News Release

Wesfarmers

CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS TO ANNUAL GENERAL MEETING THURSDAY, 14 NOVEMBER 2019, 1:00PM PERTH TIME

CHAIRMAN'S ADDRESS

Good afternoon ladies and gentlemen.

On behalf of the Board, I welcome all of you here to our 2019 Annual General Meeting. Welcome also to all those joining us today via webcast. Once again, we have a great number of shareholders in attendance.

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

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

To begin, we're going to play a short video on the Group's performance during the year.

Thank you, ladies and gentlemen. I'd now like to introduce my fellow directors.

This year we have one director retiring at this meeting, two directors retiring by rotation and standing for re-election, and two directors standing for election, having been appointed to the Board since the last annual general meeting. You'll be hearing from the last four later in the meeting when they'll seek your support for their election.

But, first, I invite all of my director colleagues to stand while I introduce them. Firstly, on the stage here with me and our new company secretary, Aleks Spaseska, is our Managing Director, Rob Scott.

Now, to our other Board members - in front of you:

First, Tony Howarth who retires today and about whom I'll say some more later on. Tony joined the Board in 2007 and also retires today as Chair of our Audit and Risk Committee.

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

Next, Wayne Osborn, who joined the Board in 2010 and served as Chair of the Remuneration Committee from 2013 until this year.

Next to Wayne is Bill English, who joined the Board last year.

Next is Vanessa Wallace, a Board member since 2010, who is standing for re-election at this meeting.

Next to Vanessa is Jennifer Westacott, who joined us in 2013 and is also standing for re-election.

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Next is Mike Roche, who joined the Board this year and is standing for election. Mike now chairs our Remuneration Committee.

And finally, Sharon Warburton, who also joined this year, is standing for election and who will chair our Audit and Risk Committee going forward.

Needless to say, all of our directors joined the Board through merit, but it is pleasing that from tomorrow, we shall have 50 per cent male and female directors, reflecting the gender balance of the community.

I also acknowledge David Cheesewright who is here today. David is a former head of Walmart International, is an advisor to our Board and is our nominee on the Coles Board.

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 on your behalf and 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 into 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 extend a special welcome to all the former directors, executives and employees who have joined us here today.

As you would be aware from the Notice of Meeting, there are six 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 the business environment, and then Rob Scott will provide us with some reflections on current trading and the outlook.

The 2019 year was one of significant change for Wesfarmers, including a major restructuring of the Group's portfolio of businesses. This included the demerger of the Coles business from the Group and the sale of our interest in the Bengalla coal mine, the Kmart Tyre and Auto Service (KTAS) business and of the company's investment in Quadrant Energy.

On a statutory basis, net profit after tax rose $4.3 billion to $5.5 billion. Of this total, $3.2 billion was attributable to significant items arising from the Coles demerger and the profits on the sale of Bengalla, KTAS and Quadrant Energy. Net profit from continuing operations (excluding significant items in the prior year) rose 13.5 per cent from $1.7 billion to $1.9 billion. This increase resulted from the higher contributions from Bunnings, Officeworks and Industrials and other activities, including our 15 per cent share in Coles Group, more than offsetting a fall in the profits of the Kmart Group.

The Directors declared a fully-franked final dividend of 78 cents per share, bringing the full-year ordinary dividend to $1.78 per share. Including the special dividend paid in April 2019 of $1.00 per share, total fully-franked dividends for the year were $2.78 per share.

The portfolio changes during the year reflected Wesfarmers' focus on enhancing shareholder returns. It was considered a separately-listed Coles would provide greater shareholder value going forward than the value attributed by the market to the combined Group, owing to different growth outlooks. Wesfarmers shareholders received shares in Coles amounting to 85 per cent of the company, with Wesfarmers retaining 15 per cent. The shareholdings in KTAS, Bengalla and Quadrant Energy were sold at prices which represented a strong return on investment.

The Coles demerger was a major accomplishment last financial year and was the largest demerger in Australian corporate history. It is hard for anyone not involved in such a project to appreciate the complexity and challenges of achieving it. I acknowledge the tremendous effort of the team members in Coles and Wesfarmers and our external advisors who brought this landmark transaction to fruition, on time and on budget.

