CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS TO ANNUAL GENERAL MEETING
THURSDAY, 15 NOVEMBER 2018, 10:30AM 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 2018 Annual General Meeting. Welcome also to all those joining us today via webcast. Once again, we have a great number of shareholders in attendance. Thank you all for coming along today and for joining us online.

Thanks also to the terrific musicians we've had playing here for us this morning – from our long standing arts partner, the West Australian Symphony Orchestra. Please join me in thanking cellists Emma Vanderwal and Sacha McCulloch.

This is a significant day for the company, with shareholder meetings to follow this AGM which will consider the proposal to demerge our Coles business. I trust you'll find all meetings informative, interesting and enjoyable.

May I start by thanking Dr Richard Walley OAM for his Welcome to Country on behalf of the Noongar people, the traditional owners in this part of Western Australia, and pay my respects to their elders past and present. 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.

This year, we have one director retiring by rotation and to consider for re-election, and one director for election – respectively, Mr Wayne Osborn and the Right Honourable Sir Bill English. You'll be hearing from them a little later in the meeting when they'll seek your support for their election.

But, first, I'd like all of my director colleagues to please stand, while I introduce them. On the stage here with me and our company secretary Linda Kenyon is, of course, Wesfarmers' Managing Director, Rob Scott.

Now, to our other Board members – in front of you.

First, Tony Howarth. Tony 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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Next, Wayne Osborn who joined the Board in 2010 and is Chairman of our Remuneration Committee.

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

Next to Vanessa is Bill English, who joined the Board during the course of this year.

Next to Bill is Paul Bassat who retires at the end of this meeting, after six years on the Board.

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

During the course of this year, we had two director retirements and I shall talk about their contribution later in my address.

Also with us at today's meeting, seated at the front, are the Group's senior executives, including the Managing Directors of our business divisions.

I welcome them and, on your behalf, thank them for their efforts and the efforts of their teams, throughout the year.

As you would have seen coming into the meeting, all our businesses are well represented here today and I know how pleased they all were to have been able to demonstrate some of their wares outside, before the meeting. So if you have any particular matters you wish to raise that go to the detail of their operations, please make contact with them after the formal meeting. All will be outside and available to talk with you.

And lastly – I'd also like to extend a special welcome to all the former directors, executives and employees who have joined us here today.

As you'd be aware from the Notice of Meeting, there are four items of business to be discussed when we move into the formal proceedings. But before that, I'll make some general observations about the last 12 months and then Rob Scott will provide us with some reflections on the outlook.

The 2018 financial year was one of significant change for Wesfarmers, including some important decisions to restructure the Group's portfolio of businesses, in the interest of long term shareholder returns.

On a statutory basis, net profit after tax fell 58.3 per cent to $1.2 billion as a result of impairment charges and disposal costs associated with our Bunnings United Kingdom and Ireland business, coupled with a further impairment of the Target business. These impairment charges were partially offset by a profit on the sale of the Curragh coal business.

Excluding significant items and discontinued operations, we have reason to be pleased with the performance of our businesses. Net profit from continuing operations rose 5.2 per cent to $2.9 billion, which reflected a strong performance across all of those businesses.

You will have read the details on how the businesses performed in the Annual Report and Rob Scott will talk further about that in a moment.

The directors declared a fully-franked final dividend of $1.20 per share, bringing the full-year dividend to $2.23 per share.

This year, the successful transition from Richard Goyder to Rob Scott as Group Managing Director was one of a number of changes in senior management. We also saw Anthony Gianotti appointed as Group Chief Financial Officer from November of last year, and new leaders were appointed in the Industrials division and in Business Development.

The Group has also announced a number of additional senior leadership changes – which Rob will describe shortly. Importantly, your Board is confident that Rob's new team is well equipped to continue the company's record of success.

Our great thanks go to the retiring executives for their dedication and outstanding efforts on behalf of Wesfarmers.

With regard to portfolio restructuring, during the year we sold the Bunnings UK and Ireland operations and Curragh coal mine, and announced the proposed demerger of Coles.

We were naturally disappointed with the Bunnings UK outcome but I should stress that it has not deterred us from continuing to look for new investment opportunities outside Australia where we feel there is potential to use our skills and experience to create shareholder value. Notwithstanding the poor performance of the Homebase chain, we did conclude early this year that there remains potential for a Bunnings-like business to operate successfully in the UK market.

Given the lessons we learned there, however (in particular how competitive the market is), we concluded that the additional effort and investment required would not be justified by the modest returns likely to be achieved in the long run; and it was in our shareholders' interest to exit the business.

