Wesfarmers

CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS
TO ANNUAL GENERAL MEETING
WEDNESDAY, 14 NOVEMBER 2012, 1:00 pm PERTH TIME

CHAIRMAN'S ADDRESS

Good afternoon ladies and gentlemen.

My name is Bob Every, Chairman of Wesfarmers and, on behalf of the Board, I'd like to welcome you all to our 31st Annual General Meeting. Welcome to all those joining in by webcast, and a special welcome to all those participating in your first Wesfarmers AGM.

Firstly, could I thank Kim Collard for his Welcome to Country on behalf of the Noongah people, the traditional custodians of this part of Western Australia.

A quorum is present and I now declare this meeting open. I propose to take the Notice of Meeting as read.

Introduction of the Board

I would now like to introduce the members of the Board. There are no retirements this year, but a little later in the meeting we will be asking you to support the election of a new member to our Board which, I am happy to report, has worked exceptionally well together as a team again this year.

You'll be hearing briefly from those directors standing for re-election later today, but for the time being I'd just like each of my colleagues to stand up as I call out their names.

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

In the front row are our other directors.

Firstly, James Graham, a member of the Board since 1998. James is a member of the Remuneration and Nomination committees.

Charles Macek, who has been with us since 2001. Charles is a member of the Audit, Remuneration and Nomination committees.

Colin Carter, who became a non-executive director of Wesfarmers in 2002. Colin is a member of the Remuneration and Nomination committees.

Next, Tony Howarth, who came on the Board in 2007 and is Chairman of the Audit Committee and a member of the Nomination Committee.

Diane Smith-Gander, who became a Board member in 2009. Diane is a member of the Audit and Nomination committees.

Next Wayne Osborn, who joined the Board in March 2010. Wayne is a member of the Remuneration and Nomination committees.

Vanessa Wallace, who joined the Board in July, 2010. Vanessa is a member of the Audit and Nomination committees.

And finally, the other executive director of the Board, and I'd ask him to stand now, is our Finance Director, Terry Bowen.

In the audience, also, today are the Group's senior executives, including the managing directors of the divisions and, on your behalf, I welcome them and thank them for their efforts during the year.

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

So if you do have particular matters you wish to raise that go to the detail of any of those operations, and which neither I nor Richard Goyder would be able to answer during Question Time, please do make contact with those people in the foyer outside who represent our many businesses.

Meeting Format

As you'd be aware from the Notice of Meeting, there are seven 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 a business outlook. I will then return to open the formal proceedings of the meeting.

Year in review

Ladies and gentlemen, from the time we listed as a public company back in 1984, the stated objective of Wesfarmers has been to provide a satisfactory return for our shareholders, in other words, "to create value for our shareholders". That remains our essential purpose.

In pursuing that objective, we can create value for all stakeholders: our employees; customers; business partners; suppliers; and the communities in which we all live and work.

The way we conduct our daily business is guided by four principles: integrity; openness; accountability; and boldness. Integrity in the way we conduct business. Openness in our dealings. Accountability in taking responsibility for our actions. Boldness in the pursuit of creating value for our shareholders.

At Wesfarmers, we are fortunate to have a great portfolio of assets, a very strong balance sheet and, most importantly, a team of talented managers and enthusiastic employees. Thanks to their efforts, your company has enjoyed a year in which we returned profits of more than $2 billion for the very first time and lifted our dividends to shareholders by 10 per cent.

We had turnover of $58 billion for the year. Our profit was $2,126 million, up 10 per cent, and our earnings before interest and tax, which is how we measure the divisional performance, was over $3.5 billion. Our earnings per share were up and our cash flows were very strong.

In an underlying profit sense, every one of the eight divisions recorded increased earnings last year, which is a really outstanding outcome in an environment which has been challenging economically in Australia.

As a result, we were able to declare a fully-franked final dividend of 95 cents per share at year's end, taking the full-year dividend to $1.65, up from $1.50 per share fully-franked in 2011. That result is very pleasing, and demonstrates yet again the benefits of being a diversified conglomerate.