As a significant shareholder in Coles, alongside many of you, we have been pleased with the performance of the two companies as independent listed entities.

After the close of the year, we acquired Kidman Resources, which owns 50 per cent of a major lithium deposit and project in Western Australia, a mineral associated with the rise of electric vehicles. Our plan is to develop a lithium hydroxide plant in Kwinana, Western Australia, near our existing chemical operations, in conjunction with our joint venture partner. In August 2019, we also completed the acquisition of Catch Group, an established online retailer.

The Board considers the Group to be well positioned for future growth in its existing businesses, with the balance sheet capacity to expand its operations and move into new fields where the potential returns justify investment.

During 2019, there has been continued debate and commentary in Australia and around the world about the role of companies and boards, the question of whether dividends crowd out investment; and on executive remuneration.

Shareholders will have read my observations on the first two of those issues in the Annual Report, so it's not necessary to go into any detail on them here; but I would summarise as follows:

On the role of a company, we have always been crystal clear: it is to provide good returns to its owners. We have always unashamedly declared that a company's primary purpose is a financial one; but you will never achieve good long-term returns unless you take care of all stakeholders, from employees to customers to suppliers, and by investing in our communities and caring for the environment.

On the second issue, there is no trade-off between paying dividends and making investments. Good companies do both. Over the last 30 years, Wesfarmers has been one of the most consistent investors in Australia and one of the biggest dividend payers. The big challenge is not deciding how to manage capital requirements, it is finding investments where the numbers add up.

In order for investments to be attractive, the external settings have to be right; and this is where government comes in. Corporate tax rates and labour conditions have to be internationally competitive; and regulation has to be efficient. In the absence of those things, investment will flow overseas, or not come here in the first place. The apparent unwillingness of the Australian Parliament to pursue corporate tax reform is particularly concerning in this regard.

The one issue I do wish to address here is executive remuneration. I have to say that it is an extremely frustrating issue and one which takes up a large amount of director time - not in designing pay systems but in endeavouring to satisfy the often divergent demands of external stakeholders.

It is not in doubt that there is increasing unease about executive remuneration - in the general community about salary levels, and in the professional investment community and amongst regulators about the structure of remuneration packages.

Your Board and Remuneration Committee work hard to balance community and investor expectations with the need to reward our executives appropriately, retain their services and attract new talent to the organisation. This is, in our view, more challenging than ever, with the emergence of private equity, with its potentially high rewards out of the public gaze, as an alternative to listed company employment.

At today's meeting we shall record a quite significant vote against our remuneration report. This is a disappointing outcome given that:

- the total remuneration for our key executives decreased by 26 per cent yet the company achieved outstanding shareholder returns;
- four out of five proxy advisors recommended a vote in favour of the Remuneration Report;
- we received a very positive response in all our personal interactions with shareholders; and
- our Australian institutional shareholders have overwhelmingly voted in favour of the Remuneration Report. Foreign shareholders appear to have simply followed the recommendation of the one proxy advisor outlier.

This highlights how frustrating the issue of satisfying all stakeholders on remuneration matters can be.

The issue of remuneration structure is a very complex one, and one in which there are many different, and often opposing, views.

In designing our incentive plans we have aimed to focus executives' minds on achieving superior shareholder returns over the long term – and I stress over the long term. As an example, for our Managing Director and Chief Financial Officer their variable remuneration from this year will comprise only shares which vest or become unrestricted over 4 to 6 years. They will not receive any short-term cash payment. While the main performance measures in our scorecards are profit and return on investment, we also include some "strategic" measures in the interests of avoiding a short-term profit focus.

These measures, which are often but not exclusively non-financial, are opposed by a number of investment managers as being insufficiently specific and reward executives for just doing their job. We feel strongly, on the other hand, that we set ambitious targets and that the achievement of those strategic goals is essential to long term shareholder wealth creation.