In the few months after the close of the financial year, we also announced the sale of Kmart Tyre and Auto Service, which was completed two weeks ago, along with our 40 per cent interest in the Bengalla coal mine, and our indirect interest in Quadrant Energy.

The most significant of the portfolio changes is the demerger of Coles, which will be completed in just under two week's time – if supported by you in the general meeting and scheme meeting that follow this AGM, and at a second Court hearing. The demerger is, in the unanimous view of your directors, in the best interests of Wesfarmers, and we will all be voting our shares in favour of the resolutions.

Importantly, as shareholders, we will end up with separate interests in two businesses – a stand-alone Coles, and Wesfarmers without Coles. And both companies – as you will have seen in the Scheme Booklet which was sent to you – offer attractive return profiles. Importantly, each company will go forward with a very strong balance sheet.

Speaking of our strong balance sheet, I am always somewhat bemused when I read newspaper reports suggesting that the Wesfarmers Board and/or CEO are under some sort of pressure to make an acquisition, given the company's substantial financial capacity or in order to "fill the earnings hole left after the Coles demerger". There is, of course, no "earnings hole": the demerger simply splits what was one Group profit into separate profits, for a smaller Wesfarmers and for Coles.

And the financial strength of Wesfarmers doesn't mean that we feel any urgency to make new acquisitions. Apart from there being many opportunities for growth within our existing businesses, new investments will only occur if they have the potential to deliver superior returns to our shareholders over the long term. The Group Managing Director has made this point on many occasions.

This raises an important issue facing all companies listed on the Australian Securities Exchange; namely the obsessive focus of many investors, analysts and journalists on short-term profit growth. This unreasonable focus was undoubtedly a factor in giving rise to the sorts of unacceptable behaviours we have all read about in reports on the Banking Royal Commission.

In endeavouring to satisfy market and press demands for short-term profit growth – to achieve what is called "consensus forecasts" – management sought to motivate employees through incentive schemes and these led to some employees and agents bending the rules. We even had one well-known analyst declaring that it was all very well for companies to talk about a long term focus, but they should appreciate that people like him and investors were just focused on the next few years' performance.

Well let me make it very clear that your Board and management are focused on wealth creation for shareholders over the long term, not the short term. That means we may make investments that take a while to generate good returns and that our short-term profit growth may not be what some analysts or journalists demand.

Of course it's all very well to take such a high minded position but it's rather hollow if it's not backed up by good long term performance. I think Wesfarmers can be very proud of its record in that regard.

As I noted in this year's Annual Report, if you invested $1,000 in the top 50 ASX companies when we went public in 1984 and reinvested your dividends, your investment would now be worth around $32,000. If you invested the same $1,000 in Wesfarmers, your investment would now be worth around $400,000. That's more than 10 times as much!

We have achieved those results because we focused on running our businesses better, expanding them as we could see opportunities and managed the portfolio well.

The last point doesn't mean that everything we've done has been successful. No company or management team has perfect information or foresight and so we all make mistakes. The secret to achieving long term success is to make more good decisions than poor ones; and to learn something from the latter.

These constant market demands to achieve short-term profit growth put a lot of pressure on a company's management. No one likes to be pilloried in the press for failing to meet expectations, regardless of how unreasonable those expectations might be. This where the directors have a very important role: to support the CEO and management when they are genuinely focused on long term shareholder wealth creation in the face of often misplaced external criticism.

The stories coming out of the Banking Royal Commission have undoubtedly diminished the general public's opinion of companies in general and have given rise to suggestions that companies' focus on financial outcomes is incompatible with good corporate citizenship. On this, we fervently disagree.

As you know, Wesfarmers has always had the corporate objective of providing a satisfactory return to shareholders. The reason listed companies exist is to provide shareholders with financial returns. But this objective is not at all incompatible with being a good corporate citizen.

At Wesfarmers, we have always been very careful to qualify our financial objective with the words you see on page 4 of our Annual Report. We will never achieve superior returns in the long term if we don't take care of our employees, meet our customers' needs, treat our suppliers as partners, operate ethically, minimise our environmental footprint and contribute to the communities in which we operate.

Poor behaviour will mean that investors won't buy your shares or will sell their holding, customers will desert the business, there will be fines or bans and the company won't be invited to participate in profitable opportunities. In short, the company will lose its 'licence to operate'.

Wesfarmers is amongst the most generous of Australian companies in terms of its corporate philanthropy. I don't think it's a coincidence that we have also been one of the most financially successful.

Good corporate citizenship leads to long term wealth creation. That, by the way, is why there is no need to mandate or measure corporate citizenship, as the recent draft of the ASX Corporate Governance Guidelines sought to do. The link between good behaviour and success should be obvious to all.

