purchases of inventory and equipment is $2.4 million (2016: $28.8 million unrealised losses). The hedge relationships are all assessed as highly effective with insignificant hedge ineffectiveness and the balance of $2.4 million has been recognised in the hedging reserve (2016: $28.8 million).

Foreign currency exposures arising on translation of net investments in foreign subsidiaries are predominantly unhedged.

## 4.8 Financial risk management (continued)

### 4.8.1 Market risk continued

*Cross currency swap agreements*

To hedge the risk of adverse movements in foreign exchange rates in relation to borrowings denominated in foreign currency, the Group enters into cross currency swap agreements under which it agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate.

As at the reporting date, cross currency swaps have a net unrealised gain of $381.1 million (2016: $573.7 million unrealised gain).

These cross currency swaps (combined with interest rate swaps hedging the related interest rate exposure – refer to part (ii)) are designated as cash flow hedges, in a 100% hedge relationship with the underlying debt. The unrealised gain of $61.6 million attributable to the interest rate component of the cross currency swaps has been recognised in the hedging reserve (2016: $147.7 million gain), with insignificant hedge ineffectiveness.

The following table details the cross currency swaps outstanding for the Group at the reporting date:

| | AVERAGE INTEREST RATE | | AVERAGE EXCHANGE RATE | | CONTRACT VALUE | | FAIR VALUE ASSET | | FAIR VALUE LIABILITY | |
|---|---|---|---|---|---|---|---|---|---|---|
| MATURING | 2017 % | 2016 % | 2017 | 2016 | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M |
| **Floating rates – AUD** | | | | | | | | | | |
| Within 12 months[1] | **–** | BBSW +54.6bp | **–** | 0.787 | **–** | 381.2 | **–** | 41.6 | **–** | – |
| One to two years[1] | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| Two to five years[1] | **BBSW +184.0bp** | BBSW +175.2bp | **0.892** | 0.959 | **1,744.1** | 1,204.2 | **401.3** | 509.4 | **(15.8)** | – |
| Five years +[1] | **–** | BBSW +210.3bp | **–** | 0.732 | **–** | 355.4 | **–** | 0.3 | **–** | (5.6) |
| **Floating rates – AUD/JPY** | | | | | | | | | | |
| Two to five years[1] | **BBSW +201.5bp** | BBSW +201.5bp | **87.51** | 87.51 | **228.5** | 228.5 | **11.6** | 45.2 | **(6.7)** | (6.7) |
| | | | | | **1,972.6** | 2,169.3 | **412.9** | 596.5 | **(22.5)** | (12.3) |

1 These fair value calculations include interest accruals of $9.3 million (2016: $10.5 million).

*Sensitivity*

As at the reporting date, the Group's exposure to foreign currency risk after taking into consideration hedges of foreign currency borrowings, foreign currency payables and forecast foreign currency transactions is not considered material.

#### (ii) Interest rate risk

The Group has exposure to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts.

Hedging activities are evaluated regularly with regard to board approved policy, which provides a level of cost certainty in the near term by fixing a certain level of interest rate exposure, whilst providing flexibility in the longer term by lower hedge levels. The current hedge portfolio is reflective of a previous risk management policy, which was based on a cash flow at risk approach, taking into account the sensitivity to earnings from a 1% change in interest rates.

*Interest rate swap contracts*

Interest rate swap contracts enable the Group to mitigate the risk of adverse movements in interest rates on the debt held. The following table details the floating for fixed interest rate swap contracts outstanding for the Group as at the reporting date:

| | AVERAGE CONTRACTED FIXED INTEREST RATE | | NOTIONAL PRINCIPAL AMOUNT | | FAIR VALUE ASSET | | FAIR VALUE LIABILITY | |
|---|---|---|---|---|---|---|---|---|
| MATURING | 2017 % | 2016 % | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M | 2017 A$M | 2016 A$M |
| Less than one year[1] | **–** | 4.90 | **–** | 1,081.2 | **–** | – | **–** | (23.3) |
| One to two years[1] | **–** | – | **–** | – | **–** | – | **–** | – |
| Two to five years[1] | **5.24** | 5.24 | **1,431.9** | 1,431.9 | **–** | – | **(157.5)** | (202.6) |
| Five years +[1] | **–** | – | **–** | – | **–** | – | **–** | – |
| | | | **1,431.9** | 2,513.1 | **–** | – | **(157.5)** | (225.9) |

1 These fair value calculations include interest accruals as recorded in trade and other payables of $4.9 million (2016: $8.4 million).

## 4.8 Financial risk management (continued)

### 4.8.1 Market risk continued

As at the reporting date, interest rate swaps have an unrealised loss of $157.5 million (2016: $225.9 million unrealised loss). These fair value calculations include interest accruals as recorded in trade and other payables of $4.9 million (2016: $8.4 million). All interest rate swaps have been designated as cash flow hedges based on a 100% hedge relationship against the identified exposure, with insignificant hedge ineffectiveness and the balance of $152.6 million has been recognised in the hedging reserve (2016: $217.5 million).

*Sensitivity analysis*
As at the reporting date, the Group's exposure to interest rate risk after excluding debts that have been hedged is not considered material.

*Cash Flow Hedge Reserve*
The table below details the movements in the cash flow hedge reserve during the year:

| | 2017 $M | 2016 $M |
|---|---|---|
| **Balance at beginning of year** | **(70.5)** | (66.1) |
| *Gain/(loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:* | | |
| Cross currency | **(86.0)** | 25.3 |
| Interest rate swaps | **64.9** | 18.6 |
| Forward currency contracts | **(3.7)** | (28.8) |
| Income tax related to gains/losses recognised in other comprehensive income | **9.6** | (7.1) |
| | **(15.2)** | 8.0 |
| *Transferred to initial carrying amount of hedged item:* | | |
| Forward currency contracts | **28.8** | (17.8) |
| Income tax related to amounts transferred to initial carrying amount of hedged item | **(8.6)** | 5.4 |
| | **20.2** | (12.4) |
| **Balance at end of year** | **(65.5)** | (70.5) |

# Notes to the Consolidated Financial Statements

## 4.8 Financial risk management (continued)

### 4.8.1 Market risk continued

*Maturity profile of financial instruments*

The following tables detail the Group's exposure to interest rate risk at 25 June 2017 and 26 June 2016:

| | | FIXED INTEREST MATURING IN: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2017** | FLOATING INTEREST RATE $M | 1 YEAR OR LESS $M | 1 TO 2 YEARS $M | 2 TO 5 YEARS $M | OVER 5 YEARS $M | NON-INTEREST BEARING $M | TOTAL $M | AVERAGE EFFECTIVE INTEREST RATE % |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | 553.6 | – | – | – | – | 363.1 | 916.7 | 1.17 |
| Trade and other receivables [1] | – | 95.0 | 0.7 | 3.4 | 5.8 | 376.2 | 481.1 | 5.11 |
| Other financial assets | – | – | – | – | – | 523.0 | 523.0 | – |
| | 553.6 | 95.0 | 0.7 | 3.4 | 5.8 | 1,262.3 | 1,920.8 | – |
| **Financial liabilities** | | | | | | | | |
| Trade and other payables [2,3] | – | – | – | – | – | (6,486.9) | (6,486.9) | – |
| Provisions | – | – | – | – | – | (2,481.5) | (2,481.5) | – |
| Borrowings | (766.6) | – | (500.4) | (1,763.1) | – | (0.4) | (3,030.5) | 6.01 |
| Other financial liabilities | (0.8) | – | – | 0.8 | – | (429.5) | (429.5) | – |
| | (767.4) | – | (500.4) | (1,762.3) | - | (9,398.3) | (12,428.4) | – |
| **Net financial assets/(liabilities)** | (213.8) | 95.0 | (499.7) | (1,758.9) | 5.8 | (8,136.0) | (10,507.6) | – |

1 Excludes prepayments.
2 Offset against the accounts payable balance are amounts owing from vendors of $ 1,069.3 million. Gross accounts payable prior to offsetting this balance is $6,137.5 million.
3 Excludes unearned income.

| | | FIXED INTEREST MATURING IN: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2016** | FLOATING INTEREST RATE $M | 1 YEAR OR LESS $M | 1 TO 2 YEARS $M | 2 TO 5 YEARS $M | OVER 5 YEARS $M | NON-INTEREST BEARING $M | TOTAL $M | AVERAGE EFFECTIVE INTEREST RATE % |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | 595.1 | – | – | – | – | 360.9 | 956.0 | 1.44 |
| Trade and other receivables | – | 1.2 | 0.7 | 2.1 | 7.2 | 503.0 | 514.2 | 6.04 |
| Other financial assets | – | – | – | – | – | 694.2 | 694.2 | – |
| | 595.1 | 1.2 | 0.7 | 2.1 | 7.2 | 1,558.1 | 2,164.4 | – |
| **Financial liabilities** | | | | | | | | |
| Trade and other payables [1] | – | – | – | – | – | (6,087.8) | (6,087.8) | – |
| Provisions | – | – | – | – | – | (3,255.9) | (3,255.9) | – |
| Borrowings | (1,619.4) | (407.8) | (500.0) | (1,834.0) | – | (0.4) | (4,361.6) | 6.26 |
| Other financial liabilities | 343.7 | (710.8) | (30.9) | 0.8 | 355.4 | (258.3) | (300.1) | – |
| | (1,275.7) | (1,118.6) | (530.9) | (1,833.2) | 355.4 | (9,602.4) | (14,005.4) | – |
| **Net financial assets/(liabilities)** | (680.6) | (1,117.4) | (530.2) | (1,831.1) | 362.6 | (8,044.3) | (11,841.0) | – |

1 Offset against the accounts payable balance are amounts owing from vendors of $1,009.6 million. Gross accounts payable prior to offsetting this balance is $5,818.7 million.

