CHAIRMAN AND MANAGING DIRECTOR'S ADDRESS
TO ANNUAL GENERAL MEETING
THURSDAY, 7 NOVEMBER 2013, 1:00 pm PERTH TIME

CHAIRMAN'S ADDRESS

Good afternoon ladies and gentlemen.

I'm Bob Every, Chairman of Wesfarmers Limited and, on behalf of the company's Board, I'd like to welcome you to our Annual General Meeting.

I would particularly like to welcome shareholders attending their first Wesfarmers AGM today and those shareholders who join us via our webcast.

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

I would like to congratulate Richard for his ongoing contribution to Western Australia.

I'm satisfied a quorum is present and so I declare the meeting open. I propose to take the Notice of Meeting as read.

Ladies and gentlemen, could I ask you reflect for a moment on the fact that it is, of course, 99 years since this great company began life as a tiny farmers' cooperative here in Western Australia.

That was back in 1914 when the total population of Western Australia was only about 300,000 people.

A lot has changed since then. The world is a very different place.

We've grown into one of Australia's largest companies, employing more than 200,000 people in every part of Australia and several thousand more in New Zealand, Asia and the United Kingdom.

And we've done it with a succession of strong leaders, good people, and a preparedness to undertake, from time to time, bold growth initiatives.

Next year is our centenary year. Wesfarmers will turn 100. It is a great milestone.

I take this opportunity to pay tribute to everyone who has contributed to the company's tremendous growth and success over our history, and I include in that our many, many shareholders, past and present.

Thank you all very much.

Introduction of the Board

I’d now like to introduce my fellow directors.

As Chairman, I’m pleased to be able to report to you there is a strong, collegiate spirit among Wesfarmers’ Board members and they continue to work very well as a team.

Board renewal continues, supported by a principled and effective nominations process, and diversity is now an important part of our considerations in the search for suitable talent and experience.

There are three retirements by rotation this year, a little later in the meeting we will be asking you to support their re-election and the election of a new Board member, Jennifer Westacott, who, I am happy to report, has worked exceptionally well as part of our team since her appointment earlier this year.

You’ll be hearing from those directors shortly, 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.

Next, James Graham, a member of the Board since 1998.

Charles Macek, who has been with us since 2001.

Colin Carter, who became a non-executive director of Wesfarmers in 2002.

Next, Tony Howarth, who came onto the Board in 2007 and is Chairman of our Audit Committee.

Next, Diane Smith-Gander, a Board member since 2009.

Wayne Osborn who joined the Board in March 2010 and became Chairman of our Remuneration Committee this year.

Vanessa Wallace who joined the Board in 2010.

Next, can I introduce Paul Bassat who joined our Board last year.

And can I introduce our newest Board member, Ms Jennifer Westacott, who was appointed as a director earlier this year and who will be offering herself for election later in the meeting.

The other executive member of the Board, and I’d ask him to stand now, is the 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, all of our businesses are 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.

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 or so and what lies ahead.

Then Richard Goyder will comment in more specific terms on the company's business activities and after that I will return to open the formal proceedings.

Year in review

Wesfarmers performed well in the last financial year and I believe we have good reason to be confident about the future.

While our operating revenue grew by 3.0 per cent, we were able to report a 6.3 per cent increase in net profit after tax of $2,261 million for the full-year.

That result came after strong earnings from five of the nine divisions, but reduced earnings from those businesses more exposed to the resources industry.

As I have said in previous years – this is a reflection of the advantages the conglomerate model can deliver – strength through the diversity of our businesses.

Wesfarmers' stated objective since listing as a public company has been to provide a satisfactory return to shareholders. That remains, and will continue to remain, the central focus of our efforts.

This year, the directors were pleased to declare an increase in the final dividend to $1.03 per share fully-franked, taking the full-year dividend to 180 cents per share, an increase of 9.1 per cent on the previous year.

In addition, in August we announced we intended to make a capital return to shareholders of 50 cents per ordinary and partially protected share.

We will discuss this later in the meeting when it is put to the vote, but I will say now that strong earnings growth and cash flows, and our improved credit metrics have enabled this return of capital to be undertaken without reducing balance sheet flexibility.