Of course, every board has to guard against setting targets that are too soft but at the end of the day, investors have to rely on the judgement of the directors they have elected. For our part, we do believe that the remuneration structures we have devised will serve shareholders well in the long run. That has certainly been the case over the 35 years since Wesfarmers listed on the ASX when it has outperformed the ASX50 index by over 1,000 per cent. And that outperformance has continued over more recent periods, with our shareholders receiving a superior return, compared with the market, over the last ten, five and three years.

We have, as you know, also outperformed the market by a wide margin over the last 12 months, but we never measure our success on such a short-term basis.

None of this is to suggest that we do not listen to concerns expressed by our shareholders. On the contrary, we take them very seriously and, as a result of the feedback we've received, will be looking at how we might address any such concerns going forward without compromising our long-term focus.

I take this opportunity, on behalf of my fellow directors, to thank our outgoing director, Tony Howarth, for his efforts on behalf of the company. Tony's wide experience and wise counsel have proved invaluable. He has chaired the Audit and Risk Committee with distinction during a period when what is normally a complex task, given Wesfarmers' conglomerate status, has been even more complex due to corporate restructurings. He retires with our sincere gratitude and best wishes. We welcome Mike Roche and Sharon Warburton to the Board and look forward to their contribution as chairs of the Remuneration, and Audit and Risk Committees respectively; and I thank the other members of our Board for their continued dedication to Wesfarmers and its objectives.

I also take this opportunity on behalf of the Board to thank Linda Kenyon, who retired as our Company Secretary at the end of the 2019 financial year. As Company Secretary from 2002, Linda provided steadfast guidance to the Board, ensuring that our governance aligned with leading market practice and the rising expectations of our many important stakeholders. We wish Linda well in her retirement after more than three decades of service to Wesfarmers. In closing, I pay tribute to our hard-working team, led by Rob Scott. We look forward to overseeing their efforts to provide our shareholders with satisfactory returns.

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

MANAGING DIRECTOR'S ADDRESS

Thank you, Chairman and good afternoon ladies and gentlemen.

Last financial year was a year of change at Wesfarmers. However, what hasn't changed is our commitment to our core objective, that is, delivering satisfactory returns to shareholders. We define this as a superior return to market, over the long term.

The Wesfarmers operating model supports our portfolio of businesses to deliver best in class performance while also providing the flexibility to allocate capital effectively and opportunistically for the benefit of shareholders.

To deliver on our core objective, we need to be able to move with speed and agility, so our businesses remain competitive and to take advantage of opportunities when they arise.

It also requires us to have discipline and patience, especially as it relates to capital allocation. This means resisting the external pressure, that many listed companies' face, to prioritise short term returns or pursue growth for the sake of growth.

As noted by our Chairman, the demerger of Coles and the monetisation of our interests in coal mining were significant achievements in FY19. We now have four operating divisions that are well positioned in their respective markets and provide platforms for value creation.

Across the Group, we continue to focus on talent management, accelerating our data and digital capabilities and encouraging an entrepreneurial spirit. We see these as critical to our success and I am pleased to share with you today some of our progress.

Delivering superior performance

The quality of our leaders and effectiveness of our teams are a key source of competitive advantage. Wesfarmers has benefited over the years from some talented managers that thrive in our model of divisional autonomy.

In recent years we have seen a new generation of leaders, committed to Wesfarmers' values, bringing new ideas and energy to their roles and divisions.

This includes our Divisional Managing Directors: Mike Schneider, Ian Bailey, David Baxby and Sarah Hunter. It also includes our corporate team of Anthony Gianotti, Jenny Bryant, Ed Bostock, Maya vanden Driesen, Naomi Flutter and Aleks Spaseska.

I would also like to thank Linda Kenyon who retired as Company Secretary earlier this year, after a distinguished career at Wesfarmers.

Another highlight for the year was our progress towards gender balance. The Wesfarmers Leadership Team is gender balanced and we have seen further improvements in senior management and general manager levels.

I would like to thank our leadership team for their contribution in what has been a busy year, delivering on many important, complex projects. I would also like to thank our families and friends for their support and understanding, without which we couldn't deliver these outcomes.

This continues the legacy of continuous improvement, innovation and entrepreneurial spirit that have been hallmarks of Wesfarmers over the years.