### (iii) Equity price risk

The Group is exposed to changes in the market price of certain equity investments, being the interests held in the ALE Group and SCA Property Group. Subsequent to initial recognition they are measured at fair value with any change recognised in other comprehensive income.

As at the reporting date, the Group's exposure to equity price risk in respect of its investments in the ALE Group and SCA Property Group is not considered material and as such, no hedging of this risk is undertaken.

## 4.8 Financial risk management (continued)

### 4.8.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. This risk arises through the possibility that sales may be reduced due to adverse factors, unusually large amounts may fall due for payment, or existing maturing debt is unable to be refinanced.

The Group has established an appropriate liquidity risk management framework for short, medium and long-term funding requirements, which has been approved by the board of directors.

The Group maintains a liquidity reserve in the form of undrawn bilateral standby facilities of at least $500 million with unexpired tenures of at least 12 months at all times. To minimise refinancing and re-pricing risk, there are limitations placed upon amounts which may expire in a 12-month period and amounts which may be from a single funding source. Additionally, financing facilities are refinanced at least 6 months prior to maturity. Included in Note 4.7 is a summary of undrawn facilities that the Group has at its disposal to draw upon if required.

The following table details the Group's undiscounted financial liabilities and their contractual maturities:

| | MATURITY ANALYSIS OF FINANCIAL LIABILITIES | | | | |
|---|---|---|---|---|---|
| **2017** | 1 YEAR OR LESS $M | 1 TO 2 YEARS $M | 2 TO 5 YEARS $M | OVER 5 YEARS $M | TOTAL $M |
| **Non-derivative liabilities** | | | | | |
| Borrowings | (367.0) | (615.4) | (2,116.5) | (0.4) | (3,099.3) |
| Other financial liabilities | (250.8) | – | – | – | (250.8) |
| Trade and other payables [1] | (6,486.9) | – | – | – | (6,486.9) |
| | (7,104.7) | (615.4) | (2,116.5) | (0.4) | (9,837.0) |
| **Derivative liabilities** | | | | | |
| Foreign exchange contracts pay | (614.0) | (9.5) | – | – | (623.5) |
| Foreign exchange contracts receive | 610.1 | 9.5 | – | – | 619.6 |
| Net foreign exchange contracts | (3.9) | – | – | – | (3.9) |
| Cross currency swaps pay floating | (70.8) | (70.7) | (2,090.7) | – | (2,232.2) |
| Cross currency swaps receive fixed/floating | 83.2 | 83.2 | 2,116.4 | – | 2,282.8 |
| Net receive cross currency swaps | 12.4 | 12.5 | 25.7 | – | 50.6 |
| Net pay interest rate swaps [2] | (50.4) | (50.6) | (75.9) | – | (176.9) |
| | (41.9) | (38.1) | (50.2) | – | (130.2) |
| **Total financial liabilities** | (7,146.6) | (653.5) | (2,166.7) | (0.4) | (9,967.2) |

1 Includes liabilities held for sale (refer to Note 5.2).
2 Interest rate swaps are net settled.

## 4.8 Financial risk management (continued)

### 4.8.2 Liquidity risk continued

| 2016 | MATURITY ANALYSIS OF FINANCIAL LIABILITIES 1 YEAR OR LESS $M | 1 TO 2 YEARS $M | 2 TO 5 YEARS $M | OVER 5 YEARS $M | TOTAL $M |
|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | |
| Borrowings [1] | (1,109.6) | (147.9) | (2,282.9) | (1,626.3) | (5,166.7) |
| Other financial liabilities | (11.0) | (30.8) | – | – | (41.8) |
| Trade and other payables [2] | (6,087.8) | – | – | – | (6,087.8) |
| | (7,208.4) | (178.7) | (2,282.9) | (1,626.3) | (11,296.3) |
| **Derivative liabilities** | | | | | |
| Foreign exchange contracts pay | (1,345.2) | (9.1) | (0.2) | – | (1,354.5) |
| Foreign exchange contracts receive | 1,310.6 | 8.9 | 0.2 | – | 1,319.7 |
| Net foreign exchange contracts | (34.6) | (0.2) | – | – | (34.8) |
| Cross currency swaps pay floating | (461.4) | (69.1) | (1,611.9) | (361.9) | (2,504.3) |
| Cross currency swaps receive fixed | 480.6 | 78.4 | 1,642.5 | 359.1 | 2,560.6 |
| Net receive cross currency swaps | 19.2 | 9.3 | 30.6 | (2.8) | 56.3 |
| Net pay interest rate swaps [3] | (68.1) | (46.2) | (116.2) | – | (230.5) |
| | (83.5) | (37.1) | (85.6) | (2.8) | (209.0) |
| **Total financial liabilities** | (7,291.9) | (215.8) | (2,368.5) | (1,629.1) | (11,505.3) |

1 Borrowings with a maturity of one year or less includes $500 million of syndicated borrowings which are expected to be repaid in advance of the contractual maturity (refer to Note 4.6).
2 Includes liabilities held for sale (refer to Note 5.2).
3 Interest rate swaps are net settled.

For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last re-pricing date. Cash flows represented are contractual and calculated on an undiscounted basis, based on current rates at the reporting date.

### 4.8.3 Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

In line with board approved policy, the Group can only invest short-term surplus funds or execute derivative financial instruments with approved counterparty banks and financial institutions that are rated A or higher by Standard & Poor's. This is to mitigate the risk of financial loss due to a default by the counterparty.

Each counterparty is assigned a maximum exposure value, based on their credit rating, to limit concentration of credit risk. The Group's exposure to counterparties and their credit ratings is continuously monitored and compared against the board approved counterparty credit limits. The Group measures credit risk using methodologies customarily used by financial institutions. There were no breaches of credit limits during the reporting period.

The recognised financial assets of the Group include amounts receivable arising from unrealised gains on derivative financial instruments. For derivatives which are deliverable, credit risk may also arise from the potential failure of the counterparties to meet their obligations under the respective contracts at maturity.

As at the reporting date, no material credit risk exposure existed in relation to potential counterparty failure on such financial instruments (2016: Nil). Other than amounts provided for impairment of receivables in Note 3.1, no financial assets were impaired or past due.

## 4.8 Financial risk management (continued)

### 4.8.4 Fair value measurement of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined. They are grouped into levels 1 to 3 based on the degree to which the fair value measurement inputs are observable.

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| FINANCIAL ASSETS/ FINANCIAL LIABILITIES | NOTE | FAIR VALUE AS AT 2017 $M | FAIR VALUE AS AT 2016 $M | FAIR VALUE HIERARCHY | VALUATION TECHNIQUE(S) AND KEY INPUT(S) | SIGNIFICANT UNOBSERVABLE INPUT(S) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|---|---|
| Listed equity securities | 3.2 | **Assets 79.8** | Assets 77.3 | Level 1 | Quoted last sale prices in an active market. | n/a | n/a |
| Forward exchange contracts and foreign currency options | 4.8.1<br>4.8.1 | **Assets 2.2**<br>**Liabilities 4.6** | Assets 1.2<br>Liabilities 30.0 | Level 2 | Discounted cash flow – Future cash flows are estimated based on market forward exchange rates as at the end of the reporting period and the contract forward rate, discounted by the observable yield curves of the respective currency. Options were valued using the Black Scholes model. | n/a | n/a |
| Interest rate and cross currency swaps | 4.8.1<br>4.8.1 | **Assets 412.9**<br>**Liabilities 180.0** | Assets 584.5<br>Liabilities 228.3 | Level 2 | Discounted cash flow – Future cash flows are estimated based on market forward rates[1] as at the end of the reporting period and the contract rates, discounted at a rate that reflects the credit risk of the various respective counterparties. | n/a | n/a |
| Put options over non-controlling interests | 3.8 | **Liabilities 250.8** | Liabilities – | Level 2 | Contractual obligation paid post balance date – Refer to Note 3.8 for further details. | n/a | n/a |
| Contingent consideration payable | | **Liabilities –** | Liabilities 21.8 | Level 3 | Discounted cash flow – Future cash flows are estimated based on the adjusted cash flows of the acquired business. | Probability-adjusted cash flows of the acquired business | The higher the probability-adjusted cash flows, the higher the contingent consideration payable. |
| | | | | | | Discount rate | The higher the discount rate, the lower the contingent consideration payable. |

1 Refers to interest rates for interest rate swaps and foreign exchange rates and interest rates for cross currency swaps.

There were no transfers between Level 1 and Level 2 in the period.

## 4.8 Financial risk management (continued)

### 4.8.4 Fair value measurement of financial instruments continued

Reconciliation of Level 3 fair value measurements

| | 2017 $M | 2016 $M |
|---|---|---|
| *Movement:* | | |
| Balance at start of period | **(21.8)** | (918.6) |
| Release of contingent consideration | **20.7** | – |
| Change in fair value of put options over non-controlling interests | **–** | 886.1 |
| Acquisition of non-controlling interest | **–** | 12.1 |
| Foreign exchange gain/(losses) recognised in other comprehensive income | **1.1** | (1.4) |
| **Balance at end of period** | **–** | (21.8) |

#### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The carrying value of cash and cash equivalents, financial assets, bank and other loans and non-interest bearing monetary financial liabilities of the Group approximates their fair value.

### 4.8.5 Capital management

The Company manages its capital structure with the objective of enhancing long-term shareholder value through optimising its weighted average cost of capital while retaining financial flexibility to invest in its business in a manner consistent with its key priorities. The Company remains committed to a solid investment grade credit rating and a number of actions can be undertaken to support the credit profile including the sale of non-core assets, accelerating working capital initiatives and adjusting its growth capital expenditure and property leasing profile.

In April 2016, the Company introduced a 1.5% discount on the dividend reinvestment plan (DRP) and removed the participation limit. This has continued during 2017 and the participation rate for the October 2016 final and April 2017 interim DRP's were approximately 37%. The October 2016 DRP was partially underwritten to 50%, the proceeds of which were used predominantly to replace the Woolworths Notes II and the balance to allow for accelerated investment in its store renewal program.
The discount and uncapped participation will remain in place for the October 2017 final dividend.