As I tell you about the earnings results of each of our business divisions, it is worth recalling that tiny farmers' cooperative which was born in the West Australian wheat belt in 1914.

From that small beginning, we have grown into one of Australia's largest - and, I'm proud to say – most respected companies, employing more than 200,000 people across Australia and New Zealand. Last year we paid out nearly $7.2 billion in salaries, wages and other benefits.

For the 2012 financial year we paid out $1.9 billion in dividends to our 500,000 shareholders, the majority of whom are ordinary Australian citizens, many with direct family connections to the original members of the cooperative.

And those Australians who don't own shares directly are likely to share in Wesfarmers' profits through their superannuation fund. So Wesfarmers' profits are shared widely amongst the Australian community.

Business divisions

I turn now to the performances of our diverse business divisions for the 2012 financial year.

<u>Coles</u>

Coles delivered operating revenue of $34.1 billion, up 6.4 per cent on the previous year, and achieved strong earnings growth of 16.3 per cent to $1,356 million. That outcome built on the 21.2 per cent earnings growth achieved in the prior year.

Savings generated through improved operating efficiencies supported continued price reinvestment during the year, driving growth in volumes and profitability. The continuation of the renewal refurbishment program and the improvement of the store network further benefited performance in the year.

<u>Bunnings</u>

Bunnings' operating revenue increased by 5.6 per cent to $7.2 billion for the full year, while earnings increased 4.9 per cent to $841 million and represented another good result for the business. In tighter trading conditions, this result was underpinned by solid transaction growth from a number of merchandise initiatives and investment in customer service and value. Earnings were further supported by cost management initiatives and the improvement of the store network.

Incidentally, Bunnings was recently voted Readers Digest 'Most Trusted Australian Retail Brand' for the seventh consecutive year. Readers' Digest also nominated Bunnings as Australia's 'Most Iconic Brand', ousting Vegemite from the top spot. Quite a remarkable achievement.

<u>Officeworks</u>

Officeworks' operating revenue for the year grew by 0.7 per cent to $1.5 billion. Earnings increased 6.3 per cent to $85 million. The focus on the strategic agenda of the business continued to drive transaction growth during the year, offsetting heavy deflation and generally challenging trading conditions, particularly in technology related areas.

Kmart

Kmart achieved operating revenue for the year of $4.1 billion, up just 0.4 of a per cent, but the business produced a remarkable growth in earnings of 32 per cent, up to $268 million.

Improvements in range, together with better sourcing and stock management, continued to drive business efficiencies and support reinvestment in lower prices that were positively received by customers. Kmart has now achieved eleven consecutive quarters of growth in transactions and units sold.

Target

Target's operating revenue decreased by 1.2 per cent to $3.7 billion, but earnings of $244 million were in line with the prior year after excluding a one-off $40 million provision in the current year for future supply chain restructuring. Excluding this provision, Target contributed earnings of $284 million, despite difficult trading conditions, particularly in consumer electronics.

Underlying earnings were maintained through a focus on the profitability of promotions and lower levels of clearance activity due to better inventory management.

Insurance

The Insurance division's operating revenue of $1.9 billion was 10.1 per cent higher than the previous year, which, you will recall, was a particularly challenging one for our insurance team.

For 2012, the division reported earnings of $5 million after increasing reserve estimates for the 22nd of February 2011 Christchurch earthquake by $108 million during the year. Excluding this event, underlying earnings were significantly ahead of last year.

Resources

Resources division revenue was $2.1 billion, up 19.9 per cent, while earnings increased 19 per cent to $439 million. The major driver of the result was higher export coal prices in the first half, and improved sales volumes in the second half, following the completion in the fourth quarter of expansion projects at the Curragh and Bengalla mines. Higher revenue was partially offset by extra costs associated with flood recovery efforts, one-off mine expansion preparation costs and higher government royalties.

Wesfarmers Chemicals, Energy and Fertilisers

The Chemicals, Energy and Fertilisers division reported revenues of $1.8 billion, which was 8.8 per cent higher than the previous year. Earnings were $258 million, representing growth of 7.1 per cent after excluding $42 million of insurance proceeds in the prior year related to the 2009 Varanus Island gas outage.

