2017 Shareholder Review

Delivering value today and tomorrow

The primary objective of Wesfarmers is to provide a satisfactory return to its shareholders.

About Wesfarmers

From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies. With headquarters in Western Australia, its diverse business operations cover: supermarkets, liquor, hotels and convenience stores; home improvement; department stores; office supplies; and an Industrials division with businesses in chemicals, energy and fertilisers, industrial and safety products and coal. Wesfarmers is Australia's largest private sector employer with around 223,000 employees (including more than 4,200 Indigenous team members) and has a shareholder base of approximately 515,000.

About this report

This annual review is a summary of Wesfarmers and its subsidiary companies' operations, activities and financial position as at 30 June 2017. In this report references to 'Wesfarmers', 'the company', 'the Group', 'we', 'us' and 'our' refer to Wesfarmers Limited (ABN 28 008 984 049) unless otherwise stated.

References in this report to a 'year' are to the financial year ended 30 June 2017 unless otherwise stated. All dollar figures are expressed in Australian dollars (AUD) unless otherwise stated.

All references to 'Indigenous' people are intended to include Aboriginal and/or Torres Strait Islander people.

Wesfarmers is committed to reducing the environmental footprint associated with the production of the annual review and printed copies are only posted to shareholders who have elected to receive a printed copy. This report is printed on environmentally responsible paper manufactured under ISO 14001 environmental standards.

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In 2017 Rob Scott will become Wesfarmers' eighth Managing Director. ***p5***

Our community contributions exceeded $130m. ***p36***

Bunnings United Kingdom and Ireland opened four pilot stores during the year. ***p21***

$2.23

DIVIDENDS PER SHARE

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Kmart growth

Kmart delivered another year of strong earnings growth. ***p22***

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Terry Bowen leaves Wesfarmers in great financial shape, with a strong balance sheet and record cash flows. ***p10***

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Our suppliers received $46.4b.
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$2.1b
GOVERNMENT TAXES AND ROYALTIES
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We employ around 223,000 people and paid $8.7b in salaries, wages and other benefits. ***p8***

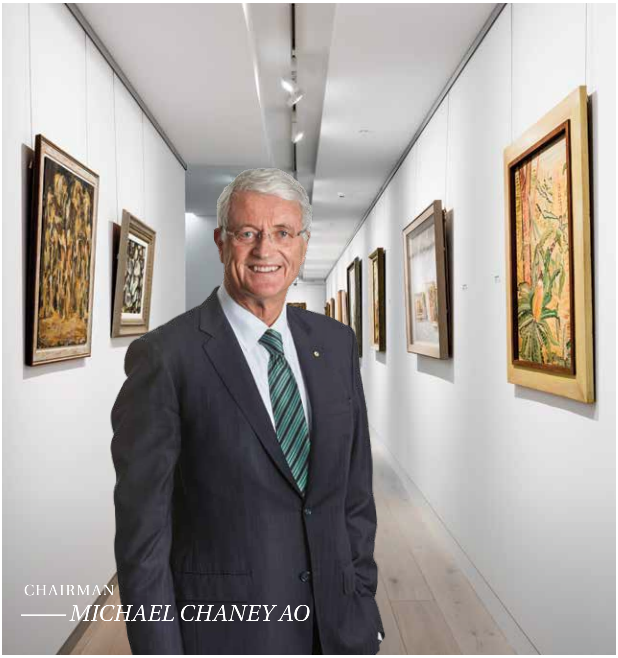
Industrials had a strong recovery in earnings. ***p25***

Sustainability matters

Understanding and managing the ways we impact our community and the environment is important to us. ***p29***

Chairman's message

I am pleased to report on another successful year for your company.



CHAIRMAN
—— *MICHAEL CHANEY AO*

On a statutory reporting basis, Wesfarmers recorded a substantial increase in net profit for the 2017 financial year compared to that reported in the 2016 financial year when profit was reduced by impairment charges in Curragh and Target, as well as significant restructuring costs in Target.

Excluding those significant items, underlying net profit after tax increased 22.1 per cent to $2,873 million. Earnings per share increased 21.6 per cent to a record $2.55 and return on equity rose from 9.6 per cent to 12.4 per cent.

The directors declared a fully-franked final dividend of $1.20 per share, lifting the full-year dividend per share to $2.23 from $1.86 in 2016. The company's results for the year illustrated the advantages of its conglomerate structure. Increases in earnings from the Industrial businesses, Kmart and Bunnings in Australia and New Zealand as well as reduced losses in Target, more than offset the fall in profits in Coles supermarkets and losses in the United Kingdom and Ireland home improvement business.

The focus of management and the Board continues to be on providing a superior return to shareholders over the long term. At times this can mean sacrificing short-term profits to support our longer term business growth; the Coles business today provides a good example of that.

Competition is strong across all of our markets, with new players entering the field and new products and processes challenging the status quo; but that has always been the case. The pace of change may be faster today but that simply highlights the need to keep innovating. This, I think, has been a strength of Wesfarmers since it listed in 1984.

In that context it is instructive to consider the growth of the company over those 33 years, when its market value has increased 600-fold, from $80 million on listing to $48 billion today. During that period, $22.3 billion of net new equity has been raised and $23.3 billion of dividends have been paid to shareholders, meaning that the whole $48 billion of increased shareholder value has come from business growth.

The task, of course, is to continue that record of success but I believe we have the management team, culture and systems to achieve that.

Several of the challenges facing all companies doing business in Australia today occur at the government level. The increasing tendency of governments to adopt populist policies counts against productive economic outcomes.

Examples of this include the recent changes to Section 46 of the Competition and Consumer Act and to the 457 visa regulations. Subsequent amendments to the original form of the latter are welcome but the tighter rules still have the potential to deprive Australia of the skills it badly needs to operate effectively.

A second concerning issue is the difficulty the Federal Government has in passing legislation in the absence of a Senate majority. Resolution of this legislation gridlock requires the Labor Opposition and minor parties to put aside considerations of short-term political interest in the interest of national prosperity.

A third issue encumbering Australian business is the very restrictive workplace relations system under which we operate.

The current system is instead serving as a deterrent to the enterprise bargaining process, working against the interests of employers, employees and unions in seeking to provide flexible and appropriate terms of employment. The uncertainty created by decisions of the Fair Work Commission in the retail sector operates as a disincentive to bargaining and a barrier to building the flexibility that would allow businesses to meet the needs of consumers.

A fourth issue is the increasingly uncompetitive corporate tax rate prevailing in Australia. Attempts by the Federal Government to reduce the rate to 25 per cent for all companies - a reduction that would undoubtedly have resulted in increased employment and economic activity - were opposed by Labor and then watered down in negotiation with the minor parties to the point where the effect will be minimal.

A final issue is the unnecessary complexity associated with doing business across Australia through lack of uniformity in State-based legislation. For instance, there are widespread inconsistencies in retail trading laws across and within States and Territories, including differences in extended weekday trading hours, Sunday trading, public holiday trading and restricted trading days, which may or may not relate to public holidays. This is further complicated by additional layers of legislated retail restrictions depending on the maximum number of employees at any one time, selling floor size and type of goods sold.

These legislative differences add significant additional cost and loss of productivity for businesses, cause customer inconvenience and confusion, and impact jobs and investment. These impacts are becoming acute as consumers increasingly purchase products online at any time with this trading exempt from the restrictions applying to bricks and mortar stores.

Succession

The end of the 2017 calendar year sees major change in senior management at Wesfarmers.

In November, Rob Scott will succeed Richard Goyder as Group Managing Director and Chief Executive Officer; and Anthony Gianotti will succeed Terry Bowen as Group Chief Financial Officer. The directors are pleased that, as has been the case historically, these critical appointments have been able to be made internally, with people who understand the company's values and culture.