The Company will seek to return capital to shareholders when that is consistent with its long-term capital structure objectives and where it will enhance shareholder value.

#### (i) Financing transactions during 2017

*Maturities*
The five-year non-call period for the A$700 million Woolworths Notes II ended on 24 November 2016. Pursuant to a replacement capital covenant, the Notes were refinanced by a combination of surplus cash, debt and equity. Eligible equity assigned to the redemption was raised via the DRP during the interim and final 2016 dividends.

US$300 million (approximately A$381 million) in US notes matured in April 2017. This was repaid with existing bank facilities previously established for this purpose.

*New transactions*
In November 2016, Woolworths Group executed an A$700 million syndicated bank loan facility comprising a three-year and four-year revolving tranche of A$320 million and A$200 million respectively, and a four-year term loan tranche of US$140 million.

#### (ii) Upcoming refinancing

The Company has no debt maturing during 2018.

#### (iii) Guarantee facility

In May 2017, the Company pre-financed its A$400 million bank guarantee facility which matures in November 2017 and increased it to A$500 million. This facility is for the purpose of the Group meeting its WorkCover obligations as a 'self-insurer' by issuing bank guarantees in favour of Australian WorkCover authorities and is underpinned by the international surety market. The original facility was finalised in 2014 for a three-year commitment to November 2017 and is currently fully drawn. The new facility may be drawn at any time up to November 2017, and will expire in three years following initial drawing. It is currently undrawn.

## 4.9 Commitments for expenditure and operating lease expense

### 4.9.1 Commitments for expenditure

Capital expenditure and operating lease commitments of the Group at the reporting date are as follows:

| | 2017 $M | 2016 $M |
|---|---|---|
| **Capital expenditure commitments** | | |
| *Estimated capital expenditure under firm contracts, payable:* | | |
| Not later than one year | **360.7** | 497.4 |
| Later than one year, not later than two years | **6.6** | 43.1 |
| Later than two years, not later than five years | **0.1** | 7.1 |
| | **367.4** | 547.6 |
| **Operating lease commitments** | | |
| *Future minimum rentals under non-cancellable operating leases, payable:* | | |
| Not later than one year | **2,090.7** | 2,073.1 |
| Later than one year, not later than five years | **7,678.7** | 7,468.0 |
| Later than five years | **14,669.4** | 15,188.5 |
| | **24,438.8** | 24,729.6 |
| **Total commitments for expenditure** | **24,806.2** | 25,277.2 |

Operating lease commitments for onerous lease contracts recognised in the Consolidated Statement of Financial Position (refer to Note 3.9) are also disclosed in the table above.

The commitments set out above do not include contingent turnover rentals, which are charged on many retail premises leased by the Group. These rentals are calculated as a percentage of the turnover of the store occupying the premises, with the percentage and turnover threshold at which the additional rentals commence varying with each lease agreement.

The Group leases retail premises and warehousing facilities which are generally for periods up to 40 years. The operating lease commitments include leases for the Norwest office and distribution centres. Generally the lease agreements are for initial terms of between five and 25 years and most include multiple renewal options for additional five to 10 year terms. Under most leases, the Group is responsible for property taxes, insurance, maintenance and expenses related to the leased properties. However, many of the more recent lease agreements have been negotiated on a gross or semi-gross basis, which eliminates or significantly reduces the lessee's exposure to operational charges associated with the properties.

### 4.9.2 Operating lease expense from continuing operations

Operating lease expense recognised in the year is as follows:

| | 2017 $M | 2016 $M |
|---|---|---|
| Minimum lease payments | **2,006.1** | 1,935.5 |
| Contingent rentals | **28.2** | 28.4 |
| | **2,034.3** | 1,963.9 |

#### SIGNIFICANT ACCOUNTING POLICIES

**LEASES**
Leases are classified as finance leases where the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Fixed rate increases to lease rental payments, excluding contingent or index-based rental increases, are recognised on a straight-line basis over the lease term. An asset or liability arises for the difference between the amount paid and the lease expense brought to account on a straight-line basis.

Operating lease incentives received are initially recognised as a liability and are then recognised as part of the lease expense on a straight-line basis over the lease term.

# 5 GROUP STRUCTURE

## 5.1 Discontinued operations

### Home Improvement

On 18 January 2016, the Company announced that it intended to pursue an orderly prospective exit of the Home Improvement business. Consequently, the Home Improvement business has been classified as a discontinued operation. During the period, the following events have occurred:

- On 24 August 2016, Masters Home Improvement Australia Pty Limited (Masters) appointed GA Australia Pty Ltd (GA Australia) as exclusive agent to manage the sell-down of Masters inventory. Under the terms of the appointment, GA Australia provided a guarantee for the recovery of a guaranteed percentage of the cost value of Masters inventory, subject to certain adjustments. The net proceeds received were approximately $492 million. All Masters stores ceased trading on or before 11 December 2016;
- On 24 August 2016, the Company granted an exclusive call option over its 66.7% shareholding in Hydrox Holdings Pty Ltd (Hydrox) to Home Investment Consortium Company Pty Ltd as trustee for the Home Investment Consortium Trust (Home Consortium). Additionally, Home Consortium proposed to purchase Masters properties through the acquisition of 100% of the shares in Hydrox, subject to Lowe's consent. Subsequent to year end, a Share Sale Agreement (SSA) was entered into for a headline sale price of $525 million subject to the sale of Lowe's shares. The SSA includes a number of freehold trading sites, freehold development sites and leasehold sites. The remaining sites will be acquired by Woolworths prior to completion of the transaction. Refer to Note 6.5 for further details; and
- On 2 October 2016, Hydrox Brands Pty Ltd completed the sale of 100% of the shares in Danks Holdings Pty Limited, the holding company for the Home Timber and Hardware Group (HTH) to Metcash for a headline sale price of $165 million (subject to completion adjustments in accordance with the sale agreement). The sale also resulted in the Group taking assignment of three residual leases of HTH.

The final outcome of the sale of HTH to Metcash and Masters inventory to GA Australia did not have a material impact on the results of the Group for the period.

In addition, on 24 August 2016, the Company purported to terminate the Joint Venture Agreement (JVA) with Lowe's and Hydrox, and the associated option contracts arising under the JVA. As a result, in the Half-Year Financial Report, Lowe's non-controlling 33.3% interest in Hydrox was reinstated as of 24 August 2016. In the Half-Year Financial Report, Lowe's was attributed its 33.3% share of the profit and losses of Hydrox from 24 August 2016 to balance date.

Lowe's challenged the Company's termination of the JVA, and on 21 April 2017, an award was made in the confidential arbitration between the Company and Lowe's. As a consequence of the award, the JVA was determined to remain in place, and therefore from 16 January 2016 Lowe's was no longer entitled to any profits or responsible for any losses of Hydrox. As a result there is no non-controlling interest associated with Lowe's shares and the fair value of the put option in Hydrox as at the end of the reporting period is $250.8 million (refer to Note 3.8 for further details). Subsequent to balance date, on 4 August 2017 Lowe's shares were acquired for the $250.8 million. Refer to Note 6.5 for further information.

The recoverable amount of assets, including a deferred tax asset relating to future deductions expected to be obtained from payments made for provisions for onerous leases and other exit costs, and recognition and measurement of liabilities of the Home Improvement business were re-assessed as at the end of the year end reporting period. The re-assessment for properties included in the Home Consortium transaction reflects the financial impact of that transaction on the basis that the sale of Lowe's shares is the last substantive condition precedent for completion of the SSA. The re-assessment for properties and provisions excluded from the Home Consortium transaction is based on management's best estimate of the expected net proceeds to be realised or payments to be incurred.

The estimates and judgements applied with respect to the recognition of impairment of the Home Improvement assets and associated provisions involve complexity. Any changes to carrying values in future periods due to revisions to estimates or assumptions as a result of the final realisation of the Home Improvement assets and liabilities upon exit of the business will be recognised in the Group's profit or loss as part of discontinued operations up to the sale of Hydrox and continuing operations subsequent to the sale.

## 5.1 Discontinued operations (continued)

### Petrol

On 24 December 2016, the Company entered into a binding agreement to sell its 527 Woolworths-owned fuel convenience sites and 16 committed development sites to BP for $1.785 billion. Consequently, the Petrol business has been classified as a discontinued operation. The transaction is subject to certain conditions including, but not limited to, obtaining Australian Competition and Consumer Commission (ACCC) approval. Completion is expected to occur no earlier than 2 January 2018.

### Analysis of profit/(loss) for the period from discontinued operations

The results of the Home Improvement and Petrol businesses have been separately disclosed and the comparative financial information in the Consolidated Statement of Profit or Loss and associated Notes and Consolidated Statement of Other Comprehensive Income have been restated to present these businesses as discontinued operations separately from continuing operations.