Earnings were supported by higher prices in the chemicals business and increased fertiliser sales, which offset a lower contribution from Kleenheat Gas and the loss of earnings from the enGen business following its divestment in August 2011.

Industrial and Safety

The Industrial and Safety division reported revenues of $1.7 billion, up by 8.5 per cent, and delivered another good result with earnings increasing by 14.5 per cent to $190 million. That growth was supported by strong demand from the resources and engineering construction sectors, and an enhanced competitive position.

Year in Review

Businesses sold

During the financial year we sold two businesses, the Premier coal mine in Collie, Western Australia, and the enGen remote power generation business, also in Western Australia. We were pleased with the outcomes of both sale processes and the prices obtained for our shareholders.

I would like to put on record my thanks and appreciation to the employees at these two businesses for the contribution they made to our company and for the way they conducted themselves while the sales were being progressed.

Sustainability and safety

Ladies and gentlemen, in all our Wesfarmers businesses, we are constantly looking for ways to make our businesses more sustainable, more successful and better contributors to the communities upon which we ultimately depend. Paramount in that drive for success, however, has to be the concern for safety.

Good safety is good business and financial results will not be sustainable if we don't do everything to ensure safety is part of daily work.

Our safety performance is improving, but we still have a long way to go on this critical measure of our success as a company. I am delighted that the leadership team has set up a group, led by John Gillam, to benchmark our safety performance across all aspects of the Wesfarmers business against the best in the world. The team consists of individuals from all the divisions.

The project is looking at how we compare with best practice around the world, but, more importantly, at how we can take the best learnings from companies within the Group and across the world to improve our own safety performance. This is a very important initiative for us and I look forward to its outcomes further assisting in our drive for continuous improvement in safety performance.

Now before I hand over to Richard, I want to highlight to you just one of the many, many initiatives underway in our businesses which helps to tell us why this is such a great company.

We'll now turn to a brief presentation on what's happening in our Coles store in Edmonton, near Cairns in far north Queensland.

I would also like to thank the hard work of each of our business leaders, every one of our 200,000 employees in their teams, and acknowledge their contribution to our ongoing success.

I would like to thank my colleagues on the Board for their continued commitment to overseeing such a diversified conglomerate.

I would like to thank you, the shareholders, for your ongoing support of this great Australian company.

And finally, I would like to thank Richard for his continued strong leadership of Wesfarmers. As a Board we are grateful for his dedication to the company and his strong and calm leadership. We look forward to working with him for many years to come.

May I now introduce our Managing Director, Mr Richard Goyder.

MANAGING DIRECTOR'S ADDRESS

Thank you Chairman. Good afternoon ladies and gentlemen.

Wesfarmers' performance so far this year is in line with our outlook statement at the full-year results and is as follows.

The performance of our retail and insurance divisions has been pleasing. Our retail businesses continue to achieve good transaction growth and provide better value for customers, while our insurance business has to date benefitted from improved underwriting performance and lower claims experience.

Our industrial businesses have had a mixed start to the year, with the Resources division being affected by significantly lower commodity prices, our Industrial and Safety division experiencing a slowdown in some of its markets, and our Chemicals, Energy and Fertilisers division trading well.

This week marks the eightieth year of Coles' operations in Western Australia. Last week Coles opened its first supermarket in Perth's CBD at Raine Square. The new store format is designed to satisfy the needs of city based workers and has a direct underground pedestrian link to the Perth Underground Train station.

We have been happy with the start to the financial year which Coles has made, with underlying volume growth in the food and liquor businesses continuing to be strong. Importantly, in the first quarter both food and liquor's comparative sales growth of 3.7 per cent and Coles Express' comparative fuel volume growth of 0.4 per cent have outperformed their respective markets. Growth in these businesses has also continued into the second quarter of this year. We now have approximately two million more customers visiting our stores each week than we had in 2007, reflecting the continued improvements in quality, service and value.