Richard Goyder has been an outstanding chief executive over his 12-year term in that role. The fact that the company has outperformed the general market over the past decade, in the face of the global financial crisis occurring soon after the major acquisition of the Coles Group, is due in no small part to Richard's personal values, his calm in the face of challenge, his focus on performance and his ability to inspire his people. He leaves with our sincere thanks and appreciation.

Terry Bowen has been described elsewhere as one of Australia's best chief financial officers. His attention to detail, in-depth knowledge of our businesses and outstanding work ethic justify that accolade. Terry leaves Wesfarmers in great financial shape, with strong cash flows and the balance sheet potential for significant new investment.

The directors are confident that Rob Scott, Anthony Gianotti and the new senior divisional appointees following Rob and Anthony's promotions are well qualified to lead the company forward.

Outlook

With a strong balance sheet, shareholder-focused culture and very capable people, the Board is confident that Wesfarmers can continue to provide superior shareholder returns. We acknowledge the efforts of our 223,000 employees and thank them for their dedication to the company.

MICHAEL CHANEY AO

Chairman

Managing Director's report

We were pleased to report a significant increase in our earnings in the 2016/17 financial year through improvements in our retail and industrial businesses. Cash generation was very strong reflecting our culture of focusing on return on capital in each of our businesses.

MANAGING DIRECTOR
—— *RICHARD GOYDER AO*

A lot of work goes into ensuring that our balance sheet is strong and has capacity to deal with external shocks and take advantage of opportunities as they arise. It can be an underrated asset, but we are very focused on it.

Operationally, we are generally happy with each business in the Group. Coles is trading through a challenging period in a competitive market where we have had to invest in value and service. We are pleased that we have been able to grow customer numbers, transactions and sales, and excited about a number of initiatives at Coles which will lead to even better products and services in the years ahead.

Pleasingly, our liquor business grew through the year in both revenue and earnings. While fuel volumes fell, our convenience stores were able to grow sales.

Bunnings Australia and New Zealand continued its stellar run of growth. This is a wonderful business for Wesfarmers to own and we are excited with the opportunities to grow into the future. Bunnings' investment in the United Kingdom and Ireland is in the early days of an ambitious plan to rollout a strong network of stores through the conversion of Homebase stores. We have made good progress on the operational aspects of our plans, with our new Bunnings-branded stores performing well.

John Gillam stepped down from his role as Managing Director of the division late last year after around 11 years, marked by strong growth and the building of Bunnings as one of the most respected brands in Australia.

Officeworks had another strong year, notwithstanding some distractions as we looked to see if there was an opportunity to realise value for shareholders.

Kmart and Target combined increased earnings and we continue to optimise property, procurement, ethical sourcing and other activities between both businesses. Kmart is in a very strong position to continue growing as customers increasingly discover the great value in its stores. Target improved performance as the cost base was appropriately restructured.

We are very pleased with the performance of our industrial businesses. Our Chemicals, Energy and Fertilisers business continues to expand and deliver strong returns. The Industrial and Safety business also delivered a good improvement in earnings through a strong focus on our customers, and on new markets.

Our Resources business recorded a significant increase in earnings on the back of higher export coal prices, and improvements in our operating performance and productivity.

As this is my last chance to communicate with shareholders, I wanted to reflect on my 12 years as CEO, and 15 years on the Wesfarmers Board.

Wesfarmers is a special company. I often describe it as financially focused with a heart. We are clear on our objective of providing our shareholders with a satisfactory return, knowing we can only do that through creating value for all our stakeholders.

Financial performance is the foundation which then enables us to grow, provide opportunities, and invest in the people and communities with whom we deal.

We have a great set of assets which collectively welcome more than 20 million Australians each week through our doors.

You will see elsewhere in this report just how much value we create in terms of payments to our 223,000 employees, suppliers, government, community contributions and, of course, our shareholders. Built on the foundation of financial performance, we care about our reputation and look to make decisions through the lens of what the right thing to do for Wesfarmers is.

The challenge every day in Wesfarmers is to innovate, create new opportunities, and look to take appropriate risk in order to meet competitive threats, as we always have.

As the Chairman points out in his report, the economy will be better if government and policymakers encourage business to do that and employ more people – one of my biggest frustrations is that we still deal with regulations which are designed to stop us growing, and protect others from competition, at a significant cost to our customers and productivity. There is a need and a place for good regulation but our economy and community are harmed when regulation is introduced or retained simply because of political pressures.

I have been very fortunate to work at Wesfarmers where the Board consistently takes a long-term view, looks through cycles, and accepts that mistakes happen. Each of the Chairs during my time as CEO, Trevor Eastwood, Bob Every and Michael Chaney, have been excellent to work with and supportive, as have all the directors I have served with.

At the end of the day, it is the people at Wesfarmers who drive competitive advantage and I have been fortunate to work with wonderful people. My sincere thanks to all those on the leadership team for their support and commitment. I would particularly like to acknowledge Terry Bowen's outstanding contribution as Finance Director since 2009. Terry has played a very significant role at Wesfarmers and we wish him well as he moves onto other challenges.

Looking forward, Rob Scott and Anthony Gianotti have each had exceptional careers at Wesfarmers, and will, in my view, be outstanding leaders.

Finally, thanks!

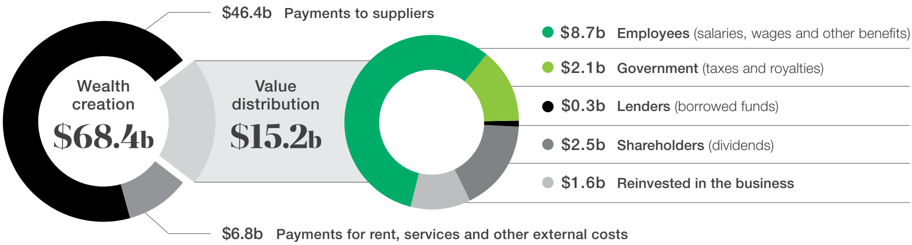
Thank you to:

– our shareholders for your support
– our wonderful employees
– the Board, my senior management colleagues, and brilliant executive assistants
– my loving family, and my best mate and partner Janine who took on the role as chief supporter, critic, carer and also wife with unbelievable energy and passion.

RICHARD GOYDER AO
Managing Director

Performance overview

Creating wealth and adding value



Group performance

KEY FINANCIAL DATA		2017	2016
Revenue from ordinary activities	$m	**68,444**	65,981
Earnings before interest, tax, depreciation and amortisation	$m	**5,668**	2,642
Earnings before interest, tax, depreciation and amortisation (excluding significant items)[1]	$m	**5,668**	4,903
Depreciation and amortisation	$m	**1,266**	1,296
Earnings before interest and tax	$m	**4,402**	1,346
Earnings before interest and tax (excluding significant items)[1]	$m	**4,402**	3,607
Finance costs and income tax expense	$m	**1,529**	939
Net profit after tax	$m	**2,873**	407
Net profit after tax (excluding significant items)[1]	$m	**2,873**	2,353
Operating cash flows	$m	**4,226**	3,365
Net capital expenditure on property, plant and equipment, and intangibles	$m	**1,028**	1,336
Free cash flows	$m	**4,173**	1,233
Equity dividends paid	$m	**1,998**	2,270
Total assets	$m	**40,115**	40,783
Net debt	$m	**4,809**	7,103
Shareholders' equity	$m	**23,941**	22,949

KEY SHARE DATA			
Basic earnings per share	cents	**254.7**	36.2
Basic earnings per share (excluding significant items)[1]	cents	**254.7**	209.5
Operating cash flow per share	cents	**374.1**	299.2
Free cash flow per share	cents	**369.5**	109.6
Dividends per share (declared)	cents	**223.0**	186.0

KEY RATIOS			
Return on average shareholders' equity (R12) (excluding significant items)[1]	%	**12.4**	9.6
Fixed charges cover (R12)[2]	times	**3.1**	2.7
Interest cover (R12) (cash basis)[2]	times	**25.0**	16.8
Gearing (net debt to equity)	%	**20.1**	31.0

1 2016 excludes the following pre-tax (post-tax) amounts: $1,266 million ($1,249 million) non-cash impairment of Target; $850 million ($595 million) non-cash impairment of Curragh; and $145 million ($102 million) of restructuring costs and provisions to reset Target.