The profit/(loss) for the Home Improvement and Petrol businesses for the reporting period are set out below, including comparative information:

| HOME IMPROVEMENT | 2017 $M | 2016 $M |
|---|---|---|
| Revenue from the sale of goods | **903.3** | 2,100.2 |
| Expenses | **(1,066.1)** | (2,319.0) |
| Impairment of Home Improvement assets and store exit costs [1] | **572.6** | (3,055.1) |
| Put option liability | **(250.8)** | – |
| **Earnings/(Loss) before interest and income tax** | **159.0** | (3,273.9) |
| Net financing costs | **(18.2)** | (19.2) |
| **Profit/(Loss) before income tax** | **140.8** | (3,293.1) |
| Income tax (expense)/benefit | **(139.9)** | 105.1 |
| **Profit/(Loss) for the period from Home Improvement discontinued operations** | **0.9** | (3,188.0) |
| PETROL | | |
| Revenue from the sale of goods | **4,682.1** | 4,611.8 |
| Expenses | **(4,524.2)** | (4,501.5) |
| **Earnings before interest and income tax** [2, 3] | **157.9** | 110.3 |
| Net financing costs | **–** | – |
| **Profit before income tax** | **157.9** | 110.3 |
| Income tax expense | **(47.4)** | (33.1) |
| **Profit for the period from Petrol discontinued operations** | **110.5** | 77.2 |
| | | |
| **Total profit/(loss) for the period from discontinued operations** | **111.4** | (3,110.8) |
| | | |
| **Total profit/(loss) from discontinued operations attributable to:** | | |
| Equity holders of the parent entity | **111.4** | (1,961.1) |
| Non-controlling interests [4] | **–** | (1,149.7) |
| | **111.4** | (3,110.8) |

1 2017 relates to the reassessment of the impairment in the recoverable amount of assets and liabilities that was previously recognised as a significant item in 2016 in connection with the Group's decision to exit the Home Improvement business. The reassessment was predominately a result of the reflection of the financial impact of the transaction with Home Consortium on the basis that the sale of Lowe's shares enables completion of the SSA with Home Consortium.

2 Included in the Petrol EBIT for the reporting period ended 25 June 2017 are overhead and other costs of $18 million to $24 million that will remain with the Company following the completion of the transaction. A portion of these costs will be recovered in the short term following the sale as a result of a Transition Services Arrangement. The Company plans to minimise the impact of these costs going forward.

3 Included in the Petrol EBIT for the reporting period ended 25 June 2017 is the cost of funding the full 4cpl fuel discount offer of $68.6 million (2016: $71.5 million). Upon sale completion, the Company and BP will equally fund the 4cpl fuel discount offer based on redemption volumes.

4 As part of the terms of the Joint Venture Agreement between the Company, Lowe's and Hydrox, Lowe's held a put option, which became exercisable after 20 October 2015. On 16 January 2016, Lowe's issued a notice setting an exercise date for the option triggering a 13-month notice period after which the option could have been exercised. From this date, in line with the arbitration award on 21 April 2017, Lowe's was no longer entitled to any profits or responsible for any losses of Hydrox. Subsequent to balance date, on 4 August 2017 Lowe's sold its shares to Home Consortium for the value determined by the third party independent expert. Refer to Note 6.5 Subsequent Events for further information.

1 PERFORMANCE HIGHLIGHTS
2 BUSINESS REVIEW
3 DIRECTORS' REPORT
4 FINANCIAL REPORT
5 OTHER INFORMATION

## 5.1 Discontinued operations (continued)

### Cash flows from/(used in) discontinued operations

The results of cash flows from/(used in) the Home Improvement and Petrol businesses during the period are set out below, including comparative information:

| HOME IMPROVEMENT | 2017 $M | 2016 $M |
|---|---|---|
| Net cash outflow from operating activities | **(122.7)** | (364.5) |
| Net cash inflow/(outflow) from investing activities | **149.2** | (98.1) |
| Net cash (outflow)/inflow from financing activities | **(4.2)** | 172.1 |
| | **22.3** | (290.5) |
| **PETROL** | | |
| Net cash inflow from operating activities | **115.0** | 118.0 |
| Net cash outflow from investing activities | **(31.4)** | (61.5) |
| Net cash inflow/(outflow) from financing activities | **–** | – |
| | **83.6** | 56.5 |

**SIGNIFICANT ACCOUNTING POLICIES**

**DISCONTINUED OPERATIONS**
A discontinued operation is a component of the Group that represents a separate major line of business that is part of a disposal plan. The results of discontinued operations are presented separately in the Consolidated Statement of Profit or Loss.

**CRITICAL ACCOUNTING ESTIMATES**

The estimates and judgements of impairment of Home Improvement assets and associated costs, that involve a high degree of complexity and have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent periods, are described above. Any changes to carrying values in subsequent periods due to revisions to estimates or assumptions or as a result of the final realisation of the Home Improvement assets and liabilities upon exit of the business will be recognised in the Group's profit or loss as part of discontinued operations up to the sale of the Home Improvement business and continuing operations subsequent to the sale.

## 5.2 Assets held for sale

Following the announcement of the exit from the Home Improvement business (refer to Note 5.1), management is finalising the exit from the Home Improvement business. Management has also entered into a binding agreement to sell its 527 Woolworths-owned fuel convenience sites and 16 committed development sites to BP (refer to Note 5.1). In addition, the Group has a number of property assets that it plans to sell.

The sale of Home Timber and Hardware Group was completed during the period (refer to Note 5.1). The associated assets and liabilities were previously classified as held for sale at 26 June 2016.

Assets and liabilities relating to the Petrol business, property, plant and equipment relating to Masters and other Group properties held for sale are included in the following table:

| | 2017 $M | 2016 $M |
|---|---|---|
| Property, plant and equipment | **1,111.0** | 769.5 |
| Other assets | **132.6** | 331.0 |
| **Total assets classified as held for sale** | **1,243.6** | 1,100.5 |

| | 2017 $M | 2016 $M |
|---|---|---|
| **Total liabilities directly associated with assets held for sale** | **20.7** | 202.6 |

### SIGNIFICANT ACCOUNTING POLICIES

**NON-CURRENT ASSETS HELD FOR SALE**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities classified as held for sale continue to be recognised.

## 5.3 Subsidiaries

### 5.3.1 Deed of cross guarantee

Woolworths Limited and each of the wholly-owned subsidiaries set out below (together referred to as the 'Closed Group'), have entered into a Deed of Cross Guarantee (Deed), as defined in ASIC Corporations Legislative Instrument (Instrument) 2016/785. The effect of the Deed is that each entity in the Closed Group guarantees the payment in full of all debts of the other entities in the Closed Group in the event of their winding up.

Pursuant to the Instrument, the wholly-owned subsidiaries within the Closed Group are relieved from the requirement to prepare, audit and lodge separate financial reports.

| COMPANY | |
|---|---|
| ACN 001 259 301 Pty Limited | Pinnacle Liquor Group Pty Limited |
| Advantage Supermarkets Pty Ltd | Pinnacle Wines Pty Limited |
| Advantage Supermarkets WA Pty Ltd | Progressive Enterprises Holdings Limited |
| Andmist Pty. Limited | QFD Pty. Limited |
| Australian Independent Retailers Pty Ltd | Queensland Property Investments Pty Ltd |
| Australian Liquor & Grocery Wholesalers Pty Ltd | Retail FM Pty Ltd |
| Australian Safeway Stores Pty. Ltd. | Universal Wholesalers Pty Limited |
| Barjok Pty Ltd | V I Packaging Pty Ltd |
| Calvartan Pty. Limited | Vincentia Nominees Pty Ltd |
| Cellar Force Pty Ltd | Vinpac International Pty. Limited |
| Cellarmaster Wines Pty Limited | Weetah Pty. Limited |
| Cenijade Pty. Limited | Wine Ark Cellar Club Pty Ltd |
| Charmtex Pty Ltd | Wine IQ Holdings Pty Ltd |
| Dentra Pty. Limited | Winemarket Pty Ltd |
| Dorrien Estate Winery Pty Ltd | Woolies Liquor Stores Pty. Ltd. |
| Drumstar Pty Ltd | Woolstar Pty. Limited |
| Fabcot Pty Ltd | Woolworths (International) Pty Limited |
| Gembond Pty. Limited | Woolworths (Project Finance) Pty. Limited |
| GreenGrocer.com.au Pty Ltd | Woolworths (Publishing) Pty Ltd |
| Grocery Wholesalers Pty Ltd | Woolworths (Q'land) Pty Limited |
| Hydrogen Nominees Pty. Ltd | Woolworths (R & D) Pty Limited |
| Jack Butler & Staff Pty. Ltd. | Woolworths (South Australia) Pty Limited |
| Josona Pty Ltd | Woolworths (Victoria) Pty Limited |
| Kennedy Corporation Holdings Pty Limited | Woolworths (W.A.) Pty Limited |
| Kennedy Corporation Pty Limited | Woolworths Australian Communities Foundation Pty Limited |
| Kiaora Lands Pty Limited | Woolworths Custodian Pty Ltd |
| Langton's Brokerage Pty Ltd | Woolworths Executive Superannuation Scheme Pty Limited |
| Langtons Pty. Ltd. | Woolworths Group Superannuation Scheme Pty Ltd |
| Leasehold Investments Pty Ltd | Woolworths Management Pty Ltd |
| Mac's Liquor Stores Pty Limited | Woolworths Properties Pty Limited |
| Nalos Pty Ltd | Woolworths Property Double Bay Pty Limited |
| Nexday Pty. Limited | Woolworths Townsville Nominee Pty Ltd |
| Oxygen Nominees Pty. Ltd. | Woolworths Trust Management Pty Limited |
| PEH (NZ IP) Pty Ltd | Woolworths Trustee No. 2 Pty Limited |
| Philip Leong Stores Pty Limited | Zimi Wines Pty Ltd |

Woolworths Limited has further subsidiaries not listed above which are not party to the Deed of Cross Guarantee. All material subsidiaries with the exception of those disclosed in Note 5.3.2 (non-wholly owned subsidiaries that have material non-controlling interests) are listed above.