I'd like to pay tribute to our Board.

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. Two of our directors leave us this year.

As I said earlier, Paul Bassat retires at this meeting after serving six years on the Board, owing to the pressure of his other engagements. Paul has been a terrific contributor, particularly in respect of the digital world and all the disruption every company is facing, and we shall miss his input. Fortunately, David Cheesewright, who joins us next month as Board advisor, had extensive experience in retail digital disruption in his former role as president of Walmart International.

James Graham retired in July this year after serving 20 years on the Board; but that was only one part of the unique contribution James has made to Wesfarmers over the last 41 years. James has advised management and the Board on every major transaction we've been involved in since Wesfarmers was a small Cooperative with a value of $28 million.

He oversaw, at the age of 28, the company-making acquisition by the Cooperative of the fertiliser company CSBP and Farmers – a takeover drawn out over two years and, at the time, the largest in Australia's history.

When we were seeking to take the Cooperative public in 1984, James devised a structure, including a share that held special voting rights, unique on the stock exchange, which provided the farmer shareholders with comfort that the listed company wouldn't be taken over before it had had a chance to demonstrate its real value; thus allowing the listing to receive the necessary shareholder support.

And in the numerous mergers, acquisitions and restructurings that have taken place since, including the creation of the innovative, wealth-generating Franked Income Fund, James has been a central figure in providing commercial advice. I could go on and on about particular contributions but suffice to say that James Graham's contribution to Wesfarmers has been quite unique. James, if you could rise, I'm sure our shareholders would like to show their appreciation.

In closing I thank all of our shareholders for their ongoing support; we are determined to reward that support by continuing to provide you with healthy returns.

And lastly, I would, of course, like to extend my – indeed, all of our – thanks to Rob Scott, his management team and to all of our employees for their efforts for the company.

I'd like now to invite Rob to deliver his address as Managing Director.

MANAGING DIRECTOR'S ADDRESS

Thank you Chairman and good morning.

I'd also like to thank Dr Richard Walley OAM for his Welcome to Country, and acknowledge the traditional owners of the land on which we are meeting, the Noongar people, and pay my respects to their elders, past and present.

2018 has been a year of change for Wesfarmers and today, I will provide an update on the changes within our portfolio, team and capabilities and how these position our company for sustainable value creation into the future.

These changes have been guided by a steadfast commitment to our core objective – to deliver a satisfactory return to shareholders. And we define this as a superior return to market over the long term.

At Wesfarmers, we recognize that we can only deliver superior returns over the long term if we create shared value for all stakeholders and act in an ethical, responsible manner. Our stakeholders include our customers, team members, suppliers and the communities in which we operate. We're all in this together.

I am fortunate to lead a company with such clarity of purpose – with a Board and leadership team that understand the importance of maintaining a long term focus.

Ours is a dynamic, competitive world where technology is changing business and the way consumers engage in commerce and consumption. The pace of change and disruption is accelerating, creating both risks and opportunities.

Last year I talked about three areas I viewed as critical for Wesfarmers' future success. They were talent management, accelerating our data and digital capabilities and encouraging an entrepreneurial spirit across the Group. We have made some good progress in these areas but there remains much to do.

To be competitive in Australia and on the world stage, we must continue to attract, develop and retain the best talent and teams. We must set our teams up for success and ensure we are always learning and improving.

Alongside the renewal in our portfolio, 2018 has been a time of leadership renewal with the retirement of some longstanding leaders and appointment of new members to our leadership team.

After 10 years with Wesfarmers, Guy Russo retired as the Managing Director of our Department Stores division. During this time, he led the remarkable turnaround of Kmart and, more recently, the reset of Target.

This month, Ian Bailey, the Managing Director of Kmart, assumed broader responsibility for Department Stores. In August, Marina Joanou was promoted to Managing Director of Target. Ian and Marina have been key to our success in Kmart over the last decade and bring experience, drive and vision to take these businesses forward.

Mark Ward steps down as Managing Director of Officeworks at the end of 2018, after 11 very successful years in this role and 30 years' service to the Group including senior roles at Bunnings.

Last month, I was delighted to announce the appointment of Sarah Hunter as Managing Director of Officeworks, succeeding Mark. Sarah brings deep retail management experience, having led Coles' Victorian operations and held senior commercial roles in Coles and leading international companies.

During the year, Alan Carpenter retired as Executive General Manager of Corporate Affairs. For 10 years, Alan's counsel has been invaluable, and we wish him well in retirement.

Naomi Flutter joined our Leadership Team to succeed Alan, bringing much experience to this important role.