2 2016 excludes pre-tax non-cash impairments of $2,116 million relating to Target ($1,266 million) and Curragh ($850 million).

It was pleasing to report a record level of earnings and operating cash flows and a strong increase in return on equity, demonstrating the strength of the Group's conglomerate structure and focus on cash generation and capital efficiency.

Divisional performance

COLES		2017	2016
Revenue	$m	**39,217**	39,242
Earnings before interest and tax	$m	**1,609**	1,860
Segment assets	$m	**21,140**	22,122
Segment liabilities	$m	**4,245**	4,273
Capital employed (R12)	$m	**16,586**	16,541
Return on capital employed (R12)	%	**9.7**	11.2

HOME IMPROVEMENT		2017	2016
Revenue	$m	**13,586**	11,571
Earnings before interest and tax	$m	**1,245**	1,214
Segment assets	$m	**6,612**	6,620
Segment liabilities	$m	**2,227**	2,186
Capital employed (R12)	$m	**4,110**	3,599
Return on capital employed (R12)	%	**30.3**	33.7

DEPARTMENT STORES		2017	2016[1]
Revenue	$m	**8,528**	8,646
Earnings before interest and tax	$m	**543**	275
Segment assets	$m	**3,928**	3,970
Segment liabilities	$m	**1,423**	1,336
Capital employed (R12)	$m	**2,253**	3,629
Return on capital employed (R12)	%	**24.1**	7.6

OFFICEWORKS		2017	2016
Revenue	$m	**1,964**	1,851
Earnings before interest and tax	$m	**144**	134
Segment assets	$m	**1,401**	1,379
Segment liabilities	$m	**488**	416
Capital employed (R12)	$m	**980**	994
Return on capital employed (R12)	%	**14.7**	13.5

INDUSTRIALS		2017	2016[2]
Revenue	$m	**5,161**	4,672
Earnings before interest and tax	$m	**915**	47
Segment assets	$m	**4,229**	4,220
Segment liabilities	$m	**1,125**	1,221
Capital employed (R12)	$m	**3,393**	4,244
Return on capital employed (R12)	%	**27.0**	1.1

1 The 2016 earnings before interest and tax for Department Stores includes $145 million of restructuring costs and provisions to reset the Target business, but excludes the non-cash impairment of $1,266 million.

2 The 2016 earnings before interest and tax for Industrials excludes the $850 million non-cash impairment of Curragh.

Operating and financial review

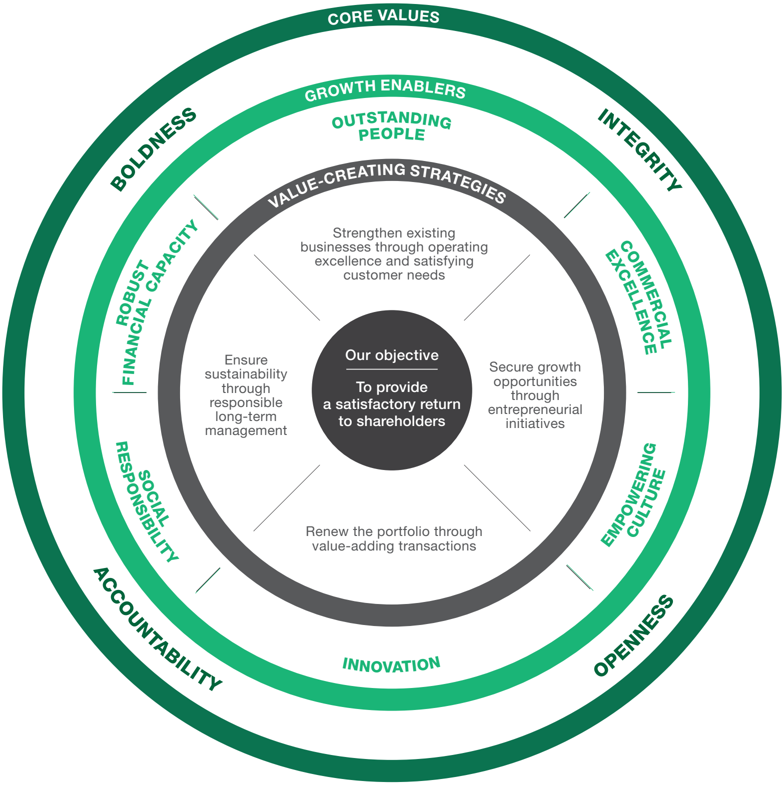
On behalf of the Board, I'm very pleased to present the operating and financial review of Wesfarmers for shareholders.

In presenting my last operating and financial review as Wesfarmers' Finance Director, I would like to take the opportunity to thank the Board, Richard and all of the wonderful colleagues who bring the Wesfarmers Way to life for the benefit of all of our stakeholders.

Wesfarmers' primary objective is to deliver satisfactory returns to shareholders through financial discipline and exceptional management of a diversified portfolio of businesses. A key focus of the Group is ensuring that each of its divisions has a strong management capability that is accountable for strategy development and execution, as well as day-to-day operational performance. Each division is overseen by a divisional board of directors or a steering committee that includes the Wesfarmers Managing Director and Finance Director, and is guided by a Group-wide operating cycle and governance framework.

This operating and financial review sets out the Group's objective, values, growth enablers and strategies. It also outlines a review of operational performance for the 2017 financial year, as well as summarising its risks and prospects. The 2017 financial performance is also outlined

The Wesfarmers Way



for each division, together with its competitive environment, strategies, risks and prospects.

The review should be read in conjunction with the financial statements, which are presented on pages 93 to 138 of the 2017 annual report.

The Wesfarmers Way

From our origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies and private sector employers, with more than 223,000 employees and approximately 515,000 shareholders.

Wesfarmers' diverse business operations in this year's review cover: supermarkets; home improvement; department stores; office supplies; chemicals, energy and fertilisers; industrial and safety products; and coal. Wesfarmers' businesses operate in Australia, New Zealand, the United Kingdom and Ireland, with the portfolio including some of these countries' leading brands.

The Wesfarmers Way is the framework for the company's business model and comprises core values, growth enablers and value-creating strategies directed at achieving the Group's primary objective of providing a satisfactory return to shareholders.

TERRY BOWEN
Finance Director
(to 4 September 2017)

Our objective

The primary objective of Wesfarmers is to provide a satisfactory return to shareholders. The measure used by the Group to assess satisfactory returns is total shareholder return (TSR) over time. We measure our performance by comparing Wesfarmers' TSR against that achieved by the broader Australian market Index.

Performance measures

Growth in TSR relies on improving returns from invested capital relative to the cost of that capital and growing the capital base at a satisfactory rate of return on capital (ROC)[1].

Given a key factor in determining TSR performance is the movement in Wesfarmers' share price, which can be affected by factors outside the control of the company (including market sentiment, business cycles, interest rates and exchange rates), the Group focuses on return on equity (ROE) as a key internal performance indicator.