## 5.3 Subsidiaries (continued)

### 5.3.1 Deed of cross guarantee continued

A Statement of Profit or Loss and retained earnings, and statement of financial position for the entities which are party to the Deed at the reporting date are as follows:

Statement of Profit or Loss and retained earnings

| | 2017 $M | 2016 $M |
|---|---|---|
| Revenue from the sale of goods and services | **49,554.3** | 47,939.9 |
| Other operating revenue | **188.7** | 180.0 |
| **Total revenue** | **49,743.0** | 48,119.9 |
| Cost of sales | **(36,830.7)** | (35,902.6) |
| **Gross profit** | **12,912.3** | 12,217.3 |
| Other revenue | **173.5** | 207.4 |
| Branch expenses | **(8,671.9)** | (8,608.5) |
| Administration expenses | **(2,541.4)** | (5,513.3) |
| **Earnings/(Loss) before interest and tax** | **1,872.5** | (1,697.1) |
| Financing income | **92.3** | 292.7 |
| **Profit/(Loss) before income tax** | **1,964.8** | (1,404.4) |
| Income tax expense | **(655.1)** | (128.9) |
| **Profit/(Loss) for the period** | **1,309.7** | (1,533.3) |
| **Retained earnings** | | |
| Balance at start of period | **1,892.9** | 4,897.0 |
| Profit/(Loss) attributable to members | **1,309.7** | (1,533.3) |
| Dividends paid (refer to Note 4.2) | **(859.6)** | (1,471.2) |
| Dividends paid on Treasury shares | **2.2** | 4.3 |
| Actuarial gains/(losses) on defined benefit superannuation plans | **3.2** | (5.6) |
| Tax effect of actuarial (gains)/losses | **(1.0)** | 1.7 |
| **Balance at end of period** | **2,347.4** | 1,892.9 |

1 PERFORMANCE HIGHLIGHTS
2 BUSINESS REVIEW
3 DIRECTORS' REPORT
4 FINANCIAL REPORT
5 OTHER INFORMATION

## 5.3 Subsidiaries (continued)

### 5.3.1 Deed of cross guarantee continued

Statement of Financial Position

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **595.1** | 703.8 |
| Trade and other receivables | **1,337.4** | 1,460.1 |
| Inventories | **3,386.0** | 3,423.5 |
| Current tax assets | **–** | 13.8 |
| Other financial assets | **16.1** | 56.0 |
| | **5,334.6** | 5,657.2 |
| Assets held for sale | **646.2** | 169.1 |
| **Total current assets** | **5,980.8** | 5,826.3 |
| **Non-current assets** | | |
| Trade and other receivables | **2,837.6** | 3,040.2 |
| Other financial assets | **2,627.9** | 2,806.0 |
| Property, plant and equipment | **6,363.0** | 6,240.7 |
| Intangible assets | **994.8** | 988.6 |
| Deferred tax assets | **745.0** | 933.3 |
| **Total non-current assets** | **13,568.3** | 14,008.8 |
| **Total assets** | **19,549.1** | 19,835.1 |
| **Current liabilities** | | |
| Trade and other payables | **5,573.6** | 5,042.2 |
| Borrowings | **197.0** | 456.0 |
| Other financial liabilities | **468.7** | 979.7 |
| Current tax payable | **32.2** | – |
| Provisions | **1,042.8** | 1,141.5 |
| Liabilities held for sale | **20.7** | – |
| **Total current liabilities** | **7,335.0** | 7,619.4 |
| **Non-current liabilities** | | |
| Borrowings | **2,776.6** | 3,870.5 |
| Other financial liabilities | **313.8** | 157.9 |
| Provisions | **748.1** | 656.0 |
| Other non-current liabilities | **214.2** | 201.3 |
| **Total non-current liabilities** | **4,052.7** | 4,885.7 |
| **Total liabilities** | **11,387.7** | 12,505.1 |
| **Net assets** | **8,161.4** | 7,330.0 |
| **Equity** | | |
| Contributed equity | **5,615.0** | 5,252.2 |
| Retained earnings | **2,347.4** | 1,892.9 |
| Reserves | **199.0** | 184.9 |
| **Total equity** | **8,161.4** | 7,330.0 |

## 5.3 Subsidiaries (continued)

### 5.3.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

| | | PROPORTION OF VOTING RIGHTS HELD BY NON-CONTROLLING INTERESTS | | PROFIT/(LOSS) ALLOCATED TO NON-CONTROLLING INTERESTS | | NON-CONTROLLING INTERESTS | | DIVIDENDS PAID TO NON-CONTROLLING INTERESTS | |
|---|---|---|---|---|---|---|---|---|---|
| NAME OF SUBSIDIARY | PRINCIPAL PLACE OF BUSINESS | 2017 % | 2016 % | 2017 $M | 2016 $M | 2017 $M | 2016 $M | 2017 $M | 2016 $M |
| ALH Group Pty Ltd | Australia | **25** | 25 | **51.7** | 30.7 | **321.7** | 288.1 | **18.1** | 28.8 |
| Hydrox Holdings Pty Ltd[1] | Australia | **33** | 33 | **–** | (1,149.7) | **–** | – | **–** | – |
| Individually immaterial subsidiaries | | | | **8.2** | 5.9 | **28.4** | 23.2 | **3.4** | 3.6 |
| | | | | **59.9** | (1,113.1) | **350.1** | 311.3 | **21.5** | 32.4 |

Summarised financial information in respect of each of the Group's subsidiaries that has a material non-controlling interest were as follows:

| | ALH GROUP PTY LTD | |
|---|---|---|
| | 2017 $M | 2016 $M |
| Current assets | **433.3** | 414.0 |
| Non-current assets | **4,175.6** | 4,210.0 |
| Current liabilities | **(1,754.3)** | (1,890.5) |
| Non-current liabilities | **(1,570.8)** | (1,574.0) |
| Revenue | **4,256.1** | 4,105.9 |
| Profit after tax | **206.8** | 122.8 |
| Total comprehensive income | **206.8** | 122.8 |
| Net cash inflow | **4.2** | 2.7 |

1 The non-controlling interest in Hydrox is not material to the Group (refer to Note 5.1 for further details). Summarised financial information has therefore not been provided. At 25 June 2017 Lowe's retained their legal ownership of 33.3% of Hydrox however subsequent to balance date, on 4 August 2017, Lowe's sold its shares to Home Consortium. Refer to Note 6.5 for further details.

## 5.4 Parent entity information

Financial information for the parent entity is as follows:

| | 2017 $M | 2016 $M |
|---|---|---|
| **Assets** | | |
| Current assets | **5,261.5** | 5,096.2 |
| Non-current assets | **13,230.9** | 13,666.3 |
| **Total assets** | **18,492.4** | 18,762.5 |
| **Liabilities** | | |
| Current liabilities | **7,726.6** | 9,991.8 |
| Non-current liabilities | **4,034.4** | 4,872.0 |
| **Total liabilities** | **11,761.0** | 14,863.8 |
| **Equity** | | |
| Contributed equity | **5,615.0** | 5,252.2 |
| Reserves | | |
| Hedging reserve | **(65.4)** | (63.1) |
| Remuneration reserve | **241.0** | 226.5 |
| Equity instrument reserve | **25.4** | 23.9 |
| General reserve | **–** | – |
| Retained Earnings | | |
| Profit reserve | **2,919.7** | 463.5 |
| Loss reserve | **(2,004.3)** | (2,004.3) |
| **Total equity** | **6,731.4** | 3,898.7 |

| | 2017 $M | 2016 $M |
|---|---|---|
| Profit/(Loss) for the period | **3,311.4** | (2,004.3) |
| Other comprehensive income | **2.0** | 15.7 |
| **Total comprehensive income/(loss) for the period** | **3,313.4** | (1,988.6) |

### Guarantees

Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned Group (refer to Note 5.3) and agreements held by other subsidiaries are $1,173.7 million (2016: $1,517.1 million).

Other guarantees held by the parent entity are the same as those held by the Group as disclosed in Note 6.1.

### Capital commitments for the acquisition of property, plant and equipment

| | 2017 $M | 2016 $M |
|---|---|---|
| Payable not later than one year | **236.0** | 293.2 |
| Later than one year, not later than two years | **3.6** | 43.0 |
| Later than two years, not later than five years | **0.1** | 7.0 |
| | **239.7** | 343.2 |

**SIGNIFICANT ACCOUNTING POLICIES**

Financial information for the parent entity, Woolworths Limited, has been prepared on the same basis as the Consolidated Financial Statements with the exception of investments in subsidiaries which are accounted for at cost.

## 5.5 Related parties

### Transactions within the Group

During the financial period and previous financial periods, Woolworths Limited advanced loans to, received and repaid loans from, and provided treasury, accounting, legal, taxation and administrative services to other entities within the Group.

Entities within the Group also exchanged goods and services in sale and purchase transactions. All transactions occurred on the basis of normal commercial terms and conditions. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

### Directors and Key Management Personnel

All transactions with directors and Key Management Personnel (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under normal terms and conditions for customers and employees. These transactions are considered trivial or domestic in nature. Related parties of Key Management Personnel who are employees received normal employee benefits on standard terms and conditions.

Disclosures relating to directors and Key Management Personnel are set out in Note 6.3 and in the Remuneration Report.

# 6 OTHER

## 6.1 Contingent liabilities

The Group has entered into guarantees in the normal course of business relating to conditions set out in development applications and for the sale of properties.

State WorkCover authorities also require guarantees against workers' compensation self insurance liabilities. The guarantee is based on independent actuarial advice of the outstanding liability. Workers' compensation guarantees held at each reporting date do not equal the liability at these dates due to the timing of issuing the guarantees.

The probability of having to make a payment under these guarantees is considered remote.

No provision has been made in the financial statements in respect of these contingencies, however there is a provision of $593.9 million for self-insured risks (2016: $609.8 million), which includes liabilities relating to workers' compensation claims, that have been recognised in the Consolidated Statement of Financial Position at the reporting date.

## 6.2 Employee benefits

### 6.2.1 Employee benefits expense from continuing operations

| | 2017 $M | 2016 $M |
|---|---|---|
| Remuneration and on-costs | **7,336.9** | 6,937.3 |
| Superannuation expense | **535.6** | 550.8 |
| Share-based payments expense | **51.6** | 20.8 |
| | **7,924.1** | 7,508.9 |

### 6.2.2 Share-based payments – Woolworths Long-Term Incentive plan

Equity settled share-based payments form part of the remuneration of certain employees of the Group. The Group continues to operate the Woolworths Long-Term Incentive plan (LTI plan). Sub-plans within the LTI plan are as follows:

| | DELIVERS A RIGHT TO ACQUIRE: | SUBJECT TO PERFORMANCE HURDLES BEING MET, CONTINUED EMPLOYMENT AND: |
|---|---|---|
| Performance rights sub-plan | A share at a future date | No monetary payment |
| Performance shares sub-plan | A share immediately | No monetary payment |
| Cash award sub-plan | Cash at a future date | No monetary payment |

No grants have been made under the performance shares or cash award sub-plans.

