News Release

Wesfarmers

CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS TO ANNUAL GENERAL MEETING THURSDAY, 10 NOVEMBER 2016, 1:00PM PERTH TIME

CHAIRMAN'S ADDRESS

Good afternoon ladies and gentlemen.

On behalf of the Wesfarmers Board, I'd like to welcome all of you here to our 2016 Annual General Meeting.

Welcome also to all those joining us via webcast.

The AGM is always a special day for our company and, once again, we have a great number of shareholders in attendance. Thank you all for coming along and I hope you are enjoying the experience.

May I thank Dr Richard Walley OAM for his Welcome to Country on behalf of the Noongar people, the traditional owners of this part of Western Australia. Thank you Richard.

I'm satisfied a quorum is present today and so I officially declare the meeting open.

I'd now like to introduce my fellow directors. There are four retirements by rotation this year, and you'll be hearing from those retiring directors a little later in the meeting when we'll be asking you to support their re-election.

But, for the time being, I'd like all of my director colleagues to stand and face the audience while I introduce them.

On the stage here with me and our company secretary Linda Kenyon is, of course, Wesfarmers' Managing Director, Richard Goyder.

In the front row is Terry Bowen, who has been our Finance Director since 2009 and continues to perform outstandingly well in the role. Thank you Terry.

Now, I'd like to introduce James Graham. James is our longest serving board member having been on the Board since 1998 and who is in his last term.

Next to James is Tony Howarth, who joined the Board in 2007 and is Chairman of our Audit and Risk Committee.

Next to Tony is Diane Smith-Gander, a board member since 2009.

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Wayne Osborn joined the Board in 2010 and is Chairman of our Remuneration Committee.

Next to Wayne is Vanessa Wallace, a board member since 2010.

Standing beside Vanessa is Paul Bassat who joined the Board in 2012.

And, then Jennifer Westacott, who was appointed as a director in 2013.

I would like to take this opportunity to pay special tribute to Dr Bob Every AO, who retired as Chairman during the last financial year. Bob served the company with distinction, focused at all times on protecting shareholder interests, ensuring ethical behaviour and guarding the Wesfarmers culture. Bob is here today with his wife Sheryl and we thank him for the significant contribution he made, with Sheryl's support, to the company.

It was a real privilege for me to have been invited last year to return as Chairman of the company from which I retired as Chief Executive Officer 10 years earlier. It is a great company and I have been delighted to see that the strong shareholder focus, for which it has always been renowned, is alive and well.

Also with us are the Group's current senior executives, including the Managing Directors of the divisions. I welcome them and, on your behalf, thank them for their efforts during the year.

As you would have seen coming into the meeting, all our businesses are well and truly represented here today.

So, if you have any particular matters you wish to raise that go to the detail of any of those operations, please make contact with those people after the formal meeting.

As you'd be aware from the Notice of Meeting, there are five items of business to be discussed when we move into the formal part of the meeting.

But before that I'll make some general observations about the last 12 months and then Richard Goyder will provide us with a trading update and business outlook. I will then return to open the formal proceedings.

The 2016 financial year was one of mixed results for our company, with very strong performances from the larger businesses offset to some extent by difficult trading conditions in some others.

After accounting for some value impairments in the Curragh coal business and the Target retail business, as well as restructuring costs in Target, statutory net profit was $407 million compared with $2,440 million in 2015.

Underlying profit after tax before those impairments was down just 3.6 per cent, at $2,353 million; and the Board declared a final dividend of 95 cents per share, bringing the full-year payment to $1.86 per share, a reduction of 7.0 per cent on the previous year. This was broadly in line with free cash flow for the year, excluding the acquisition of Homebase.

The impairments of Target and Curragh resulted predominantly from poor trading results. We faced a deteriorated outlook in the former case and a significant fall in current and projected coal prices in the latter.