I mentioned earlier that next year, 2014, will be Wesfarmers' centenary year. It will also be the centenary year of another great Australian business icon, Coles, which began life as a family-owned variety store in Smith Street, Collingwood, in April 1914.

It is a remarkable coincidence that the two centenaries occur in the same year, but even more remarkable has been the turnaround in Coles since Wesfarmers acquired the business in 2007.

Business divisions

<u>Coles</u>

Coles was a business in deep trouble and it was the strength and innovation of Wesfarmers that turned it around. It could have gone another way. Another purchaser might have stripped off assets and put off staff. Instead, Wesfarmers brought in world class talent, increased employee numbers and invested in Coles' infrastructure and suppliers.

We outlined a five year strategy to turn the business around, and I would like to take this opportunity to congratulate Ian McLeod and his team on their outstanding success to date.

In 2013, Coles delivered earnings growth of 13.1 per cent to $1,533 million, building on the 16.3 per cent and 21.2 per cent earnings growth in the 2012 and 2011 financial years respectively. That's an outstanding result.

Of course, we have other great businesses in the Wesfarmers Group and without them we would not have had the financial strength to endure the Global Financial Crisis and provide cash for the Coles turnaround.

<u>Home Improvement and Office Supplies</u>

In Home Improvement and Office Supplies, led by John Gillam, we have Bunnings', where earnings increased 7.5 per cent to $904 million, another very strong result with growth across all key business segments as customers responded to improved value, range and service.

Officeworks' earnings increased 9.4 per cent to $93 million despite challenging market conditions and continued deflation in technology-related categories.

<u>Kmart</u>

And if the turnaround story at Coles is worth telling, then no less so is the achievement at Kmart. A business that was on its knees and making hardly any money five years ago, had earnings growth of 28.4 per cent to $344 million this year, building on the previous year's 31.4 per cent growth.

Under Guy Russo's leadership, the team at Kmart has now achieved their fifteenth consecutive quarter of growth in transactions and units sold.

<u>Target</u>

As has been well-documented, Target's performance was disappointing. Earnings fell 44.3 per cent in the year to $136 million following challenging trading conditions, increased costs and clearance activity needed to clear high levels of excess inventory.

Under a new leadership team, led by Stuart Machin, Target has embarked on a significant transformation. Earnings are expected to recover but we recognise improvement will take time.

<u>Insurance</u>

The sun shone on our insurance division after several years of difficult external circumstances. Following disciplined risk selection and strong underwriting performance, the division was rewarded with strong earnings growth to $205 million, up from $5 million the previous year.

We have a new Managing Director in Insurance in Anthony Gianotti and we wish him and his team well, and acknowledge the great work his predecessor Rob Scott did before his move over to Coles as Finance Director.

<u>Resources</u>

Lower export coal prices and the continued strong Australian dollar meant our Resources division's earnings fell 66.3 per cent to $148 million in 2013.

Managing director Stewart Butel's strong focus on cost control at the Curragh mine did result in improved operational performance with better than expected unit mine-cash-cost results.

Chemicals, Energy and Fertilisers

The Chemicals, Energy and Fertilisers division, led by Tom O'Leary, reported earnings of $249 million, in line with the previous year. Increased demand and good plant performance drove improved earnings in the Chemicals business, but Fertiliser earnings were down due to a poor grain harvest and a dry June in WA. Kleenheat Gas's contribution fell, mainly due to lower gas content in the Dampier to Bunbury natural gas pipeline.

Industrial and Safety

The Industrial and Safety division, led so well by Olivier Chretien, contributed earnings of $165 million, compared with $190 million the previous year. This was a solid result given challenging conditions as customers in resource industry-related businesses reduced activity and focused on cost reduction.

Year in review

In summary, 2013 was a year of solid performance. Our focus, as always, has been to provide satisfactory returns to our shareholders, and to do it in a sustainable way. Our performance over time is there to be judged.

A Wesfarmers shareholder who had $1,000 worth of Wesfarmers shares in 1984, who held them, reinvested dividends in more Wesfarmers shares and took part in all capital restructuring initiatives, would now see that investment worth $294,600.

And if that original $1,000 investment had been made in the shares of companies that make up the ASX's All Ordinaries Index, it would now be worth $22,700.