When we are at our best, Wesfarmers can deliver exceptional results in our divisions and for our shareholders. It is no surprise that many Wesfarmers' businesses have outperformed their listed peers over the long term.

We don't always get it right, and this is the nature of business. When we make mistakes, we will face into them and do the right thing, with a focus on our stakeholders.

An example of this is the underpayment of some team members in some of our businesses. Given the value we place on our team, it was extremely disappointing to identify these inadvertent and regrettable errors. As soon as we discovered the problem, we moved fast to understand where any shortfalls were, so we could provide compensation with interest. In the context of our total wages bill, the dollar amounts are very small but that doesn't diminish our regret that it occurred. I would like to thank our team members for their patience and understanding as we resolve the issues.

Building our data & digital capabilities

From the outside, the most obvious sign of change within Wesfarmers in the past year has been the repositioning of our portfolio.

Within our businesses, one of the most significant and positive changes has been the development of our data and digital capabilities.

Our investment in data and digital is highly complementary to our key strategies. That is, better servicing our customers, improving the efficiency of our operations, building new platforms for future growth and renewing the portfolio.

Our Advanced Analytics Centre is working closely with our divisional teams on numerous use cases with clear business outcomes. Examples include tools to optimise stock levels by category in every Bunnings store, strategies to reduce the risk of injuries from forklifts, new digital applications to help apprentice tradies and improvements in the productivity of our nitric acid plant in Kwinana.

Across our retail businesses, we have around $1.4 billion of e-commerce sales, making us one of the largest digital retail groups in Australia. Many customers like to pick up their orders in our stores, so we continue to expand our click and collect services, a benefit of our omni channel strategy.

Digital technologies allow us to connect with more customers and offer even more products and services than ever before. We see our stores, our team members, our supply chain and our suppliers as real points of difference when it comes to delivering exceptional digital experiences for customers. Indeed, we have a great platform from which to engage with and deliver value to customers in the future.

As we develop our data and digital capabilities, what is most important is that we do this in a way that is consistent with our values and that builds on the trust we have worked so hard to earn from our customers, our teams and the communities in which we operate.

Recent trading and outlook

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

The majority of our retail businesses have seen an improvement in sales growth relative to the second half of FY19. Households and business customers remain value conscious and discerning, but our businesses are successfully achieving growth through investing in value, strong operational execution, category expansion and improved digital experiences.

In recent months, we have seen a modest improvement in retail conditions with signs of greater consumer confidence, supported by a recovery in residential property prices and the benefit to households from reductions in tax and interest rates. As always, weather conditions and successful execution during the important Christmas period will impact our sales performance for the year.

As noted at our full year results in August, our businesses face a number of cost headwinds this year, largely as a result of higher personnel costs from new enterprise agreements, increased investment in digital and technology and the impact of a lower Australian dollar on costs of goods sold. These pressures will be offset through productivity and sales growth benefits over time but will have an impact on earnings growth in the near term.

From a Group perspective, we are pleased to support our divisions at this time to invest in their customer offer and new growth platforms for the future.

Bunnings continues to trade well and is benefiting from the diversity of its customer base and offer. The performance of Bunnings over the past year underscores the resilience of the business and the opportunities for growth through expansion of their addressable market.

Bunnings' Managing Director Mike Schneider and his team are making significant investments in new platforms for future growth. The growth in commercial and trade, investment in digital capabilities and platforms, together with the growing store network, will support the next phase of Bunnings' growth.

In the foyer outside, the Bunnings booth today profiles click and collect – launched this week in Western Australia after successful pilots earlier in the year in Tasmania and Victoria. The Bunnings' click and collect offer is now available in all stores across Australia. Bunnings also recently announced the launch of MarketLink, a trusted site through which customers can buy an extended range of products for their home, from the front gate to the back fence – either from Bunnings directly or through trusted suppliers.

Turning to the Kmart Group, as reported, FY19 was a challenging year for Kmart. Pleasingly, we have seen a progressive improvement in Kmart's sales since the end of the financial year as a result of further investments in value, improvements in product and better availability. Much of the hard work undertaken by Ian Bailey and his team is starting to show in store through new and innovative products at incredible prices. As noted above, Kmart Group faces some cost pressures associated with new enterprise agreements, the lower Australian dollar and higher levels of shrinkage.