While ROE is recognised as a fundamental measure of financial performance at a Group level, ROC has been adopted as the principal measure of business unit performance. ROC focuses divisional businesses on increasing earnings and/or increasing capital productivity by managing existing assets efficiently, as well as making an adequate return on any new capital deployed.

Minimum ROC targets for each division are set based on their pre-tax cost of capital, while satisfactory ROC targets are established based on the Group's ROE targets, which are reviewed annually with reference to the performance of the broader market.

[1] ROC = EBIT/(working capital, fixed assets and investments less provisions and other liabilities).

Approach to delivering satisfactory returns to shareholders

The Group seeks to:

- continue to invest in Group businesses where capital investment opportunities exceed return requirements;
- acquire or divest businesses where doing so is estimated to increase long-term shareholder wealth; and
- manage the Group's balance sheet to achieve an appropriate risk profile, an optimised cost of capital and flexibility to take advantage of opportunities as they arise.

Cash flow generation

- Drive long-term earnings growth
- Manage working capital effectively
- Strong capital expenditure processes
- Invest above the cost of capital
- Financial discipline

Balance sheet strength

- Diversity of funding sources
- Optimise funding costs
- Maintain strong credit metrics
- Risk management of maturities

Delivery of long-term shareholder returns

- Improve returns on invested capital
- Grow dividends over time
- Effective capital management

Cash flow generation

In generating cash flow and earnings, the Group seeks to employ excellent management teams who are empowered to drive long-term earnings growth. This is achieved through deploying best practice principles in operational execution and maintaining a long-term focus in regards to strategy and results.

The Group continuously looks to improve the working capital efficiency of all of its businesses. In addition, the Group ensures strong discipline in relation to capital expenditure or any other investment decisions that are made.

Balance sheet strength

The Group endeavours to achieve a cost of capital advantage while maintaining balance sheet strength and flexibility in order to be able to act when opportunities arise.

This includes maintaining access to diverse sources of funding, including bank facilities and global bond markets, and optimising funding costs.

The Group maintains strong credit metrics, in line with a strong investment grade credit rating, supported by good cash flow generation and disciplined capital management.

Risk is managed by smoothing debt maturities over time, limiting the total repayments in any given year.

Long-term shareholder returns

With a focus on generating strong cash flows and maintaining balance sheet strength, the Group aims to deliver satisfactory returns to shareholders through improving returns on invested capital. As well as share price appreciation, Wesfarmers seeks to grow dividends over time commensurate with performance in earnings and cash flow. Dependent upon circumstances, capital management decisions may also be taken from time to time where this activity is in shareholders' interests.

Acquisition approach

When reviewing the acquisition of businesses the Group considers various factors, as illustrated in the adjacent diagram.

Importantly, in applying these filters the Group applies a long-term horizon to investment decisions and remains very disciplined in its approach to evaluation, with the most important filter being whether the investment is going to create value for shareholders over time.

Investment approach

- Capacity to act through a strong balance sheet and focus on cash flow
- Flexibility through different ownership models (e.g., minority interest, full control, partnerships)
- Remain opportunistic to sector, structure and geography
- Financially disciplined including investment comparison to capital management alternatives

Acquisition filters

Industry considerations	Megatrend exposure
	Industry structure
	Industry scale
Business considerations	Competitive position
	Wesfarmers fit
Financial evaluations	Long-term investment horizon
	Discipline in financial projections
	Risk-adjusted hurdle rates

Core values

Integrity

- Acting ethically in all dealings

Openness

- Openness and honesty in reporting, feedback and ideas
- Accepting that mistakes will happen from time to time and seeking to learn from them

Accountability

- Significant delegation of authority and decision-making to divisions
- Accountability for performance
- Protecting and enhancing our reputation

Boldness

- Strong and ready to make bold decisions and challenge the status quo in pursuit of growth and sustainability
- Supporting and encouraging an environment free of fear and blame

Growth enablers

A core attribute of the Wesfarmers operating model is that each of our businesses operates with a high degree of autonomy. Rather than mandating detailed strategies or implementation plans, the Group focuses on ensuring that the following six key enablers are in place in our businesses, with a goal of driving operating performance to best practice.

Outstanding people

Wesfarmers seeks to be an employer of choice. Attracting outstanding people and utilising their individual talents is the most critical element in striving for sustainable success. Wesfarmers recognises that while great assets and strategies are critical, it is people who ultimately drive outcomes.

Commercial excellence

Wesfarmers seeks to ensure that it employs strong financial discipline in all of its decisions across the Group. Wesfarmers has a clear bias towards promoting strong commercial capability across its leadership base.

Empowering culture

Wesfarmers recognises that an empowering culture is critical to engendering accountability for delivering the results agreed upon through the Group's corporate planning framework. Wesfarmers uses stretch targets in objective setting and encourages team members to be proactive in driving the creation of value in their businesses.

Innovation

Wesfarmers seeks to develop a culture that encourages innovation, and rewards boldness and creativity.

Social responsibility

Respect for employees, customers and suppliers and a relentless focus on providing safe workplaces are fundamental to the way that Wesfarmers operates. Wesfarmers' social responsibility extends to maintaining high standards of ethical conduct, environmental responsibility and community contribution.

Robust financial capacity

By maintaining a strong balance sheet, the Group aims to provide a competitive cost and access to capital in order to allow the Group to act when value-creating opportunities present themselves.

Our value-creating strategies

Consistent with the Wesfarmers Way, the Group's primary objective to provide a satisfactory return to shareholders is driven by four overarching strategies. These are:

- strengthening existing businesses through operating excellence and satisfying customer needs;
- securing growth opportunities through entrepreneurial initiative;
- renewing the portfolio through value-adding transactions; and
- ensuring sustainability through responsible long-term management.

As outlined in the following table, each strategy is underpinned by the Group's well-established strategic planning framework. A key attribute of this approach is the maintenance of a long-term focus and acting sustainably in the creation of value and the building of businesses.

At a divisional level, detailed strategies are developed specific to the opportunities to improve each of our individual businesses. Divisional strategies are discussed within their respective summaries, starting on page 20.

Operating excellence

Our strategies	Our achievements	Our focus for the coming years
Strengthen existing businesses through operating excellence and satisfying customer needs	– Continued to make improvements in our customer offers, including reinvesting in value to drive business growth and improving merchandise ranges. – Further optimised and invested in our retail store networks and digital channels. – Focused on production plant efficiency and maintaining and growing customer relationships in our industrial businesses. – Made further operational productivity improvements and reduced costs across our businesses.	– **Coles** remains committed to implementing customer-led strategies and delivering trusted value, quality and service. Continued investment in value will be supported by simplifying the business end-to-end. The division has plans to drive further improvement in fresh category sales. Coles will also maintain a disciplined and returns-focused approach to network expansion and capital investment, develop new channels and services, and progress its Liquor transformation. – **Bunnings** will maintain its focus on driving long-term value creation by creating better experiences for customers and the wider community, investing in new and existing stores, delivering greater digital reach and strengthening the core of the business. Bunnings United Kingdom and Ireland will focus on building strong business foundations and establishing pilot Bunnings Warehouse stores. – **Kmart** aims to grow through continued price leadership, better ranges, store network growth and a high performance culture. The business will continue to focus on delivering increased operational efficiency. – **Target** will continue to focus on completing the conversion to everyday low prices, improving the quality of ranges and working capital efficiency. These initiatives will be supported by higher levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification. – **Officeworks** will continue to deliver a unique 'one-stop shop' via its 'every channel' strategy while extending reach through new categories and services, and drive further productivity improvements. – **Chemicals, Energy and Fertilisers (WesCEF)** will continue to focus on maintaining strong operational performance. The business is well positioned to take advantage of value-generating opportunities as they arise. – **Industrial and Safety** will continue to improve systems and processes to enhance supply chain efficiency and customer service, and optimise category management, pricing and sourcing. – **Resources** will maintain a focus on cost control, productivity improvement and capital discipline. Low-cost plant expansions and counter-cyclical investments will be implemented where satisfactory returns can be achieved.