## 6.2 Employee benefits (continued)

### 6.2.2 Share-based payments – Woolworths Long-Term Incentive plan continued

LTI plan

The performance rights sub-plan has been used to make offers of LTI plan which have the following features:

- Upon exercise, each performance right entitles the holder to one ordinary fully paid Woolworths Limited share; and
- Prior to FY17, participants did not receive dividends on unvested equity.

A summary of the LTI plan performance hurdles for all outstanding grants is as follows:

| | | EPS | | RELATIVE TOTAL SHAREHOLDER RETURN (TSR) | | SALES PER TRADING SQUARE METRE (SQM)[3] | RETURN ON FUNDS EMPLOYED (ROFE)[3] |
|---|---|---|---|---|---|---|---|
| GRANT YEAR | VESTING PERIOD (YEARS) | WEIGHTING (%) | HURDLE/ RANGE (%) | WEIGHTING (%) | HURDLE/ RANGE (PERCENTILE) | WEIGHTING (%) | WEIGHTING (%) |
| FY13 – FY14[1] | 5 | 50 | 6 – 8 | 50 | 51st – 75th | n/a | n/a |
| FY15[1] | 3 | 50 | 6 – 8 | 50 | 51st – 75th | n/a | n/a |
| FY16[2] | 3 | 33.33 | np[3] | 66.67 | 51st – 75th | n/a | n/a |
| FY17[4] | 3 | n/a | n/a | 33.34 | 50th – 90th | 33.33 | 33.33 |

1 EPS component vests progressively upon attaining average annual growth of 6% with the full 50% vesting at an average annual growth of 8%. The TSR component vests progressively where TSR equals or exceeds the 51st percentile of the comparator group up to the full 50% vesting where TSR equals the 75th percentile of the comparator group.

2 EPS component vests progressively, upon attaining certain hurdles, to a maximum weighting of 33.33%. The TSR component vests progressively where TSR equals or exceeds the 51st percentile of the comparator group up to the full 66.67% vesting where TSR equals the 75th percentile of the comparator group.

3 Hurdle/range not published (np) as the Company no longer provides market guidance and the targets are commercially sensitive. The LTI targets and performance will be published following the end of the performance period.

4 The TSR component vests progressively upon attaining the gateway share price and where TSR equals or exceeds the 50th percentile of the comparator group up to the full 33.34% vesting where TSR equals the 90th percentile of the comparator group. Sales per trading sqm and ROFE components vest progressively, upon attaining certain hurdles, to a maximum weighting of 66.66%.

Deferred Short-Term Incentive (Deferred STI)

The performance rights sub-plan has been used from FY12 to make offers of Deferred STI which has the following features:

- For the FY12 to FY15 Deferred STI plans, a one-year performance measure linked to net profit after tax (NPAT) market guidance and for the FY16 Deferred STI plan, a one-year performance measure linked to Group EBIT;
- For the FY17 Deferred STI plan, a one-year performance measure linked to sales, EBIT, working capital, customer satisfaction and safety; and
- If the performance hurdles are met, participants are required to remain employed for a further two years to gain access to the performance rights, or otherwise forfeit the performance rights unless the board exercises its discretion in accordance with the LTI plan rules.

Attraction and retention rights

The performance rights sub-plan has also been used to compensate new hires for foregone equity, and ensure that key employees are retained to protect and deliver on the Company's strategic direction. It has been offered to:

- Executives of newly acquired businesses in order to retain intellectual property during transition periods; or
- Attract new executives, generally from overseas; or
- Middle management or executives deemed to be top talent who had either no or relatively small grants scheduled to vest over the ensuing two years.

Attraction and retention rights generally do not have performance measures attached to them due to the objective of retaining key talent and vest subject to the executive remaining employed by the Company, generally for two or more years.

## 6.2 Employee benefits (continued)

### 6.2.2 Share-based payments – Woolworths Long-Term Incentive plan continued

Performance rights by grant date

The following table summarises movements in outstanding rights for the financial period ended 25 June 2017:

| FINANCIAL YEAR | PERFORMANCE PERIOD START DATE | EXERCISE DATE | NO. OF RIGHTS AT 26 JUNE 2016 | RIGHTS GRANTED DURING YEAR | RIGHTS VESTED DURING YEAR | RIGHTS LAPSED DURING YEAR | NO. OF RIGHTS AT 25 JUNE 2017 |
|---|---|---|---|---|---|---|---|
| **Performance rights (LTI plan and Deferred STI)** | | | | | | | |
| FY12 | 01/07/11 | 01/07/16 | **137,089** | – | – | **(137,089)** | – |
| FY13 | 01/07/12 | 01/07/17 | **191,513** | – | – | **(25,410)** | **166,103** |
| FY14 | 01/07/13 | 01/07/18 | **1,107,669** | – | **(768,440)** | **(51,466)** | **287,763** |
| FY15 | 01/07/14 | 01/07/17 | **684,339** | – | – | **(472,222)** | **212,117** |
| FY16 | 01/07/15 | 01/07/18 | **1,954,304** | – | – | **(1,358,490)** | **595,814** |
| FY17 | 01/07/16 | 01/07/19 | – | **4,774,661** | – | **(128,342)** | **4,646,319** |
| **Performance rights (attraction and retention)** | | | | | | | |
| FY14 | 01/07/13 to 20/06/14 | 01/07/14 to 02/10/18 | **40,050** | – | **(36,050)** | – | **4,000** |
| FY15 | 01/07/14 to 01/06/15 | 02/09/14 to 07/04/18 | **77,353** | – | **(58,243)** | **(5,232)** | **13,878** |
| FY16 | 01/07/15 to 20/06/16 | 01/07/16 to 01/10/18 | **793,241** | – | **(180,699)** | **(58,590)** | **553,952** |
| FY17 | 01/07/16 to 14/06/17 | 31/12/16 to 27/05/20 | – | **166,625** | **(22,145)** | – | **144,480** |
| | | | **4,985,558** | **4,941,286** | **(1,065,577)** | **(2,236,841)** | **6,624,426** |

The weighted average share price during the financial period ended 25 June 2017 was $24.42.

The following table summarises movements in outstanding rights for the financial period ended 26 June 2016:

| FINANCIAL YEAR | PERFORMANCE PERIOD START DATE | EXERCISE DATE | NO. OF RIGHTS AT 28 JUNE 2015 | RIGHTS GRANTED DURING YEAR | RIGHTS VESTED DURING YEAR | RIGHTS LAPSED DURING YEAR | NO. OF RIGHTS AT 26 JUNE 2016 |
|---|---|---|---|---|---|---|---|
| **Performance rights (LTI plan and Deferred STI)** | | | | | | | |
| FY12 | 01/07/11 | 01/07/16 | 149,389 | – | – | (12,300) | 137,089 |
| FY13 | 01/07/12 | 01/07/17 | 1,916,295 | – | (1,631,419) | (93,363) | 191,513 |
| FY14 | 01/07/13 | 01/07/18 | 1,401,834 | – | (36,389) | (257,776) | 1,107,669 |
| FY15 | 01/07/14 | 01/07/17 | 2,337,550 | – | – | (1,653,211) | 684,339 |
| FY16 | 01/07/15 | 01/07/18 | – | 2,114,280 | – | (159,976) | 1,954,304 |
| **Performance rights (attraction and retention)** | | | | | | | |
| FY13 | 01/07/12 to 03/04/13 | 01/07/14 to 11/03/16 | 35,890 | – | (35,890) | – | – |
| FY14 | 01/07/13 to 20/06/14 | 01/07/14 to 02/10/18 | 166,850 | – | (105,400) | (21,400) | 40,050 |
| FY15 | 01/07/14 to 01/06/15 | 02/09/14 to 07/04/18 | 179,490 | – | (87,936) | (14,201) | 77,353 |
| FY16 | 01/07/15 to 20/06/16 | 01/07/16 to 01/10/18 | – | 811,052 | (2,016) | (15,795) | 793,241 |
| | | | 6,187,298 | 2,925,332 | (1,899,050) | (2,228,022) | 4,985,558 |

The weighted average share price during the financial period ended 26 June 2016 was $24.10.