The accounting impairments, of course, had no cash flow effect and the Group continued to generate very substantial free cash flow. Our balance sheet is conservatively geared and, with a strong credit rating, we are still very well placed to take advantage of investment opportunities as they arise.

As I mentioned, Wesfarmers continues to maintain the particular strengths for which it has become well known: namely, a clear focus on shareholder wealth creation rather than on empire building; strict disciplines around the achievement of return on invested capital and investment analysis; the development of high performing people; rigid adherence to high standards of behaviour; and a determination to make meaningful contributions to the communities in which we operate.

As always, there are many challenges. Every business faces competition from existing players and new entrants, from new technologies and new regulations, but in my experience it has never been any different. The pace of change has stepped up but we have all been saying that for three or four decades.

The key to long-term corporate success is evolution – looking for new ways to do business, for new businesses and new geographies to operate in. One of my own exhortations has always been: 'If it ain't broke, get ready to change it'.

Today we hear concern expressed about how our biggest business, Coles, is going to cope with increased competition in its markets.

In this regard it is instructive to look back to the mid-1980s, when there was constant worry about how Wesfarmers could cope with increasing competition in the fertiliser business.

At that time, fertilisers contributed around 80 per cent of the Group's profit. Today that business remains strong but has itself evolved into a substantial industrial chemicals supplier.

Fertilisers now contribute around the same dollars of profit as it did back then, but that now represents much less than 10 per cent of Group earnings.

Continuous diversification and adaptation has enabled Wesfarmers to remain relevant and to provide superior shareholder returns over the long-term; and that process continues.

During the last year, the company made its first significant move offshore, with the purchase of the Homebase hardware business in the United Kingdom and Ireland.

Entering any new country is always challenging – and there are many examples of Australian companies which have tried and failed – but this investment was only made after a very extensive analysis of the business, the market and the prospects. Bunnings looks forward to applying the skills it has acquired in understanding customer needs, supply chain management and merchandising in a new geography; and the size of the Homebase investment, while not small, is very manageable given the Group's balance sheet.

One thing shareholders should be very clear about is that this is a long-term investment. It will take years to get the Homebase chain into the shape we want it in; but we are not daunted by that. As we have seen in Bunnings, if you get the formula right you can enjoy decades of profitable growth in this business.

Shareholders may have seen the announcement last week that the first conversion of a Homebase store to a Bunnings store will occur at St Albans next February.

The UK expansion is, I believe, a very good example of the growth philosophy of 'logical incrementalism' which has proven successful for the company over the years.

A really important question for us, and for all companies, is whether 'logical incrementalism' will be sufficient to meet the challenges of the digital age. Every business we operate is faced with some form of digital disruption. The challenge is to anticipate what that might be and to position our businesses so that they can prosper in the digital world. It can also mean acquiring new businesses or disposing of some.

In the meantime and closer to home, one of the big challenges facing all companies is the modest rate of growth of the domestic economy and the difficulty of achieving meaningful economic reform at the federal level of government.

As the recent federal election result demonstrated, populism triumphs all-too-often over rational policy development.

While the level of Commonwealth Government debt in Australia is quite low in comparison to that in many other developed countries, this situation can change rapidly in times of economic downturn – as we saw in Ireland and Spain in 2007 to 2010 – a debt blowout giving rise to drastic fiscal remedies and high unemployment.

Australia has now enjoyed an unprecedented 25 years without a recession, but, given the past and forecast deficits at a Commonwealth level, the Government's armoury to counter any economic downturn is limited. It is essential that the task of fiscal repair is tackled with urgency.

Another subject in which some politicians have stirred populist dissent over the last year is that of free trade, with the suggestion that it is harmful to local interests.

It is very obvious to any student of history over the last two millennia, whether in the Middle East or Far East, Europe, America or Australia, that free trade leads to increased prosperity – to an increase in employment, general standard of living and the ability of governments to look after the less-advantaged.

It is also clear that restricting free trade leads to a reversal of those things – to stagnation.