Entrepreneurial initiative

Our strategies	Our achievements	Our focus for the coming years
Secure growth opportunities through entrepreneurial initiative	– Provided even greater value for customers through price reinvestment of innovation-led productivity gains. – Continued to innovate product ranges and categories across all businesses, providing value and quality to customers. – Further improved and extended channel and brand reach in the retail portfolio, focusing on store format innovation and the expansion of online offers. – Expanded customer programs, particularly the flybuys loyalty program and the PowerPass offer at Bunnings. – Continued to better leverage data, particularly in the retail businesses.	– Continue to reinforce innovation and boldness as growth enablers. – Continue to rigorously apply financial disciplines and financial evaluation methodologies. – Increase and encourage collaboration across divisions, where appropriate.

Renewing the portfolio

Our strategies	Our achievements	Our focus for the coming years
Renew the portfolio through value-adding transactions	– Divested Coles' credit card receivables and completed a new 10-year credit card distribution agreement with Citi, providing a solid platform for the ongoing strong growth of Coles credit cards. – Progressed the Resources strategic review. There is no guarantee that this review will result in a transaction. – Reviewed a potential initial public offering for Officeworks. Retaining the business was determined to be in the best interests of shareholders at the time.	– Maintain a strong focus and capability to evaluate growth opportunities where long-term shareholder value can be created. – Consider innovative investment approaches to complement traditional growth models and provide future optionality. – Ensure a patient, disciplined and broad scanning approach to investment opportunities is maintained. – Apply rigorous due diligence and post-acquisition integration processes. – Maintain a strong balance sheet to enable the Group to act opportunistically. – Consider opportunities to divest assets either in full or in part, where long-term shareholder value can be created.

Operating sustainably

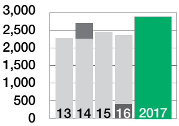
Our strategies	Our achievements	Our focus for the coming years
Ensure sustainability through responsible long-term management	– Significantly strengthened the Group's balance sheet. – Further improved our safety performance. – Maintained a very strong focus on the development and management of our teams. – Continued to focus on diversity in our workplaces, with 27 per cent more self-identified Indigenous employees this year, including 1,393 new Indigenous employees at Coles. – Advanced our executive development, retention and succession programs. – Continued to actively contribute to the communities in which we operate. In the 2017 financial year, we made community contributions, both direct and indirect, of more than $130 million.	– Continue to foster a more inclusive work environment, with particular focus on diversity (gender, age and ethnicity). – Increase the number of women in leadership positions across the Group. – Continue to look after the health, safety and development of our people. – Contribute positively to the communities in which we operate. – Provide appropriate governance structures to safeguard future value creation. – Improve the greenhouse gas efficiency of our operations, which reduces our own business costs and risk, as well as contributing to climate change mitigation. – Reduce our waste to landfill intensity rate and divert as much as possible to recycling, both in our operations and for our customers.

Year in review

Net profit after tax

$2,873m

(excluding significant items)

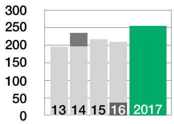


2017	**2,873**
2016[1]	2,353
2015	2,440
2014[2]	2,689
2013	2,261

Earnings per share

254.7 cents

(excluding significant items)

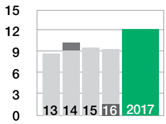


2017	**254.7**
2016[1]	209.5
2015	216.1
2014[2]	234.6
2013	195.9

Return on equity

12.4%

(excluding significant items)



2017	**12.4**
2016[1]	9.6
2015	9.8
2014[2]	10.5
2013	8.9

● Excluding significant items ● Reported

[1] 2016 excludes the following post-tax significant items: $1,249 million non-cash impairment of Target; $595 million non-cash impairment of Curragh; and $102 million of restructuring costs and provisions to reset Target.

[2] 2014 includes the following post-tax significant items: $145 million Insurance division contribution to earnings; $939 million gain on disposal of the Insurance division; $95 million gain on disposal of WesCEF's interest in Air Liquide WA (ALWA); $677 million impairment of Target's goodwill; and $66 million Coles Liquor restructuring provision.

Overview

The Group reported a record net profit after tax (NPAT) of $2,873 million for the 2017 financial year, an increase of $2,466 million on the prior year which included $1,946 million of significant items. Excluding the significant items recorded in the prior year, NPAT increased 22.1 per cent, while earnings per share increased 21.6 per cent to a record $2.55 per share. Return on equity (R12) increased to 12.4 per cent from 9.6 per cent (excluding significant items) in the prior year.

The results achieved during the year demonstrated the strength of the Group's conglomerate structure.

In a competitive environment, the Group's retail businesses continued to invest in customer value, service, stores and online, as well as improved merchandise ranges to deliver long-term growth and improved returns.

A strong recovery in Resources' earnings, driven by higher coal prices and increased metallurgical coal production, resulted in a significant increase in earnings from the Industrials division during the year. Retail earnings were also above the prior year, supported by continued strong momentum in Bunnings Australia and New Zealand (BANZ), Kmart and Officeworks.

Operating cash flow

The Group's cash flow management was a highlight for the year, with operating cash flows increasing $861 million to $4,226 million.

Higher operating cash flows mainly reflected earnings growth, and improved inventory management across the retail divisions which was partially offset by higher working capital requirements in the Industrials division.

Cash realisation for the year was 102.1 per cent, an improvement from 94.9 per cent (excluding non-trading items (NTIs)) in the prior year, which further strengthened the Group's balance sheet.

Capital expenditure

The Group maintained strict disciplines in respect to capital expenditure during the year, with generally conservative business cases and appropriate hurdle rates commensurate with project risks. Gross capital expenditure of $1,681 million was $218 million or 11.5 per cent lower than last year, mainly due to fewer store openings in Bunnings Australia and New Zealand, reduced refurbishment activity in Target and lower capital expenditure across the Industrials division.

Growth and refurbishment of retail store networks which deliver strong incremental returns on capital were key drivers of capital expenditure.

Proceeds from disposals of $653 million were $90 million above last year, due to the divestment of Coles' interest in a number of joint venture properties to ISPT, and the sale of land by WesCEF. The resulting net capital expenditure of $1,028 million was $308 million or 23.1 per cent lower than the prior year.

Free cash flow

Free cash flows of $4,173 million were $2,940 million above last year, reflecting higher operating cash flows, lower net capital expenditure and proceeds of $947 million from the divestment of Coles' credit card receivables. Excluding the Coles credit card transaction, and the acquisition of Homebase in the prior year, free cash flows increased $1,328 million.

Balance sheet

The Group further strengthened its balance sheet during the year. Net financial debt, including interest rate swap assets, was $4,321 million at 30 June 2017, $2,216 million below last year.

Capital employed at year-end was $27,582 million. This was $81 million lower than last year mainly due to sales of property in Coles and WesCEF and lower intangibles. Intangibles declined due to the impact of a higher Australian dollar on the translation of Homebase's intangibles and a reduction in goodwill following the sale of Coles' credit card receivables. Provisions and other liabilities finished lower, mainly due to the utilisation of provisions recognised at the time of the Homebase acquisition and the settlement of the Stanwell litigation.

Lower working capital outflows during the year were primarily driven by improved inventory management across the retail businesses. These were partially offset by an increase in fertiliser inventory levels in WesCEF and higher receivables in Resources due to higher coal prices and production volumes.