Sustainability

Throughout our 99 year history, Wesfarmers has had a reputation for the highest ethical standards and of contributing strongly to the communities in which we operate.

We want to be a company which creates value for all our stakeholders and, in doing that, we know we have to guard our reputation fiercely.

This year, I'm sure many of you may have had or heard questions about our involvement in Bangladesh which has attracted some attention.
This has been a learning curve for us.

Firstly, it's important to acknowledge we are sourcing from Bangladesh, and countries like China and Cambodia, for commercial reasons.

We have to continue to be internationally competitive and offer the best value we can to our customers. That is an inescapable business imperative.

But, we would never abandon our commitment to ethical practice in the process.

There have been terrible tragedies in factories in that country involving the garment industry.

Some of us did consider pulling out of Bangladesh, but local and International NGOs and charities told our people who visited the country this would be the worst possible outcome for all parties.

The garment industry is the key industry in Bangladesh. It employs about four million people and up to 20 million depend on the income it generates.

Businesses like ours help provide a pathway out of poverty and unemployment, particularly for young women.

But, we needed to make sure we were doing everything we possibly could to ensure the people working in factories which supplied our businesses, principally for Kmart and Target, were safe and treated properly.

Guy Russo from Kmart, which already had an extensive team on the ground, and subsequently Stuart Machin from Target, went to Bangladesh to ensure the systems we had in place, our business relationships and the standards applied in our supplier factories were what they should be.

As a result, we were the first Australian company to have its businesses sign the International Accord on Fire and Building Safety in Bangladesh, for which we were given strong endorsement by international labour organisations and NGOs.

It is important to understand how big and diverse the garment industry is in Bangladesh and that many companies source out of any one factory.

We have not considered opening our own factories as this is outside of our business model, but we absolutely insist the correct wages are paid and that proper health and safety standards apply.

We will not do business with substandard suppliers.

I want to assure all our shareholders that this is an issue our business teams and your Board views with the utmost importance.

We will continue to devote the attention and resources necessary to ensure this area of the business meets the high expectations and standards set over the history of the company.

The founders of this company were not simply individuals endeavouring to enrich themselves, but people who truly wanted to build the resilience of their community and thereby enjoy sustainable success for themselves and their families.

Sustainable success has always been our objective. In reality there is no other kind.

The ability to achieve that sustainable success, in turn, depends upon us providing a safe, rewarding and satisfying working environment.

Safety

Last year, the leadership team took on the challenge of reinvesting in and reinvigorating our safety effort.

A team from across the Group led by John Gillam took on the task of benchmarking our safety performance against the best in the world. The report received by the Board this year provided valuable information on priority areas for action to improve safety performance.

One of the most pleasing aspects of our study was the collaboration evident across the Group. Our divisions operate very autonomously but, in areas such as safety, collaboration can provide many benefits.

I believe we have seen a step change in our safety culture; it is a long journey but we have made a good start. During the year, our safety performance as measured by lost time injury frequency rate has improved by 18 per cent from 10.9 to 8.9, but there was a three per cent increase in the total recordable injury frequency rate. We remain highly motivated to make changes.

I want to thank and congratulate all the tens of thousands of Wesfarmers employees who have been part of that magnificent effort.

Ladies and gentlemen, I'd like to return now to where I began and remind you that next year is our centenary year.

To help us mark the occasion we'll have a series of events and initiatives and one of the simple and best will be a video project involving our shareholders telling their Wesfarmers story.

Here's a sneak preview.

[Video Presentation]

Very good. And for shareholders here today who would like to take part in the project, you can do so after the meeting. There's a camera outside and some young people to help you find it.

Conclusion

Ladies and gentlemen, that's enough from me for the time being.

I would now like to introduce our Managing Director Richard Goyder who will provide an update on the current trading of 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 plenty of time for questions and general discussion, followed by, I hope, many of you staying to enjoy some refreshments in the foyer.

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

MANAGING DIRECTOR'S ADDRESS

Thank you Chairman and good afternoon everyone.

I will provide an update on how our businesses are performing, and then make some comments on the topic of supermarkets in Australia.

Current trading across the Group is in line with expectations and reflective of the mixed conditions experienced by the Group's diverse business operations.

In the year to date, the performance of the retail divisions has been generally pleasing, particularly the good performances of Coles, Bunnings, Officeworks and Kmart.