## 6.2 Employee benefits (continued)

### 6.2.2 Share-based payments – Woolworths Long-Term Incentive plan continued

The contractual performance period of the rights set out in the previous tables is used as an input into the model to determine the fair value of options and performance rights. Other inputs in relation to these rights are:

| | | | | | | FAIR VALUE ($) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| GRANT DATE[1] | PERFORMANCE PERIOD START DATE | EXPECTED VOLATILITY[2] (%) | DIVIDEND YIELD (%) | RISK FREE INTEREST RATE (%) | WEIGHTED AVERAGE FV ($) | EPS | TSR | NPAT/EBIT | SALES PER TRADING SQM | ROFE |
| 12/12/11 | 01/07/11 | – | 4.20 | – | 22.39 | – | – | 22.39 | – | – |
| 12/12/11 | 01/07/11 | 17 | 4.20 | 3.40 | 16.19 | 20.05 | 12.33 | – | – | – |
| 07/12/12 | 01/07/12 | 16 | 4.50 | 2.70 | 18.32 | 22.60 | 14.04 | – | – | – |
| 07/12/12 | 01/07/12 | – | 4.50 | – | 25.45 | – | – | 25.45 | – | – |
| 22/03/13 | 01/07/12 | 16 | 4.50 | 3.10 | 21.20 | 26.41 | 15.99 | – | – | – |
| 22/03/13 | 01/07/12 | – | 4.50 | – | 29.74 | – | – | 29.74 | – | – |
| 13/12/13 | 01/07/13 | 16 | 4.10 | 3.40 | 19.51 | 25.56 | 13.46 | – | – | – |
| 13/12/13 | 01/07/13 | – | 4.10 | – | 28.46 | – | – | 28.46 | – | – |
| 29/04/14 | 01/07/13 | 16 | 4.10 | 3.20 | 24.74 | 30.39 | 19.08 | – | – | – |
| 29/04/14 | 01/07/13 | – | 4.10 | – | 33.84 | – | – | 33.84 | – | – |
| 17/10/14 | 01/07/14 | 16 | 4.10 | 2.50 | 21.51 | 29.78 | 13.24 | – | – | – |
| 17/10/14 | 01/07/14 | – | 4.10 | – | 29.78 | – | – | 29.78 | – | – |
| 27/11/14 | 01/07/14 | 16 | 4.10 | 2.50 | 18.66 | 27.37 | 9.94 | – | – | – |
| 19/06/15 | 01/07/14 | 20 | 5.10 | 1.90 | 12.50 | 23.53 | 1.46 | – | – | – |
| 20/11/15 | 01/07/15 | 25 | 5.10 | 2.10 | 12.89 | 19.66 | 9.51 | – | – | – |
| 20/11/15 | 01/07/15 | – | 5.10 | – | 19.66 | – | – | 19.66 | – | – |
| 28/10/16 | 01/07/16 | 22 | 4.00 | 1.80 | 11.75 | – | 11.75 | – | – | – |
| 28/10/16 | 01/07/16 | – | 4.00 | – | 24.66 | – | – | – | 24.66 | 24.66 |

1 Grant date represents the offer acceptance date.
2 The expected volatility is based on the historical implied volatility calculated based on the weighted average remaining life of the performance rights adjusted for any expected changes to future volatility due to publicly available information.

The total shares purchased during the year were 581,692 (2016: 614,415) at an average price per share of $24.71 (2016: $22.85), comprised of purchases under the Executive Management Share Plan and the Employee Share Purchase Plan.

#### Executive Management Share Plan (EMSP)

The EMSP allows executive management to forego some of their future pre-tax remuneration to acquire shares in the Company on-market at prevailing market prices on the Australian Securities Exchange (ASX).

During the period, 955 shares (2016: 1,496) were purchased under the EMSP. No additional expense is recognised in relation to these shares as they are acquired out of salary sacrificed remuneration.

#### Employee Share Purchase Plan (SPP)

The SPP was launched in June 2008 and provides permanent full-time and part-time employees who are Australian tax residents and are aged 18 years or over, with the opportunity to purchase shares from pre-tax income via salary sacrifice. Woolworths Limited pays the associated brokerage costs. During the year, 580,737 (2016: 612,919) shares were purchased on behalf of participating employees.

## 6.2 Employee benefits (continued)

### 6.2.2 Share-based payments – Woolworths Long-Term Incentive plan continued

**SIGNIFICANT ACCOUNTING POLICIES**

**SHARE-BASED PAYMENTS**
The grant date fair value of equity-settled share-based payments is recognised as an expense proportionally over the vesting period, with a corresponding increase in equity.

The fair value of instruments with market-based performance conditions (e.g. TSR) is calculated at the date of grant using a Monte Carlo simulation model. The probability of achieving market-based performance conditions is incorporated into the determination of the fair value per instrument.

The fair value of instruments with non-market-based performance conditions (e.g. EPS, sales per trading SQM, ROFE) and service conditions and retention rights is calculated using a Black-Scholes option pricing model.

The amount recognised as an expense over the vesting period is adjusted to reflect the actual number of instruments that vest except where forfeiture is due to failure to achieve market-based performance conditions.

### 6.2.3 Retirement plans

Defined benefit plans

The Company sponsors a defined benefit plan, the Woolworths Group Superannuation Plan (WGSP *or* the Plan) that provides superannuation benefits for employees upon retirement. The defined benefit plan is closed to new members. The assets of the WGSP are held in a sub-plan within AMP SignatureSuper that is legally separated from the Group. The WGSP invests entirely in pooled unit trust products where prices are quoted on a daily basis.

The WGSP consists of members with defined benefit entitlements and defined contribution (accumulation) benefits. The Plan also pays allocated pensions to a small number of pensioners. The following disclosures relate only to the Company's obligation in respect of defined benefit entitlements.

The Group contributes to the WGSP at rates as set out in the Trust Deed and Rules and the Participation Deed between the Company and AMP Superannuation Limited. Members contribute to the WGSP at rates dependent upon their membership category. The Plan provides lump sum defined benefits that are defined by salary and period of membership.

An actuarial valuation was carried out at both reporting dates by Mr Nicholas Wilkinson, FIAA, Willis Towers Watson. The principal actuarial assumptions used for the purpose of the valuation are as follows:

| | 2017 % | 2016 % |
|---|---|---|
| Discount rate | **3.80** | 3.30 |
| Expected rate of salary increase | **2.50** | 3.00 |
| Rate of price inflation | **2.00** | 2.50 |

The average duration of the defined benefit obligation at the end of the reporting period is 6.4 years (2016: 7.7 years) which relates wholly to active participants.

The amount included in the Consolidated Statement of Financial Position in respect of the defined benefit plan is as follows:

| | 2017 $M | 2016 $M |
|---|---|---|
| Defined benefit obligation | **(433.6)** | (467.2) |
| Fair value of plan assets | **370.9** | 405.6 |
| **Closing net liability for defined benefit obligations** | **(62.7)** | (61.6) |

## 6.2 Employee benefits (continued)

### 6.2.3 Retirement plans continued

Movements in the present value of the net liability for defined benefit obligations, including the total defined benefit cost, are as follows:

| | 2017 $M | 2016 $M |
|---|---|---|
| Net liability for defined benefit obligations at start of period | **(61.6)** | (67.9) |
| *Movement:* | | |
| Current service cost | **(10.1)** | (11.5) |
| Interest cost | **(14.4)** | (21.2) |
| Interest income [1] | **12.6** | 18.6 |
| Return on plan assets greater/(less) than discount rate [1,2] | **24.3** | (8.8) |
| Actuarial (loss)/gain due to experience [2] | **(23.4)** | 8.5 |
| Actuarial gain/(loss) due to assumption changes [2] | **2.3** | (5.3) |
| Total defined benefit cost | **(8.7)** | (19.7) |
| Employer contributions | **7.6** | 26.0 |
| **Net liability for defined benefit obligations at end of period** | **(62.7)** | (61.6) |

1 The actual return on plan assets was $36.9 million (2016: $9.8 million).
2 The sum of the components represents total remeasurement effects recognised in other comprehensive income of $3.2 million gain (2016: $5.6 million loss).

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and expected rate of salary increase. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by $1.7 million (increase by $2.5 million); and
- If the rate of salary growth increases (decreases) by 1%, the defined benefit obligation would increase by $2.1 million (decrease by $1.5 million).

Company contributions are agreed between the Plan Trustees and Company, following advice from the Plan actuary at least every year.

#### Defined contribution plans

The majority of employees in Australia and New Zealand are part of a defined contribution superannuation scheme and receive fixed contributions from the Group in accordance with the rules of the WGSP and/or any statutory obligations.

#### SIGNIFICANT ACCOUNTING POLICIES

**DEFINED BENEFIT PLAN**
The net defined benefit obligation recognised in the Consolidated Statement of Financial Position represents the deficit or surplus in the Group's defined benefit plans which is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan assets.

The calculation of the defined benefit obligation is performed at the end of each annual reporting period by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the return on plan assets (excluding interest) are recognised in the period in which they occur, directly in other comprehensive income and will not be reclassified to profit or loss.

The Group determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate at the beginning of the period to the net defined benefit liability, taking into account any changes during the period as a result of contributions and benefit payments. Net interest expense (income), service cost and other expenses related to defined benefit plans are recognised in the Consolidated Statement of Profit or Loss.

**DEFINED CONTRIBUTION PLANS**
Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## 6.3 Key Management Personnel

The total remuneration for Key Management Personnel of the Group is as follows:

| | 2017 $ | 2016 $ |
|---|---|---|
| Short-term employee benefits | **14,176,416** | 8,735,255 |
| Post employment benefits | **334,138** | 790,785 |
| Other long-term benefits | **116,035** | 271,420 |
| Share-based payments | **6,206,191** | 977,793 |
| | **20,832,780** | 10,775,253 |

### Equity instrument disclosures relating to Key Management Personnel

Details of equity instruments provided as compensation to Key Management Personnel and shares issued on exercise of these instruments, together with the terms and conditions of the instruments, are disclosed in Section 5.1 of the Remuneration Report.

## 6.4 Auditors' remuneration

The auditors' remuneration for the Group is as follows:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Auditors of the parent entity – Deloitte Touche Tohmatsu Australia** | | |
| Audit or review of the financial report | **3,254** | 2,748 |
| Regulatory and compliance related services | **129** | 239 |
| Other non-audit related services [1] | **421** | 173 |
| Tax compliance services | **108** | 113 |
| | **3,912** | 3,273 |
| **Other auditors [2]** | | |
| Audit or review of the financial report | **305** | 218 |
| Other non-audit related services [1] | **83** | 44 |
| Tax compliance services | **154** | 160 |
| | **542** | 422 |
| **Total auditors' remuneration** | **4,454** | 3,695 |

1 Other non-audit related services comprise assistance on various accounting matters, assurance services in relation to debt raisings, regulatory reviews, financial due diligence and other sundry services.