Debt management and financing

The Group's strategy is to diversify its funding sources, pre-fund upcoming maturities and maintain a presence in key markets.

In November 2016, $500 million of domestic medium term notes were repaid using existing cash balances and bank facilities. In addition, over $900 million of debt was repaid following the completion of the divestment of Coles' credit card receivables in February 2017.

Finance costs decreased 14.3 per cent to $264 million as a result of a lower average net debt balance, and a 46 basis point reduction in the Group's 'all-in' effective borrowing cost to 4.04 per cent driven by active management of debt sources. Lower finance costs contributed to strong liquidity metrics, with cash interest cover (R12) increasing to 25.0 times and fixed charges cover (R12) increasing to 3.1 times.

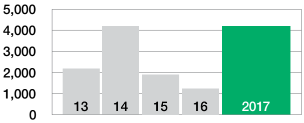
The Group maintained strong and stable credit ratings during the year. Moody's Investors Services' rating remained unchanged at A3 (stable) and Standard and Poor's remained unchanged at A- (negative). In September 2017, Standard and Poor's revised the Group's outlook from negative to stable.

Cash capital expenditure

Year ended 30 June	2017 $m	2016 $m
Coles	**805**	797
Home Improvement	**445**	538
Kmart	**154**	163
Target	**71**	129
Officeworks	**36**	40
WesCEF	**44**	60
Industrial and Safety	**34**	52
Resources	**91**	116
Other	**1**	4
Total capital expenditure	**1,681**	1,899
Sale of property, plant and equipment	**(653)**	(563)
Net capital expenditure	**1,028**	1,336

Free cash flow

$4,173m



2017	**4,173**
2016	1,233
2015	1,893
2014	4,178
2013	2,171

Group capital employed

Year ended 30 June[1]	2017 $m	2016 $m
Inventories	**6,530**	6,260
Receivables and prepayments	**1,936**	1,950
Payables	**(6,616)**	(6,492)
Other	**410**	411
Net working capital	**2,260**	2,129
Property, plant and equipment	**9,440**	9,612
Goodwill and intangibles	**18,936**	19,073
Other assets	**622**	619
Provisions and other liabilities	**(3,676)**	(3,770)
Total capital employed	**27,582**	27,663
Net financial debt excluding financial services debt[2]	**(4,321)**	(5,727)
Net tax balances	**680**	1,013
Total net assets	**23,941**	22,949

1 Balances reflect the management balance sheet, which is based on different classification and groupings than the balance sheet in the financial statements.

2 Net financial debt excluding the financing of the Coles credit card book and net of cross currency interest rate swaps and interest rate swap contracts.

Net financial debt reduced $2,216 million to $4,321 million.

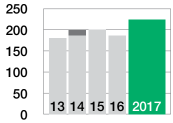
Debt sources[1]

BANK BILATERALS	25%
US BONDS	15%
EURO BONDS	33%
DOMESTIC BONDS	27%

[1] As at 30 June 2017.

Dividends per share

223 cents

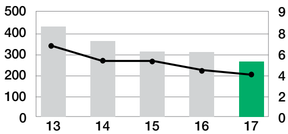


2017	**223**
2016	186
2015	200
2014[1]	200
2013	180

[1] 2014 includes a 10 cents per share special 'Centenary' dividend.

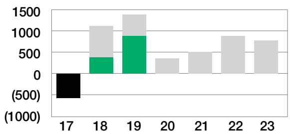
Finance costs ($m) and weighted average cost of debt (%)

FINANCE COSTS (LHS)
WEIGHTED AVERAGE COST OF DEBT (RHS)



Debt maturity profile[1] ($m)

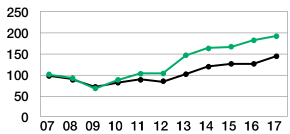
BANK FACILITIES
CAPITAL MARKETS
CASH AT BANK AND ON DEPOSIT



[1] As at 30 June 2017.

TSR: Wesfarmers and ASX 200

WESFARMERS LIMITED TSR INDEX[1]
ASX 200 ACCUMULATION INDEX



[1] Assumes 100 per cent dividend reinvestment on the ex-dividend date, and full participation in capital management initiatives (e.g., rights issues and share buybacks). Source: Bloomberg.

Dividends

A key component of total shareholder return is the dividends paid to shareholders.

The Group's dividend policy considers current earnings and cash flows, available franking credits and targeted credit metrics.

In line with this year's record earnings and strong cash flow performance, the Board declared a fully-franked final ordinary dividend of 120 cents per share, taking the full-year ordinary dividend to 223 cents per share. The final dividend will be paid on 28 September 2017, to shareholders on the company's register on the record date for the final dividend.

Given the preference of many shareholders to receive dividends in the form of equity, the directors have decided to continue the operation of the Dividend Investment Plan (the 'Plan').

The allocation price for shares issued under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 15 consecutive trading days from and including the third trading day after the record date, being 28 August 2017 to 15 September 2017.

The last date for receipt of applications to participate in, or to cease or vary participation in the Plan, was 24 August 2017. No discount will apply to the allocation price and the Plan will not be underwritten. Shares to be allocated under the Plan will be transferred to participants on 28 September 2017. Given the Group's strong cash flow performance for the year, and strong credit metrics, any shares to be issued under the Plan will be acquired on-market and transferred to participants.

Our approach to sustainability

Wesfarmers will only be sustainable as a corporation if, in addition to its continued financial success, it adequately addresses a range of other issues which are significant in their own right and ultimately influence financial outcomes.

Each business has identified the key issues most relevant to its operations within their summaries as detailed later in this operating and financial review.

Wesfarmers supports the recommendations of the Task Force on Climate-related Financial Disclosures. Our annual risk review process has identified climate change as an emerging risk and our businesses are taking steps to actively consider and monitor its potential impact.

Further information on our sustainability performance can also be found on pages 29 to 37 of this annual review.

Risks

Wesfarmers recognises the importance of, and is committed to, the identification, monitoring and management of material risks associated with its activities across the Group.

The following information sets out the major Group-wide risks. These are not in any particular order and do not include generic risks such as changes to macroeconomic conditions affecting business and households in Australia, which would affect all companies with a large domestic presence and which could have a material affect on the future performance of the Group.

Further information on risk management, including policies, responsibility and certification, can be found in the corporate governance section of the company's website at **www.wesfarmers.com.au/cg**

Strategic

- Increased competition
- Ineffective execution of strategy
- Loss of key management personnel
- Damage or dilution to Wesfarmers' brands
- Digital disruption to industry structures

Operational

- Loss of critical supply inputs or infrastructure, including IT systems
- Loss of data security and integrity
- Business interruption arising from industrial disputes, work stoppages and accidents
- Risks inherent in distribution and sale of products
- Climate change
- Ethical sourcing and human rights

Regulatory

- Non-compliance with applicable laws, regulations and standards
- Adverse regulatory or legislative change

Financial

- Currency volatility
- Adverse commodity price movements
- Reduced access to funding

Prospects

Given Wesfarmers' diverse business operations and strong balance sheet, the Group remains generally optimistic in its outlook. Across the Group's retail portfolio, continued growth in earnings is expected to be driven by ongoing improvements in merchandising and service, further enhancements to the customer experience both in stores and online, and investments in value supported by operational efficiencies. The Group's Industrials businesses will continue to focus on operational efficiencies and diversification of revenues.

In a very competitive environment, sales and margin pressures in Coles are expected to persist. Within this environment, Coles will focus on plans to further enhance the quality of its fresh offer, and improve merchandising and availability, while continuing to drive operational efficiencies to support investments in value and service. Coles will also seek to grow new channels and services, while continuing to improve its store network.