In our retail businesses, we continue to focus on improving merchandise offers, with increased value for customers reflected in the strong transaction and volume growth achieved in each of those businesses.

Coles

We have been happy with the start to the financial year which Coles has made, with headline food and liquor sales growth of 4.4 per cent and comparable food and liquor sales growth of 3.4 per cent achieved in the first quarter.

Volume growth has remained strong particularly in fresh produce where there was significant deflation.

Coles continues to offer customers better value through ongoing investment in lower prices while making good progress in product quality, service and store format innovation.

Home Improvement and Office Supplies

Bunnings recorded strong total store sales growth of 10.4 per cent for the first quarter with store-on-store sales growing 7.1 per cent.

Bunnings achieved good growth in both consumer and commercial areas.

Positive business momentum and strong store transaction growth were pleasing.

Officeworks' total sales grew 3.0 per cent for the quarter with good transaction growth achieved in both the store network and online, consistent with Officeworks' every channel strategy.

Officeworks also continued to expand its presence in the business-to-business market.

Kmart

Kmart continues to focus on delivering low prices to families on everyday items.

Total sales for the first quarter were 4.6 per cent above last year with comparable sales increasing 2.0 per cent when adjusted for the effect of the toy sale changes at the beginning of the quarter.

Transactions and units sold increased for the 15th consecutive quarter with good performances achieved in core apparel and home categories.

Target

Target's comparable sales performance for the first quarter was below last year, declining 5.2 per cent.

Clearance activity of excess winter inventory during the quarter and the non-repeat of promotional activity in the same period last year significantly affected trading.

Positively where improvements have been made to ranges and price architecture customers have responded favourably to the enhanced offers.

A major focus during the quarter remained the strengthening of Target's senior leadership team, with the majority of new management to be in place by Christmas, following which transformation activities will accelerate.

Trading since the end of September has seen a continuation of the generally good performances in our retail businesses.

In relation to outlook; all of our retail divisions remain focused on providing customers stronger merchandise offers and better value, with the divisions generally well placed for the important Christmas trading period.

Now turning to our other businesses.

Insurance

In our Wesfarmers Insurance division, performance is tracking to plan, and the outlook is positive in the absence of significant catastrophe events.

In underwriting, we continue to achieve good traction with Coles Insurance personal lines. Our broking business is anticipated to grow through targeted recruitment, bolt on acquisitions and productivity improvements; however margin improvement in the short term will be constrained by system upgrades.

Resources

In the Resources division, low export coal prices and the high Australian dollar provide for a difficult short term outlook.

Our team remains focused on productivity and cost control. Over the longer term, a reducing cost structure and recent capacity expansions will provide leverage to any improvement in coal prices.

Wesfarmers Chemicals, Energy and Fertilisers

Our Wesfarmers Chemicals, Energy and Fertilisers division has had a good start to the year.

The Chemicals business remains 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 and delivered within budget.

Whilst the Kleenheat business is performing well, benefiting from higher Saudi contract prices, we do expect lower gas feedstock content in the Dampier to Bunbury natural gas pipeline to affect earnings.

The Chemicals business is well-placed to benefit from continuing strong resources demand, and the outlook for the Fertilisers business' has improved given what looks to be a very promising harvest in Western Australia.

Industrial and Safety

Our Industrial and Safety division continues to experience challenging market conditions, characterised by a slowdown in customer activity, particularly amongst our mining customers in Queensland.

In response to market conditions, the division is focused on supply chain and operational efficiencies to lower the cost of doing business.

The business remains well placed to respond to any market recovery, with a continued focus on service and value to customers, including product and service range development.

At a Group level, our balance sheet and cash flows are strong, and we are well positioned to take advantage of growth opportunities, while as always, being disciplined and patient.

Wesfarmers is now in its 100th year.

Starting life as Westralian Farmers' Co-operative (Ltd) in 1914, and listing on the ASX in 1984, ours has been a remarkable story of growing, innovating and meeting challenges.

Who could possibly have thought back in 1914, that your company today would have a market capitalisation of around $50bn, more than 200,000 employees, over 500,000 shareholders and revenues of around $60bn.

Certainly not these directors back in 1962.