The repositioning of Target is continuing, led by Marina Joanou. We expect to see further weakness in sales as the repositioning progresses. It will take some time to realise this transformation, which will see

Target transition to a smaller and higher quality store network, with greater product and price differentiation relative to Kmart.

We completed the acquisition of Catch in August, bringing an exciting new ecommerce and marketplace platform to the Kmart Group. We recently announced that Catch Club members will receive free deliveries on all eligible orders from Kmart and Target. This offers even greater value to Catch Club members who can access over two million products online.

Overall, the Kmart Group is well positioned for the important Christmas trading period.

Our Industrials Division, led by David Baxby, is itself a collection of businesses – some performing strongly, others needing improvement.

The performance of the Industrial & Safety businesses was below expectations, principally due to the disappointing performance of Blackwoods which has continued into the new financial year.

Following changes to the Blackwoods leadership team, we have accelerated turnaround activities which along with the costs of remediating the underpayment of team members, are expected to result in a further reduction in earnings in the first half of the current financial year. There have been early signs of improved sales and engagement with strategic customers. However, until these initiatives are completed, we do not expect Blackwoods' performance to improve materially.

Within Industrials, our Chemicals, Energy and Fertilisers businesses, led by Ian Hansen, continue to benefit from a positive operating environment, after a strong performance in FY19.

WesCEF is benefiting from good demand for sodium cyanide in the gold sector and from strong sales of ammonium nitrate in the Pilbara.

And of course, Kleenheat continues to deliver a great offer to Western Australian customers.

The other exciting development in WesCEF has been the acquisition of Kidman, which is a 50 per cent owner of Covalent Lithium.

The Kidman acquisition allows us to leverage our deep expertise in chemical processing into the growing market for high quality lithium hydroxide, right here in Western Australia.

Those shareholders who have attended our meetings over the years would understand how investments such as these have supported the growth and diversification of WesCEF over the decades.

Turning to Officeworks, strong sales growth has continued into this financial year, as the 'every channel' strategy resonates with both consumer and business customers.

More customers are choosing Officeworks to help them start, run and grow their own business.

We expect Officeworks' earnings growth this year will be impacted by ongoing investment in price as well as higher team member wages, following the implementation of its new enterprise agreement.

I'd like to acknowledge Michael Howard, here today as Acting Managing Director of Officeworks, while Sarah Hunter is on parental leave.

Overall, I remain optimistic about the outlook for the Group and we have confidence that the investments we are making in the customer offer and new growth platforms will deliver value to shareholders.

Sustainability through responsible long term management

I want now to close with a few comments around our commitment to sustainable business practices. These go hand in hand with our corporate objective of delivering satisfactory returns to shareholders over the long term.

As the Chairman has said, and I have often stressed myself, we will only earn superior returns over the long term if we look after the interests of all stakeholders. This is reflected in our continuous focus on reducing accident rates across the Group, making sure we source products ethically, publishing a modern slavery statement in support of the new Australian legislation, contributing to our local communities and putting our Reconciliation commitments into action by employing increased numbers of indigenous team members.

It is also reflected in our Climate Change Policy, adopted this year. By managing our businesses with carbon awareness, we are reducing our energy costs, reducing our environmental footprint and creating new business opportunities.

There is much public debate on what are the most effective measures to combat climate change. On climate change, as with many other issues, we are focused on taking meaningful action and are happy to be judged by the outcomes we deliver, rather than being overly focused on long-dated future promises.

Further details on our sustainability actions and initiatives can be found in our Annual Report.

Lastly, I would like to thank very much all our team members around Australia, and overseas.

Every day I am impressed by our teams' commitment, the pride they take in their business, and the strong performance of the Group in the last year reflects their efforts and dedication.

As I close, I also want to acknowledge the many communities affected by the devastating bushfires across the country. Many of our team members and customers have been impacted, and our thoughts are with you. Thanks to our teams that are stepping up to support their local communities at this time.

Ladies and gentlemen, thank you for your support.

I'd like to now hand back to our Chairman.

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