Coles team members are working hard in the lead up to Christmas to deliver Coles Christmas magic to Australian families. While Coles continues to experience price deflation through a combination of ongoing price investment and price deflation in fruit and vegetables, it is lower than that experienced in the first quarter of the year.

It is important to note that the Coles turnaround represents the largest global retail turnaround in recent years, and we are pleased with performance to date which has met or exceeded our acquisition case assumptions in most areas. Coles is a very large and complex organisation and the turnaround has involved improvements to many aspects of the business.

In terms of productivity, Coles food and liquor sales density has increased nearly 20 per cent over the last four years, a market leading outcome. Wastage has been reduced by more than 50 per cent, saving Coles more than $400 million a year.

In relation to networks, Coles has closed 91 underperforming supermarkets and opened 93 larger and more profitable stores, increasing supermarket selling space by five per cent and currently has 270 supermarkets trading in the renewal format. The distribution network has been consolidated, with distribution centres reduced from 43 to 23.

Engagement with employees has improved substantially as evidenced by a reduction in absenteeism of almost 40 per cent over the last four years. In 2007, only 30 per cent of Coles employees were employed on a permanent basis. Today, 66 per cent of our team members are permanent.

Service to customers has improved as demonstrated by a 55 per cent reduction in gaps on shelf, and a 50 per cent reduction in queue waiting times over the last four years. Coles' investment in lower prices has delivered over $1 billion in average annual savings for our customers, saving $450 per annum for an average family.

In financial terms both Coles EBIT and return on capital have nearly doubled since the acquisition.

In terms of you, our shareholders, the total shareholder return since 3 April 2007, being the date we announced the bid, is 33.1 per cent, assuming all dividends were reinvested and all capital management initiatives were participated in. This means if you were holding $1,000 in Wesfarmers shares on 3 April 2007, this would now be worth $1,331. $1,000 invested in the All Ordinaries Accumulation Index over the same period would now be worth $952. This represents an outperformance of nearly 40 per cent against the All Ordinaries Index.

If we consider this against our comparator set, we have outperformed approximately two thirds of the ASX 50 over the same period.

Whilst much has been achieved, there remain significant opportunities to realise further value for shareholders for many years to come, and Coles remains focused on building upon the strong foundation for long term sustainable growth we have established during the turnaround.

Bunnings' sales growth for the year to date has been pleasing in both consumer and commercial areas, taking into account deflation from ongoing investment in price. Store transaction growth continues to reflect a positive customer response to the ongoing evolution of the Bunnings offer. We expect similar trading conditions in the coming months.

Bunnings has opened eight stores in the financial year to date, consisting of four warehouses and four smaller format stores, with the newest of these opening this morning in Armadale, Western Australia. Importantly, the recent deregulation of Sunday trading hours in Western Australia has enabled us to open this Armadale warehouse with the full Bunnings range, which is a first for Western Australia. A further 13 sites are under construction nationally, with a strong pipeline of store openings scheduled for the next 24 months and beyond.

Officeworks continues to grow through the expansion of its every channel offer. The development of the store network forms a key component of its strategic agenda, with five store openings completed so far this year. Pleasingly, year to date online sales continue to achieve double digit growth rates, with customers responding well to our online offer. Good progress has also been made in the B2B market through the expansion of the field sales team and online platforms.

Turning to Target, growth in transactions and customers has continued since the completion of the first quarter, providing confidence that the early stage of the business turnaround is progressing to plan. In certain categories, improved service levels are driving growth and, in other categories, performance improvement is due to an increased focus on product quality. Categories with strong performance include children's wear, ladies footwear, women's intimate apparel and homewares. The development of an improved online model is a key focus area in Target's turnaround plan. It is therefore pleasing that online sales have grown throughout this calendar year at more than 25 per cent per month, with improved profitability, as Target expands its online range, functionality and fulfilment capabilities.

The key priorities for the balance of the year remain on supply chain transformation, improving our organisational capabilities and continuing our investment in online, as well as a strengthened Christmas offer. Plans are in place to build on the current momentum, strengthen the mid-tier position through differentiated ranges, improve marketing and the in-store experience, and invest in customer service.