This year, we have continued our tradition of promoting and developing from within while also attracting new leaders with different backgrounds and capabilities. This helps reinforce Wesfarmers' values and ways of working, while also accessing new perspectives and approaches.

It's pleasing to have improved the balance of our leadership team, consistent with our intent to have a diversity of skills, experience and backgrounds and no less than 40 per cent of our leadership team as either men or women. This ensures we are more representative of our customers and the communities in which we operate.

Turning now to data and digital – we've made significant progress in our divisions and at a Group level over the past year.

Technology enables us to reinforce our customer propositions, and provide even more compelling reasons for customers to deal with our businesses. We've seen improvements in the digital engagement with our customers and business partners, and significant growth in e-commerce sales. We've increased our investment in talent, systems and processes to improve our data analytics capabilities. This includes our new Advanced Analytics Centre that comprises experts in data science, data engineering and business translation, supporting each of our divisions.

Already, this investment has generated numerous ideas for our businesses with many now transitioning into implementation pilots – leading to practical outcomes including improved stock flow, optimizing product ranges by store, and more effective marketing in our retail businesses.

During the year, we launched a bespoke analytics learning and development program, the Wesfarmers Analytics Academy, to help our team understand the possibilities and opportunities associated with data science for their business and customers. This initiative is focused on developing divisional business translators to bridge the gap between analytics and business acumen.

With over a million website hits a day and 30 million transactions a week, there are many opportunities to leverage technology across the Group to make better business decisions and deliver more relevant and valued offers to our customers. Our flybuys joint venture with Coles will create opportunities to develop our data ecosystem for the mutual benefit of Wesfarmers and Coles, and our customers and partners.

Finally, as our businesses grow and mature, we are very focused on retaining the entrepreneurial spirit of our heritage.

Our business model enables us to move faster, to work smarter and to overcome some of the obstacles and bureaucracy often associated with large enterprises. In a competitive and changing environment, we need to stay true to our values – focused on our core objective, and learning from our mistakes along the way.

Our Chairman spoke earlier to a number of the changes within our portfolio.

Subject to the shareholder meetings which follow this AGM, the most significant change is the proposal to demerge Coles.

Coles is an iconic Australian company which has benefited from almost $9 billion of investment and a world-class transformation under Wesfarmers' ownership, since 2007. I'd like to recognise the Coles leadership team and more than 112,000 team members who made this happen. Now a high performing, profitable business, Coles is well positioned for life as a separately listed company.

John Durkan, the Managing Director of Coles, handed over to Steven Cain in September. John played a key role in the turnaround of Coles, first as Merchandise Director, then as Managing Director, and leaves Coles in great shape.

Our long-time retail advisor, Archie Norman, will step down as an adviser to Wesfarmers, concurrent with the proposed demerger. Archie was a driving force in the turnaround and I'm delighted he will continue to advise the Coles Board, post-demerger.

Coles is a mature, cash-generative business which will provide shareholders with returns that are expected to be resilient through economic cycles. It's being demerged with a strong balance sheet, and the capacity to invest for the future. If the demerger proposal is supported, Wesfarmers will retain a 15 per cent shareholding in Coles, alongside you. And Wesfarmers will have a designate on the Coles Board – David Cheesewright who retired earlier this year as President and CEO of Walmart International.

Ladies and gentlemen, you heard from our Chairman about the financial performance of the Group in 2018. Further details are included in our Annual Report. And our divisional managing directors along with their leadership teams will happily discuss their businesses with you, outside, after this meeting.

I'd like to turn now to recent trading performance and the outlook for our businesses.

Overall, I am positive about the long term outlook for the Group. We have some world-class businesses that are well positioned in their respective industries with clear strategies for the future. Our balance sheet is strong and we have the financial capacity and flexibility to invest in our businesses and new value adding opportunities.

For Bunnings, the outlook remains positive given the strength of its customer offer and the resilient, defensive nature of the business. As highlighted at our full year results announcement, Bunnings is continuing to cycle high levels of sales growth in the prior year, and growth is moderating to levels in line with the fourth quarter. Periods of very high rainfall in certain centres and a generally cooler start to spring across Australia have impacted sales.

Turning to Coles, in a very competitive environment, and as we proceed to consider its demerger, Coles remains focused on customers and delivering sustainable earnings growth.

We recently reported first quarter sales growth of 5.8 per cent, supported by the successful 'Coles Little Shop' campaign, improved in-store execution and flybuys promotional campaigns. This in turn led to strong growth in basket size, transaction numbers and units sold – as well as improvements in Fresh market share.