Of course the benefits of free trade are no clearer to anyone than to all the people in this room with a farming background. It is vitally important that we speak out on this matter.

A third area in which there is much misconception and too little appreciation is in regard to the contribution companies make to Australia's prosperity, as evidenced by the readiness with which arguments against company tax cuts during this year's election campaign were accepted by some.

That 80 per cent of working Australians are employed by companies represents just one benefit. The health of the Australian economy is inextricably linked to the health of Australian companies like Wesfarmers.

In Wesfarmers' case, in 2016 we paid our 220,000 employees nearly $9 billion, our suppliers more than $45 billion, our landlords $3 billion, our shareholders $2.3 billion and the Government nearly $1 billion in taxes. We invested a further $1.9 billion in our existing businesses, as well as the $665 million on the Homebase acquisition. We also contributed in excess of $110 million in community partnerships around Australia.

We have a particularly concerning example of political populism versus rational economic debate here in Western Australia currently, with the suggestion by the leader of the State National Party that iron ore royalties should be raised for two of the major producing companies, a proposal that would make our royalties seven times higher than those of our main competitor Brazil.

Apart from the fact that such a move would not actually increase the State's income because of the way the GST is shared, its ultimate effect would be to discourage investment and reduce employment in an industry that is already weakened by fallen commodity prices. It is a very bad idea.

Today, more than ever, we need our political leaders to reject the populist approach and concentrate instead on developing policies that create long-term benefits for the community.

As a company, Wesfarmers strives to create long-term value for its stakeholders. That value creation is only possible if we play a positive role in the communities we serve.

In 2016, we continued to focus on keeping our people safe and across our businesses reduced our total recordable injury frequency rate by 15.2 per cent. This is a considerable achievement and I would like to compliment the many people across all our teams who've worked so hard to make our workplaces safer.

As Australia's largest private sector employer, we believe we are able to provide Indigenous people with greater opportunities to participate in sustainable employment and have increased the number of Indigenous employees to more than 3,300. That is a 20 per cent increase on the previous year, and means we have more than doubled our number of Indigenous employees since 2012.

Wesfarmers is committed to minimising our own environmental footprint and to delivering solutions which help our customers and the community do the same. We reduced our greenhouse gas emissions by more than two per cent in the last year and have decreased the emissions intensity of our business by more than 30 per cent since 2012.

Looking ahead, your Board considers the outlook for the company to be strong. Notwithstanding the challenges I have described and economic and political concerns around the globe, the Wesfarmers businesses generate strong cash flows which, in combination with a strong balance sheet and financial discipline, should enable us to cope with competition and take advantage of growth opportunities. We look forward to continuing the company's record of providing satisfactory shareholder returns.

I'd like to pay tribute to our managers and Board. The management team, led so ably by Richard Goyder, comprises individuals with great energy and enthusiasm for the job and a determination to achieve superior returns.

The Board has, in my view, an excellent balance of experience and the skills required for strong governance, and I would like to thank my colleagues for their hard work and support throughout the year.

On their behalf I again convey my thanks to the management team and to all of our 220,000 employees for their efforts for the company.

Thank you, also, our shareholders, for your ongoing support. It is very much appreciated.
Thank you very much.

I would now like to introduce our Managing Director Richard Goyder who will provide an update on each of the Group's divisions and on the company's strategic direction as we look forward.

After Richard has spoken and we've worked through the meeting agenda there'll be time for questions, followed, I hope, by many of you staying to enjoy each other's company and some refreshments.

Please now welcome the Managing Director and Chief Executive Officer of Wesfarmers Limited,
Mr Richard Goyder.

MANAGING DIRECTOR'S ADDRESS

Thank you Chairman.

Good afternoon and welcome to the 2016 Wesfarmers AGM.