Within Home Improvement, the outlook for Bunnings Australia and New Zealand is particularly positive given current trading momentum across all regions and categories, and the business' established market position. Bunnings Australia and New Zealand has a broad strategic agenda to drive further growth by creating better experiences for customers, strengthening the core of the business and achieving greater brand reach, both physically and digitally. In Bunnings United Kingdom and Ireland, while store execution in Homebase is expected to improve, trading is anticipated to remain challenging, particularly in the short term, as customers continue to adjust to the new offer. Disruption will also continue as the business progressively transitions to Bunnings and the store network is optimised over time.

Within Department Stores, Kmart will continue to drive growth by delivering better products at lower prices, and investing in its store network, while Target will progress its transformation plan to deliver further improvements in its performance.

Officeworks will continue to implement its 'every channel' strategy to drive growth both in stores and online.

WesCEF's earnings remain subject to international commodity prices, exchange rates and seasonal outcomes. Earnings for the Chemicals business will be affected by an anticipated oversupply in the Western Australian explosive grade ammonium nitrate market, although good work has been undertaken to secure new contracts for ammonium nitrate and emulsion.

Following its recent strategic reset, Industrial and Safety is well positioned to grow across different market sectors and drive additional operating efficiencies.

The Resources business will remain focused on strong operational productivity and cost control in an environment where coal prices are expected to remain volatile and higher obligations to Stanwell are expected to negatively affect the results for the 2018 financial year.

The Group's cash generative portfolio, capital disciplines and strong balance sheet position it well to take advantage of growth opportunities, if and when they arise. Wesfarmers will also continue to evaluate opportunities to create shareholder value through the proactive management of its portfolio, including through the current strategic review of the Resources business. There is no certainty that this review will result in a transaction and an update will be provided to the market if and when appropriate.

Coles

Revenue

$39,217m

2017	39,217
2016	39,242
2015	38,201
2014	37,391
2013	35,780

EBIT

$1,609m

2017	1,609
2016	1,860
2015	1,783
2014	1,672
2013	1,533

Performance drivers

Coles' revenue of $39,217 million for the year was in line with last year, with earnings before interest and tax declining 13.5 per cent to $1,609 million.

Food and Liquor recorded sales growth of 2.0 per cent driven by continued investment in value, quality and service. The key metrics of transaction volumes and basket size improved as a result of continued investment in the customer offer.

Fresh food categories continued to perform strongly, although there remains a significant opportunity to improve and capture further share. A focus on sourcing quality fresh products and high standards of availability has driven increased transactions and units year on year.

In a lower growth and very competitive market, Coles remained focused on its customer-led strategy, and during the year accelerated its investment in enhancing the customer offer. This proactive investment resulted in lower prices for customers, including through the absorption of inflationary cost pressures in fresh produce and meat, increased fresh food quality and improved customer service.

Trusted value remains paramount for Coles, and as at 30 June 2017, there were approximately 4,400 products on 'Every Day' prices. This year marks the eighth consecutive year that Coles has lowered prices for customers, with cumulative deflation of 8.2 per cent recorded since the 2009 financial year.

The Liquor transformation progressed in line with expectations. Positive comparable sales growth was achieved for the 2017 financial year, and has now been achieved for seven consecutive quarters, reflecting investments made in price, range and the store network. The transformation program is now past the halfway point of a five-year plan.

Coles Express recorded revenue (including fuel) of $6,133 million for the year, 8.2 per cent lower than the previous year due to lower fuel volumes. Despite a decline in fuel transactions, convenience store sales increased by 4.6 per cent for the year.

Coles' investment in new channels and services continued this year, with Coles Online recording double digit sales growth. Coles Financial Services grew General Insurance policies and also completed a 10-year credit card distribution agreement with Citi. Flybuys continued to achieve growth in active members.

Our business

Coles provides fresh food, groceries, general merchandise, liquor, fuel and financial services, with more than 21 million customer transactions on average each week, via its store network and online platform. Coles has more than 106,000 team members and operates 2,475 retail outlets nationally.

Our market

Coles operates in Australia's highly dynamic and evolving food, grocery, liquor and convenience sector. It has a store network of 801 supermarkets, 883 liquor stores, 89 hotels and 702 convenience outlets across the nation, from as far west as Geraldton in Western Australia to as far east as Ocean Shores in the Northern Rivers region of New South Wales.

Coles also operates in the financial services market, offering home, car, landlord insurance and credit cards. Coles Financial Services has more than one million customer accounts.

Prospects

Coles remains committed to being a customer-led business and continually providing better value, quality and service to its customers across Australia.

At a time when Australian household budgets remain under pressure, Coles will continue to lower prices for customers, invest in improvements to fresh food quality, in-store availability, customer service and the store network.

Coles will continue to extend into new channels and services by increasing the offering to customers through Coles Online, Financial Services and Australia's number one loyalty program, flybuys.

Home Improvement

Revenue

$13,586m

2017	**13,586**
2016	11,571
2015	9,534
2014	8,546
2013	7,661

EBIT

$1,245m

2017	**1,245**
2016	1,214
2015	1,088
2014	979
2013	904

Performance drivers

Revenue for the Home Improvement division increased 17.4 per cent to $13,586 million, driven by the full-year contribution from Bunnings United Kingdom and Ireland, which was acquired on 28 February 2016, and strong growth in Bunnings Australia and New Zealand. Earnings for the division of $1,245 million were 2.6 per cent higher than the prior corresponding period.

Operating revenue from Bunnings Australia and New Zealand increased 8.9 per cent to $11,514 million. Total store sales growth of 8.9 per cent was achieved during the year, underpinned by an increase of 7.3 per cent in store-on-store sales. Bunnings Australia and New Zealand recorded EBIT of $1,334 million, an increase of 10.0 per cent on last year.

Bunnings United Kingdom and Ireland reported operating revenue of £1,229 million ($2,072 million) and a loss before interest and tax of £54 million ($89 million) in the first full financial year of trading since acquisition. The result included £19 million ($33 million) of transition and restructuring costs, including costs associated with the establishment of the Bunnings brand in the United Kingdom and Ireland and the pilot store program. During the year, purchase price adjustments were applied to the costs of clearing discontinued ranges, the depreciation associated with IT-related assets which were written down to fair value at the time of the acquisition, and onerous Transitional Service Agreement contracts with Home Retail Group.

Our business

Bunnings is the leading retailer of home improvement and outdoor living products in Australia and New Zealand, and the second largest retailer of home improvement and garden products in the United Kingdom and Ireland.

Bunnings' approach to long-term value creation is based on four interlinked principles: a winning offer to customers; an engaged, focused and committed workforce; business behaviour that builds trust; and sustainable satisfactory shareholder returns.

Bunnings employs more than 40,000 team members across Australia and New Zealand. In the United Kingdom and Ireland, Bunnings employs approximately 12,000 team members across its Homebase and Bunnings Warehouse stores. Work continues to reposition Homebase to deliver a core home improvement and garden offer.

Our market

In Australia and New Zealand, Bunnings caters for consumers and both light and heavy commercial customers across the home improvement and outdoor living market, operating from a network of large warehouse stores, smaller format stores, trade centres, and frame and truss sites.

Bunnings Australia and New Zealand is expanding its brand reach through the opening of new stores and flexible formats, along with more digital engagement.

The home improvement and garden market in the United Kingdom and Ireland is large and highly fragmented. Bunnings is building the foundations to enable the delivery of a winning offer in this market.

Prospects

In Australia and New Zealand, Bunnings is focused on driving growth, creating better experiences for customers and the wider community, and strengthening the core of the business. Achieving greater brand reach, both digitally and physically, is a core work area which includes further expansion of Bunnings' digital ecosystem, opening new stores and reinvesting in the existing network.