Kmart's year to date trading performance has been underpinned by continued improvement in ranging and product availability, and ongoing investment in lowering prices. Customer metrics remain strong, reflected by continued growth of customer transactions and units sold. Kmart's outlook sees a continuation of the unrelenting focus on price leadership and customer value, sourcing at lowest cost, stock flow and availability, and network expansion and reinvestment.

Turning to our industrial businesses: in the Resources division the Curragh coal mine in the Bowen Basin is facing a difficult metallurgical coal market and the team is very focused on optimising operations and reducing costs.

While we are maximising the operational performance of our coal mines, continued soft metallurgical and thermal coal prices and the high Australian dollar have resulted in the worst conditions we have seen in many years, and this is clearly placing pressure on all Australian coal miners. These conditions, along with the impost of the Stanwell Royalty, increases in state royalties and the introduction of the carbon tax, will significantly impact the Resources division's financial performance for FY2013.

In our Wesfarmers Chemicals, Energy and Fertilisers division, performance to October is tracking to plan. The business is benefiting from good plant performances and strong demand for many of our products, particularly those supplied into the iron ore and gold mining sectors. As anticipated, we are continuing to encounter margin pressure in our Australian Vinyls business and lower LPG content in the Dampier to Bunbury natural gas pipeline. We expect similar conditions to prevail across those businesses for the remainder of the financial year.

We remain focused on the $550 million ammonium nitrate expansion project which remains on track to be operational during the first half of the 2014 calendar year. We also continue to evaluate plans for a potential debottlenecking of the sodium cyanide plant.

Our Industrial and Safety division, as expected, has experienced some slowdown in customer activity across a number of its key markets, particularly the coal mining, iron ore and mid-size manufacturing customer segments, while activity remains strong in segments such as oil & gas. Trading conditions remain stronger for the division's industrial specialists, particularly Coregas, Bullivants and Packaging House.

The outlook for the balance of the financial year is for softer trading conditions, with a number of subdued customer segments, the deferral of a number of major projects, and the ongoing global uncertainty. The division will continue to increase its customer centric focus to broaden its service offering to customers, to diversify its customer base, and improve its productivity and efficiency through investments in technology.

In our Insurance division, improvements in premium rates, risk selection and underwriting disciplines in Australia and New Zealand have resulted in stronger earnings in the first four months of the year compared to the prior year. New business written is tracking ahead of lapse rates in key segments, particularly in Australian personal lines. A lower incidence of adverse weather events has also contributed to improved underwriting margins. Broking operations are benefiting from a full-year's contribution from acquisitions made during the prior year. Challenging trading conditions and cost pressures in the SME sector are, however, placing some constraints on growth in this market segment. Subject to a lack of catastrophe events for the remainder of the financial year, the division is expecting a significant improvement in earnings to those delivered in FY2012.

The Group's balance sheet remains in a healthy position with our key liquidity ratios further improved over FY2012. Due to the cash generative nature of the Group and a staggered debt maturity profile, Wesfarmers could comfortably repay any debt maturing in future years from cash flows. The Group's strong operating cash flows have, over the last four years, funded not only significant replacement and net growth capital expenditure of approximately $1.7 billion per annum, but also funded growing dividend payments over this time.

So, in summary, all of our divisions with the exception of the Resources division, are tracking well and we are hopeful for a positive trading outcome in the retail businesses during the important Christmas period. Our focus across the company for the remainder of the year will be on innovating to meet the needs of our customers, managing costs and providing safe workplaces for our employees. Our strong balance sheet and commercial capabilities mean we will continue to invest capital and grow our existing businesses, while, as always, continuing to look for further opportunities to create value for our shareholders.

I would like to thank the Wesfarmers Board, led by Bob Every, for its wisdom, oversight and guidance. I would also like to thank the Wesfarmers Leadership Team and all of our employees at Wesfarmers for their tremendous efforts over the past year. And finally, thank you to our shareholders for your support as investors in Wesfarmers and customers of our businesses.

Thank you.

For further information: Alan Carpenter
Executive General Manager, Corporate Affairs
61 8 9327 4267 or 0438 903 674