I firstly want to echo the Chairman's thanks to Dr Richard Walley OAM for his Welcome to Country and I would also like to acknowledge the traditional owners of the land on which we meet, the Noongar people, and pay my respects to their elders past and present. I am proud of the work the Wesfarmers businesses are doing to grow Aboriginal employment and our broader engagement with Indigenous Australians.

I am delighted to be able to update shareholders on how each of our businesses is performing, and on the strategic direction of Wesfarmers.

By way of a trading update, in summary, our portfolio of businesses are mostly operating well in what is, as the Chairman outlined, a challenging environment.

As mentioned in our recently released quarterly sales update, retail sales for the first quarter of the financial year across our retail portfolio with the exception of Target have been pleasing, supported by the continued reinvestment of productivity improvements into lower prices, improved customer service, better ranges and further store network optimisation and digital expansion.

Positive sales growth in Coles continued, driven by improvements in value, services and quality to its fresh offer and the contributions from new and refurbished stores.

Coles recorded cumulative food and liquor price deflation of 7.5 per cent since the 2009 financial year. In fact, we estimate that a typical family shopping at Coles is now more than $600 a year better off than they would have been, before we acquired the business in 2007. It is important to note that we have provided this benefit to customers while improving returns to shareholders.

The Board and I are very confident that John Durkan and his team are continuing to implement the right strategies, with a focus on providing our nearly 20 million weekly customers with trusted value, and generating satisfactory returns to shareholders over time.

Turning to the Home Improvement division. Bunnings Australia and New Zealand has continued to perform strongly across all areas of the business, despite the unprecedented stock liquidation activities of the Masters business, which are continuing in the second quarter.

Strong trading momentum has been driven by solid execution of Bunnings' strategic agenda. In particular, the business is focused on creating more customer value, better customer experiences and improving productivity.

As the Chairman mentioned earlier, we made our first significant move offshore, to the United Kingdom and Ireland, with the acquisition of the Homebase business announced in January this year.

To date, good progress is being made across all elements of the acquisition agenda, including range, pricing, marketing and operations. Customer feedback on the changes made since our acquisition has been overwhelmingly positive, as can been seen from feedback from one our customers.

Plans to trial Bunnings Warehouses in the United Kingdom and Ireland are well progressed, with the first Bunnings Warehouse pilot store to open at an existing Homebase site in St Albans in mid-February 2017. At least another three stores Bunnings UK pilot stores are expected to open before the end of June 2017.

Bunnings has outstanding leadership in John Gillam, Mike Schneider and PJ Davis.

In the Office Supplies business, the 'every channel' strategy is continuing to resonate well with customers by providing a unique one-stop shopping experience.

Investments made to enhance the physical and digital offers, in new and expanded ranges and in the customer service proposition have contributed to sales growth, with the business continuing to go from strength to strength.

As many of you know, earlier this year we announced the organisational restructure and senior management changes through the creation of the Department Stores division.

Under this restructure, Kmart and Target were combined to be guided under the leadership of Guy Russo.

This new structure has allowed both businesses to consolidate shared services where appropriate and leverage benefits that previously were not available. One important example is the consolidated property team that manages both Target and Kmart's property network.

Kmart remains committed to providing Australian and New Zealand families with great products at the lowest prices. Pleasingly, sales for the year to date have been driven by growth across all categories with corresponding growth in customer transactions and items sold.

Target has accelerated its transition to an everyday low price model, with an ambition to be known for amazing fashion and quality at low prices. While the acceleration of the transition has had a negative impact in the short term, Guy and the team are focused on getting the long term fundamentals of this business right, so that it can generate satisfactory returns.

All of our retail businesses remain focused on delivering increased value, better service and improved ranges to customers with preparations for the important Christmas trading period well progressed.

Now turning to our Industrials division which is led by Rob Scott.

We are pleased with the performance of our Chemicals, Energy and Fertilisers business. The business has benefitted from the strong demand for fertilisers over the past year, with higher chemicals earnings driven by plants operating at full capacity and stronger production, and growth in natural gas retailing with more than 112,000 West Australians switching to Kleenheat to take advantage of cheaper gas.