In the continuing competitive environment post 'Little Shop', Coles Supermarkets business reflects trading broadly in line with the fourth quarter of the 2018 financial year. Pleasingly, customer satisfaction metrics have been maintained during this period of change for Coles with in-store execution improvements underpinned as a result of better availability through our stockless stockrooms.

Coles online sales have continued to grow strongly on the prior year, and are expected to surpass $1 billion of sales for the current financial year, supported by over 1,000 customer collection points across the Coles network.

As we highlighted at our first quarter sales results, our Convenience business continues to experience difficult trading conditions with fuel volumes and earnings continuing to be impacted by high global oil prices, a lower Australian dollar and the ongoing impact of changes to the commercial terms with our Alliance partner.

Our Department Stores business continues to grow volumes with Kmart reinforcing its strong value and product development credentials while Target is showing improved sales momentum in key categories. Kmart's sales growth has moderated since last year, particularly in apparel which was impacted by a later than expected start to spring, delaying sales of summer product. The exit from low margin DVD and music products also impacted sales growth during the quarter. Inventory levels are in good shape and both Kmart and Target are well positioned for the important Christmas trading period.

Officeworks continues to deliver on its 'every channel' strategy, driving sales growth rates in stores and online which are comparable with 2018 growth rates. New and expanded ranges – like art supplies and educational resources – are attracting additional customers into our stores. And coupled with improvements to store layout and design, these changes are further driving improvements in sales density.

Within the Group's Industrials division, Chemicals, Energy and Fertilisers continues to benefit from strong operating performance and a good growing season in Western Australia supporting fertiliser sales. The division is also benefiting from good demand for sodium cyanide in the gold sector, and from opportunistic sales of ammonium nitrate in the Pilbara and emulsion sales, following the construction of a new production facility last year.

Kleenheat continues to perform well across LPG and natural gas distribution. In fact, if you haven't already switched, I encourage you to talk to the Kleenheat team outside today … it's easy to switch! It's the same gas through the same pipes, and we will offer you a generous shareholder discount – if you act today!

Following its recent strategic reset, Industrial and Safety is well positioned to grow across different market sectors and drive additional operating efficiencies – growing revenues from new and existing customers. Blackwoods achieved much improved customer service metrics over the last quarter and is investing in new systems to further improve the digital customer offer.

Ladies and gentlemen, I want to close with a few comments around our broader responsibilities.

Over the last year, you may have questioned the values and behaviour of some large businesses and institutions – in the public and private sectors. At Wesfarmers, we choose to hold ourselves to a high standard – doing what we should do, not what we can do.

Across the Group, our businesses are proud to be part of local communities and our team members care about our contribution to society. They tell us that they want to work for a company that is successful and sustainable – that makes a difference.

As Managing Director, one of my key responsibilities is to ensure our businesses are competitive and profitable into the future. I will always be committed and passionate about this responsibility.

Each year, if we can create more value, we can provide more meaningful jobs, pay our taxes and invest in the community. As our Chairman noted, we deliver significant value to the nation through salaries and wages, payments to suppliers, taxes, dividends and community contributions – as you can see in this slide. In 2018, the Group paid over $47 billion to suppliers, the majority of whom are located in Australia. And over $9 billion to our team members. A strong Wesfarmers helps deliver a strong Australia.

For those shareholders in Perth today, the Celebrating Reconciliation booklet in your shareholder bag reports that Wesfarmers is the country's largest employer of Aboriginal and Torres Strait Islander Australians – with almost 6,000 Indigenous team members.

Much of our success in this decade-long commitment lies in Coles, which today accounts for around two thirds of these team members. Today, we couldn't be happier to see Coles emerge as an independent company, leading the nation on Indigenous employment. It's a legacy of which we're tremendously proud.

Of course, looking forward, Wesfarmers remains fully committed to driving Indigenous recruitment – coupled with a focus on ensuring our Indigenous team members advance, with successful, fulfilling careers.

This is an exciting time for Wesfarmers – partly because the changing business and commercial environment creates opportunities, and partly because we enter this new, next phase with an exceptional leadership team and in formidable financial shape.

The Wesfarmers model allows our operating divisions to excel – we let our businesses get on with things, while supporting them to implement strategic change. Our strong financial position gives us flexibility – to be entrepreneurial and respond to changing markets and opportunities. As has always been the case, we will allocate our capital where we can deliver superior returns over the long term.

Lastly, a special thanks to our team members around Australia, and overseas, for their dedication and commitment. I am looking forward to working with you in the years to come.

Ladies and gentlemen, thank you for your support. I am very confident that Wesfarmers' best days lie ahead. I'd like to now hand back to the Chairman.

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