Wesfarmers is ranked 153rd in the 2013 Fortune 500 list; our global ranking has been increasing over time since we first joined the list in 2009 ranked 287.

There is a special entrepreneurial spirit at Wesfarmers, which has enabled us to be part of the development of this state and nation.

Some examples of this are:

- The establishment of radio 6WF in 1924.
- Bringing milk pasteurisation to WA dairy farmers in 1926.
- The establishment of Cooperative Bulk Handling in 1931.
- LPG gas distribution in 1956.
- The acquisition of CSBP in the 1970's before we were listed.
- The first "Big Box" DIY Bunnings Warehouse in 1994.
- Many acquisitions in retail, insurance, coal mining, product distribution, and large capital investments.

We are not a company that has tried to protect the past – we have always looked to the future while respecting our traditions and history.

A great example is the listing of Wesfarmers in 1984, which received the strong support of our farmer co-op members, and was accompanied by their preparedness to put in place strong management and a board committed to our objective of providing shareholders a satisfactory return.

Within the Wesfarmers story are many small stories, and with your indulgence, I am going to tell one.

It is the story of Bob & Mary Goyder

They will be known to some of you here today.

Through my eyes Dad was the best farmer ever!

We farmed in the great southern on farms in Tambellup and Broomehill.

It was mixed farming; with sheep, grain, the odd cow (Venus) and pigs.

Mum and Dad were hard working and forward thinking in many ways.

They were environmentalists before the movement got going, because they knew that they had to protect the land which helped provide them with a living.

Mum and Dad also had a belief in markets.

They knew the reserve price scheme for wool was wrong.

They wanted to sell grain outside the compulsory pools and export marketer.

They lived through the damage those failed market manipulation mechanisms which were unquestionably designed to protect their livelihood, but that comprehensively failed them.

In about 1993 Dad made the toughest decision of his life – that was to sell the family farm which then had my older brother Andrew and his family on it as well.

It was a practical, financial decision which nearly broke his heart.

We were part of the ongoing rationalisation of the rural sector, our family farm was just not viable in terms of scale.

Our farm was bought by the three neighbouring farms – four farms became three (they are probably now two; efficient, using great technology, and still hard working, like my sister Sally and her husband Tim who farm at Popanyinning.)

By the way, if someone had said to Dad that he couldn't sell the farm to the highest bidder – no matter where that person was from, he would have told them to mind their own business!

Mum and Dad and Andrew left farming while they still had some equity and in the case of Mum and Dad, the hope of being financially ok for retirement.

Dad never stopped "farming" after retiring to Albany.

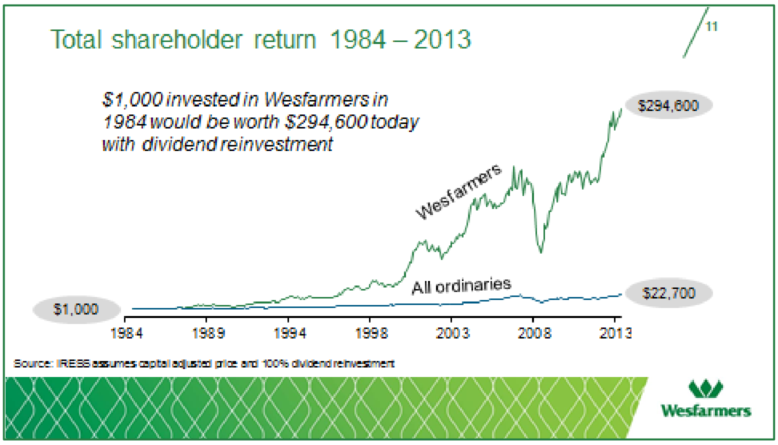
He leased a small farm for some years and he and Tom Cant, Neil Richardson, David Stewart, John Anderson, Tony Anderson, Stewart James and others would often discuss the lot of farming and the best solutions for the future of farming… and everything else.

Dad passed away in 2006.

He left Mum with many happy memories of 50+ years of marriage – and one other great gift… other than his children!

Dad had purchased the minimum number of Wesfarmers Co-op units well before we listed in 1984 so that he could get a discount on CSBP fertiliser.

Well, that gift is now the investor you see in this chart.