If you have not already switched, then I would encourage you to talk to the Kleenheat team here today. It is easy to switch; it is the same, gas, same pipes only cheaper and you receive a $50 reward on switching!

In the Resources business, wet weather events have hampered coal production in the first quarter of this financial year but the significant increase in hard coking coal prices in recent months will provide some positive earnings impact for Curragh in the second quarter.

The teams at Curragh and Bengalla continue to maintain a very strong focus on operational productivity, cost control, and safety with the Resources business expected to broadly break-even at an EBIT level for the first-half of this financial year.

The trading environment for our Industrial and Safety business also remains challenging, with ongoing margin pressure. Over the past year the business undertook a significant number of restructuring activities to consolidate brands, drive operational efficiencies and improve customer service.

Pleasingly, the business is starting to see the benefits of the restructuring activities as it provides a more suitable platform to grow its addressable market and increase returns.

At a Group level, our balance sheet is in good shape and we maintain our A- rating with S&P, and A3 rating with Moody's.

One of the great things about our portfolio is the cash generative nature of our businesses.

This enables us to achieve high dividend payout ratios for our shareholders, invest in growing the company, while maintaining a strong balance sheet which allows us to move quickly on any opportunities which we think would create value for shareholders.

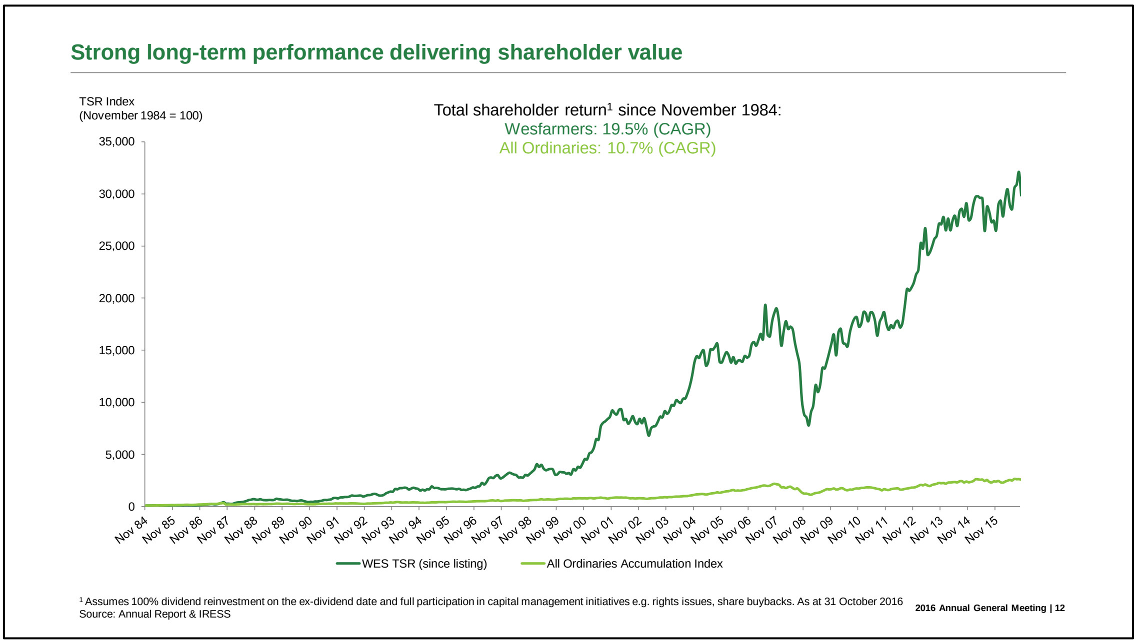
And that takes me to our strategic direction. It is pretty simple. Our objective is to provide you, our shareholders, with satisfactory returns.

Indeed, as the Chairman pointed out we want to create sustainable value for all our stakeholders.