2 Other auditors are international associates of Deloitte Touche Tohmatsu Australia.

## 6.5 Subsequent events

### Home Improvement

The following events occurred subsequent to year end in relation to the Company's exit from the Home Improvement business:

- On 26 June 2017, the Company entered into a Share Sale Agreement (SSA) to sell its 66.7% share of Hydrox to Home Consortium subject to the sale of Lowe's shares. The SSA includes 40 Masters freehold trading sites, 21 Masters freehold development sites and 20 Masters leasehold sites, with Woolworths obliged to acquire three Masters freehold sites and take assignment or assume responsibility for the liabilities associated with 11 Masters leases; and
- On 4 August 2017, Lowe's shares in Hydrox were sold to a Trust with Home Consortium as the beneficiary in exchange for the $250.8 million agreed consideration. The JVA has been subsequently terminated.

The agreement to sell Hydrox has resulted in crystallisation of capital losses associated with the sale of Hydrox after balance date. When the Home Consortium transaction is completed, these capital losses are estimated to be worth approximately $1.8 billion. The recognition of any deferred tax asset associated with these capital losses is dependent on it being probable that there will be sufficient capital gains available against which these capital losses can be utilised in the foreseeable future.

# Directors' Declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1.1 to the financial statements;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* (Cth), including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and

(d) the directors have been given the declarations required by s.295A of the *Corporations Act 2001* (Cth).

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations Legislative Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the Instrument applies, as detailed in Note 5.3 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001* (Cth).
On behalf of the directors.

**Gordon Cairns**
Chairman

23 August 2017

**Brad Banducci**
Managing Director and Chief Executive Officer

# Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

## Independent Auditor's Report to the Members of Woolworths Limited

### Report on the Audit of the Financial Report

***Opinion***

We have audited the financial report of Woolworths Limited (the Company) and its subsidiaries (the Group), which comprises the Consolidated Statement of Financial Position as at 25 June 2017, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 25 June 2017 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***Basis for Opinion***

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key Audit Matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Home Improvement exit**<br>As disclosed in Note 5.1 Discontinued Operations, during the financial year there has been significant progress in relation to the exit of the Home Improvement business. As set out in Note 6.5 Subsequent Events there have been further developments that have occurred subsequent to balance date which have resulted in the settlement of the Lowe's put option as well as the sale of Hydrox Holdings Pty Ltd to Home Consortium (the Home Consortium transaction).<br><br>The Home Improvement exit has a number of interrelated components, each of which required consideration, including:<br>• sale of the Home Timber and Hardware Group<br>• liquidation of Masters inventory<br>• closure of all Masters stores and settlement of trading and employee liabilities<br>• accounting for property costs, including re-measurement of onerous leases and exit costs to be settled by the Group<br>• the Lowe's put option<br>• accounting for the Home Consortium transaction<br>• taxation implications relating to the Home Improvement exit.<br><br>The accounting for these interrelated components is complex and there are significant judgements and estimates required in determining the carrying value of the remaining assets and liabilities held at the balance date, particularly in relation to:<br>• assets and liabilities being disposed of in the Home Consortium transaction<br>• assets and liabilities, including onerous lease provisions and other residual liabilities being retained by the Group<br>• accounting treatment of the Lowe's put option.<br><br>Given these complexities we have considered the accounting for the Home Improvement exit to be a key audit matter. | Our procedures included but were not limited to:<br>• Assessing the appropriateness of the accounting in respect of the sale of Home Timber and Hardware by reference to the sale agreement.<br>• Understanding the terms and conditions in relation to the liquidation of Masters inventory as well as testing that the amounts recorded in revenue and cost of sales are in accordance with the terms of appointment of GA Australia Pty Ltd.<br>• Evaluating and challenging the estimates and judgements within management's assessment of the assets and liabilities, including onerous lease provisions and residual liabilities to be retained by the Group. This included reviewing contracts and lease agreements, and assessing the recorded amounts against historical trends from previously negotiated settlements, as well as assessing the discount rate applied to the calculation of the onerous lease provision.<br>• Evaluating whether the Lowe's put option has been appropriately accounted for.<br>• Agreeing the aggregate carrying value of the assets reflected in the financial statements to the Home Consortium Share Sale Agreement.<br>• Consideration of the taxation implications and the accounting consequences of the Home Improvement exit transactions.<br>• Assessing the appropriateness of the disclosures in notes 5.1 and 6.5. |

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Carrying value of BIG W property, plant and equipment**<br>Included in consolidated property, plant and equipment and other non-current assets are assets relating to BIG W with a carrying value of $514.3 million.<br>The trading performance of BIG W has deteriorated in recent years. As a result, there is a risk that the carrying value of stores and related property, plant and equipment and other non-current assets may be higher than their recoverable amount.<br>Management's approach and results of their testing of the recoverable amount has been described in Notes 3.3 and 3.5.<br>Our audit focused on this area because the assessment of recoverable value requires management to make a number of key judgements and estimates with respect to the future trading performance and profitability of BIG W, including judgements and estimates on future growth rates, the impact of the general economic environment on the sectors in which BIG W operates and the impact of competition on BIG W's market share. These key judgements and estimates are being made in the context of the multi-year turnaround plan which has recently been approved by the board.<br>As a result of the Group's impairment review of BIG W, an impairment charge of $35.3 million was recognised in the financial year ended 25 June 2017. | Our procedures included but were not limited to:<br>• Understanding management and the board's controls over the assessment of the carrying value of BIG W's property, plant and equipment and other non-current assets to determine whether any asset impairment was required.<br>• Understanding management and the board's methodologies and their documented basis for key assumptions which are described in Note 3.3 in the financial report.<br>• In conjunction with our Corporate Finance specialists, we evaluated the Group's assumptions and estimates used to determine the recoverable amount of BIG W, including those relating to long-term growth rates, margins and discount rates with reference to external data such as economic and industry forecasts, comparable companies as well as Deloitte developed discount rates.<br>• Testing, on a sample basis, the mathematical accuracy of the cash flow models and agreeing relevant data to approved budgets and latest forecasts.<br>• Performing sensitivity analysis in relation to the key assumptions, with particular focus on drivers of the growth rates, margins and discount rate used in the impairment models.<br>• Having ascertained the extent of sensitivity to change in those assumptions that either individually or collectively would be required for an impairment, we considered the likelihood of such a movement in those key assumptions arising.<br>• Assessing the appropriateness of the disclosures included at Note 3.3 to the financial statements. |
| **Inventory provisioning**<br>As disclosed in the financial statements at 25 June 2017 the Group held inventories of $4,080.4 million. As set out in the Group's accounting policies in Note 1.2.4, the Group carries inventory at the lower of cost and net realisable value.<br>The Group provides for obsolescence and shrinkage based on estimates including forecast sales assumptions and historical trends. In addition, for general merchandise inventory consideration is given to seasonal lines and slower moving products.<br>As a result, we have focused our work on these areas in assessing that inventory is carried at the lower of cost and net realisable value. | Our procedures included but were not limited to:<br>• Testing the controls associated with inventory valuation.<br>• Evaluating the appropriateness of management's judgements and assumptions applied in calculating the value of inventory by:<br>  ○ understanding the inventory provisioning policy with specific consideration of aged inventory, seasonality, as well as inventory turn calculations and sell through rates (especially for the non-food and general merchandising businesses)<br>  ○ testing the value of a sample of inventory to confirm it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices<br>  ○ reviewing historical accuracy of inventory provisioning with reference to inventory write-offs during the year<br>  ○ testing the obsolescence and shrink rate and underlying inputs in the inventory provision calculation to supporting documentation and testing the mathematical accuracy of the provision calculations. |

## Independent Auditor's Report

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Accounting for rebates**<br>The Group receives significant rebates, incentives and discounts from suppliers and recognises the majority of these as a reduction in value of inventory or as a reduction in cost of sales depending on the nature of the rebate, incentive or discount. Assessing the timing of recognition of these rebates, incentives and discounts is complex requiring both a detailed understanding of the contractual arrangements as well as complete and accurate source data to which the arrangements apply.<br>Given the significance of rebate arrangements, our audit focused on these arrangements as they impact inventory valuation and cost of goods sold. In addition the timeliness and accuracy of the recording of these arrangements may have a significant impact on the Group's results. | Our procedures included but were not limited to:<br>• Obtaining an understanding of the controls that the Group has established in relation to rebates, incentives and discounts for both automated and manually processed rebates.<br>• Testing of rebates, incentives and discounts on a sample basis, by agreeing them to contracts or other supporting documentation with suppliers, including sales reports and promotion information obtained from suppliers or other sources.<br>• Reviewing the appropriateness of rebate receivables, incentives and discounts at the reporting date.<br>• Assessing the appropriateness of the accounting for rebates, incentives and discounts in the financial statements. |
| **IT Systems**<br>The IT systems across the Group are complex and there are varying levels of integration between them. These systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process and as a result the assessment of IT systems forms a key component of our external audit. | Our procedures included but were not limited to:<br>• Discussing with management the IT environment and consideration of the key financial processes to understand where IT systems were integral to the financial reporting process. From this we identified IT systems to include in the scope of our IT testing.<br>• Testing the design of the key IT controls relating to the Group's financial reporting systems.<br>• In respect of any deficiencies identified, we completed a combination of additional controls and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information, including:<br>○ understanding review level controls in place<br>○ assessing the design and operating effectiveness of any controls (including review controls) that mitigated the identified risks.<br>• In addition, and where appropriate, we extended the scope of our substantive audit procedures. |

***Other Information***
The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Directors' Responsibilities for the Financial Report***

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

***Auditor's Responsibilities for the Audit of the Financial Report***

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Independent Auditor's Report

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 51 of the Directors' Report for the 52 weeks ended 25 June 2017.

In our opinion, the Remuneration Report of Woolworths Limited, for the 52 weeks ended 25 June 2017, complies with section 300A of the *Corporations Act 2001*.

***Responsibilities***
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

**A V Griffiths**
Partner
Chartered Accountants

Sydney, 23 August 2017