$1,000 in 1984 = $294,600 today… which is pretty much Mum's shareholding in Wesfarmers.

And does she give me a hard time on dividends!

The reason I tell this story is not to reminisce of an incredibly fortunate childhood and hardworking parents – there are many stories like that – it is to make the point, that farming in Australia has been evolving for a long time and Wesfarmers has been a big part of that for the last 100 years.

There have been successes, and failures, that is the lot of a market economy.

So I get a bit perplexed when Coles is blamed for many of the challenges in the farming / food sector today.

The farming and food industries do have challenges today, as they have had for many years.

There are also great opportunities!

They are not helped by our strong currency, as well as productivity issues, and cumbersome regulations.

But, it is just too easy, too simplistic to blame the supermarkets for a lot of these difficulties.

Let's look at some of the good things Coles has done since we acquired the Coles Group in 2007:

- Coles now has over 19 million customer transactions a week, 20 per cent more than in 2009.
- Value – It is estimated that the average household shopping at Coles now enjoys $450 in annual basket savings compared with 2009.
- Earnings for shareholder who took the risk – Coles EBIT has increased 84 per cent, from $831m in FY09 to $1,533 in FY2013.
- Employment – over 70 per cent of Coles staff are now employed on a permanent basis, compared with 46 per cent in November 2007.
- Investment – Coles has made significant investment, totalling more than $4.4 billion, over the last five years.
- Community contribution – Coles made over $38.5 million in direct and indirect contributions in FY2013.

And on suppliers:

- Since Wesfarmers took ownership, Coles is now selling an extra $4 billion of Australian food and over 200,000 tons more Australian fruit and vegetables, valued at almost $1.5 billion.
- More than 90 per cent of Coles brand food and drink products are Australian made or grown.

We sometimes make mistakes – we are not perfect, and we are very conscious of the important role we play in Australia for all our stakeholders.

Coles is focused, as it must be on giving the people of Australia a shop they trust, delivering quality, service and value.

And we are committed to doing this in a way that treats customers, suppliers and our employees with fairness and respect.

Ian McLeod, John Durkan, Stuart Machin, Simon McDowell and Jenny Bryant and the Coles team have made a big and positive impact in this sector in Australia.

While we have a strong market presence (although our market share is less than most commentators express), we know what happens if you don't look after your customers, you get the Coles of 2007.

By the way, I keep reading and hearing from market interventionists that market shares should be capped at 20 per cent like the US.

Firstly, that would be a sure fire recipe for higher prices for Australian consumers, and secondly, there is no such law in the USA.

It is simply untrue.

Indeed the ACCC debunked this myth in front of a Senate Select Committee in 2012.

Coles, under Wesfarmers ownership has increased competition in the grocery sector.

Indeed, previous ACCC reports have estimated that grocery prices would be 17 per cent higher in towns where a major supermarket such as Coles does not operate.

Some suppliers are winning, unfortunately some are missing out, as we endeavour to provide our customers with great products at affordable prices.

In the process we are part of improving the Australian food supply chain, which will ultimately benefit not just consumers, but also suppliers in being better able to meet the demands of off-shore consumers.

Last week I gave a speech and referred to the "Amazon Gorilla!"

Amazon is an example of the increased competition we are now facing.

The slide behind me shows some of the product categories that Amazon now offers.

Comparing Amazon's range to Wesfarmers current businesses it covers:

- **All** of the range in Kmart and Target.
- **Most** of the ranges in Bunnings and Officeworks.
- **Some** of the range from Coles including food and grocery items.
- **Some** of the range from our Industrial and Safety Division.

They even sell coal!

All Wesfarmers retail businesses like Coles have to be entrepreneurial, fast moving, long term in outlook, innovative and fit… to take on, not just Woolworths, Aldi, IGA and Costco who are aggressive competitors, not just on price but also in terms of store network growth – but new entrants such as Amazon which operates in a borderless world.

As management of your company, we look forward to taking on these new competitive challenges, hopefully within a framework which encourages competition to build real and sustainable shareholder (and stakeholder) value over time.

Thank you for your support as shareholders of Wesfarmers as we have met the challenges of the last century.

We look forward to the future, and your ongoing support. We will continue to bring good commercial judgement and a sound moral compass to the task.

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