In 2013 at the AGM, I mentioned the story of my parents, Bob and Mary Goyder. Mum and Dad were farmers in the Great Southern. Dad, who passed away in 2006, was an Elders client but he purchased the minimum number of Westralian Farmers Co-operative units he needed in order to get a discount on his CSBP superphosphate purchases!

Like a lot of you here today, Mum and Dad put their Co-op units in the bottom drawer, and reinvested distributions into more shares.

That initial investment in Co-op units now looks like this.



That is, if you invested $1,000 back in 1984 in Wesfarmers, when we listed, and reinvested distributions, the value of that initial investment would be around $300,000 versus the All Ordinaries $26,000.

I said back in 2013, that although Mum was always pleased to see me, she was sometimes more interested in how her Wesfarmers dividend was going.

Earlier this year Mum passed away but shareholders should not worry that I have now lost that pressure point representing you all, on dividends, as my brother and two sisters have said that they want the Wesfarmers shares allocated to them now.

Over time, we have delivered on generating a satisfactory return, but there are of course times when not everything goes as well as we would like – last year was one of those years in a couple of our businesses. Having said that, I would argue that Wesfarmers is a more valuable company today than it has ever been, with great physical assets, and wonderful human resources.

There is huge value in having a vibrant and successful private sector, and listed companies like Wesfarmers are a really important subset of that.

Our success as a company has allowed us to give back to the communities in which we operate, beyond the wages and salaries and taxes we pay.

As the Chairman mentioned, our community contributions were in excess of $110 million last financial year and our businesses are doing some fantastic things to help out local communities.

A couple of national programs that Coles have been involved in are RedKite and SecondBite.

Coles has contributed over $20 million to Redkite since 2013, which has gone on to provide essential support to families of children and young people diagnosed with cancer.

Through the SecondBite program, Coles has donated over 15 million kilograms of surplus, fresh food since 2011, which has provided 30 million nutritious meals to over 1,200 community food programs around Australia.

Bunnings has long been a strong supporter of local communities. You will all be aware of the sausage sizzles, run at your Bunnings Warehouse by various groups, which goes to supporting local communities.

Over the last financial year, Bunnings' team members supported more than 70,000 activities helping to raise more than $37 million. This included over 14,000 conducted with local schools and kindergartens and more than 5,000 activities to support local health and wellbeing groups.

For nearly 30 years in Australia and New Zealand, Kmart, through its Wishing Tree Appeal, has provided over 8 million gifts for infants to seniors that are having a hard time. It is the largest and longest running Christmas gift appeal, with gifts distributed through the Salvation Army and Mission Australia.

Last year over 400,000 gifts were donated and distributed across Australia and New Zealand. The 2016 appeal will kick off in all Kmart stores from this Monday.

In addition to supporting local communities, our businesses have proactively been promoting diversity and equal opportunities. For example, our Resources business, in conjunction with Thiess, created the award-winning Oothungs in Mining training program, which seeks to maximise employment opportunities for disadvantaged Indigenous women in central Queensland.

Oothungs mean 'sisters' in the language of the Ghungalu people, the traditional owners of the land where the Curragh Mine is located, and since its inception three years ago 14 Indigenous women have participated in the program.

As we look to the future, it will, as it always has been, be the people at Wesfarmers who will drive us to deliver on our objective to you.

Over the years, Wesfarmers has been very good at attracting and developing talented individuals. In the challenging environment alluded to by the Chairman, with more competition, volatility and disruption, our capacity to continue to do that has never been more important.

I am proud to lead an exceptional group of executives at Wesfarmers, and I thank them for their commitment and passion in helping us achieve our objective. That same appreciation goes to each and every one of the approximately 220,000 employees we have, including the thousands more new team members we now have in the UK and Ireland following the Homebase acquisition.

We are all aligned and committed to our objective of providing you with satisfactory returns. Your company is in good shape, and we are very optimistic about its future.

Thank you.

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