Positive trading momentum is expected to continue in the 2018 financial year, supported by ongoing investments in lower prices.

The team in the United Kingdom and Ireland will continue to build strong business foundations. Key areas of focus include pilot store development, proof of concept and rollout, and a relaunch of the kitchen and bathroom offers.

Recent changes to strengthen the senior leadership team and realign organisational structures will support improved Homebase store execution. This will also provide additional capacity for the development of Bunnings in the United Kingdom and Ireland, with 15 to 20 pilot stores expected to be trading or nearing completion by 31 December 2017, subject to relevant approvals.

Department Stores

Kmart

Revenue

$5,578m

2017	5,578
2016	5,190
2015	4,553
2014	4,209
2013	4,167

EBIT

$553m

2017	553
2016	470
2015	432
2014	366
2013	344

Performance drivers

Kmart delivered revenue of $5,578 million for the year, an increase of 7.5 per cent on the prior year, with earnings growing 17.7 per cent to $553 million.

Sales growth was driven by increased customer transactions and higher units sold per customer. Product ranges and everyday low prices continued to resonate well with customers, with growth delivered across all categories.

Kmart delivered another year of strong earnings growth through improved inventory management, enhanced product ranges, productivity improvements across stores and the supply chain and sourcing benefits. Growth in earnings, combined with a continued focus on working capital management, resulted in an improvement of 596 basis points in return on capital to 43.7 per cent.

Our business

Kmart was established in 1969, with the opening of its first store in Burwood, Victoria. Kmart operates 220 stores throughout Australia and New Zealand, offering customers a wide range of apparel and general merchandise products at low prices, every day. Kmart employs approximately 30,000 team members, who are focused on delivering the Kmart vision – where families come first for the lowest prices on everyday items. Kmart Tyre and Auto Service has 251 centres in Australia, providing customers with retail automotive services, repairs and tyres.

Our market

Kmart operates in the clothing, homewares and general merchandise retail sector both locally and internationally. This sector is competitive and comprises department stores, specialty retailers and a growing online channel. The sector is characterised by an expanding presence of international retailers, an increasing level of direct sourcing and online growth.

Kmart sources from both local and overseas suppliers with product sourcing offices in Hong Kong, China, Bangladesh, India and Indonesia.

Prospects

Kmart will seek to drive sustainable growth through a focus on making it a great place to shop that is simple to run and to deliver better products at lower prices. Further investments in price will be made to drive volume and maintain Kmart's price leadership position in the market. The business is well positioned for the 2018 financial year, with inventory in good shape and core everyday ranges performing well.

Continued investment in the store network is expected to deliver 10 new stores and the completion of 35 store refurbishments in the 2018 financial year.

Department Stores

Target

Revenue

$2,950m

2017	**2,950**
2016	3,456
2015	3,438
2014	3,501
2013	3,658

EBIT

$(10)m

2017	**(10)**
2016	(195)
2015	90
2014	86
2013	136

Performance drivers

Decisive actions were taken to transform Target this year, including a reset of the sales base and a reduction of the cost base. Target's revenue for the year was $2,950 million, a decrease of 14.6 per cent on the prior year. Reported EBIT increased by $185 million to an operating loss of $10 million. Excluding the restructuring costs in the 2017 and 2016 financial years of $13 million and $145 million respectively, underlying EBIT increased $53 million to $3 million.

During the year, further progress was made to transition the business to everyday low prices, with prices lowered, loss-making products and unprofitable events exited, and promotional activity reduced. Improved merchandise disciplines delivered SKU reductions, lower inventory levels and increased direct sourcing and factory consolidation. Good progress was made to reduce costs across supply chain, the store support office and stores.

Our business

Target operates a national network of 303 stores as well as online. Its objective is to provide quality, fashion and basics for everyone at low prices. Target employs more than 14,000 team members across its stores, support offices and direct sourcing operations.

Our market

Like Kmart, Target participates in the Australian clothing, homewares and general merchandise retail sector. The addressable market exceeds $80 billion and within this market Target has a sound competitive position supported by a strong brand heritage characterised by quality and value.

Prospects

Target will continue to focus on providing quality fashion and basics to everyone at low prices and the 2018 financial year will reflect the significant transition underway in the business. Further improvements in merchandise disciplines are expected to result in improved fashion and quality of sales.

The focus on end-to-end costs will continue, with increased levels of direct sourcing and continued improvements in operational efficiency. Renewal, as well as space and range trials, will progress and five new stores will be opened. Working capital efficiency and cash flow generation will continue to be focus areas.

Officeworks

Revenue

$1,964m

2017	1,964	
2016	1,851	
2015	1,714	
2014	1,575	
2013	1,506	

EBIT

$144m

2017	144	
2016	134	
2015	118	
2014	103	
2013	93	

Performance drivers

Officeworks' revenue increased 6.1 per cent to $1,964 million. Earnings of $144 million were 7.5 per cent higher than the prior corresponding period.

Officeworks' 'every channel' strategy continued to resonate with customers, with sales growth achieved across stores and online.

Growth in sales and earnings was driven by store layout and design changes, new and expanded product ranges, and ongoing enhancements to the online offer.

A relentless focus on providing great customer service, both in stores and online, and ongoing price investment to strengthen the value proposition, also contributed to the result.

Strong momentum in the business-to-business segment was maintained as an increasing number of micro, small and medium-sized business customers responded favourably to Officeworks' 'every channel' offer.

Strong sales growth, effective cost control and disciplined capital management delivered an increase in return on capital of 121 basis points to 14.7 per cent.

Ongoing investment in stores and online to support the future growth of the business was further reflected in a strong capital expenditure program during the year.

During the year, six new stores were opened and at the end of June 2017 there were 164 stores operating across Australia.

Our business

Officeworks is Australia's leading retailer and supplier of office products and solutions for micro, small and medium-sized businesses, students and households. Operating through a nationwide network of stores, an online platform, a call centre and a team of business specialists, Officeworks is focused on delivering a one-stop shop for customers.

Our market

Officeworks' current addressable market in Australia is around $20 billion. The market remains highly competitive, with a wide variety of participants, some of whom participate across multiple categories whilst others seek to specialise in certain areas.

Officeworks has continued to expand its addressable market through range and category expansion, and to drive innovation in core office products.

Prospects

Officeworks will continue to drive growth and productivity by executing its strategic agenda. Competitive intensity is expected to remain high as the landscape evolves, but Officeworks is well placed to continue to drive growth in this environment.

Key focus areas in the 2018 financial year will include strengthening and expanding the customer offer by adding new products and ranges. This will strengthen Officeworks' position as a one-stop shop for micro, small and medium-sized businesses, students and households.

Investment in the store network will continue through more store openings and ongoing enhancements to merchandise layouts and store design. Likewise, enhancements to the online offer will continue.

Enhancing productivity and efficiency across all elements of the business will remain a priority with the focus on working capital improvements, better space utilisation and effective cost control.

Officeworks remains committed to investing in the talent, diversity and safety of the team, and making a positive difference in the community.

Industrials

Chemicals, Energy and Fertilisers

Revenue

$1,639m

2017	**1,639**
2016	1,820
2015	1,839
2014	1,812
2013	1,805

EBIT

$395m

2017	**395**
2016	294
2015	233
2014	221
2013	249

Performance drivers

Revenue of $1,639 million was 9.9 per cent below last year due to declines in Chemicals and Fertilisers revenue. Chemicals revenue declined due to lower PVC volumes, following the change to an import model, and lower ammonia prices which affected ammonium nitrate sales prices as well as ammonia revenue. Fertiliser sales volumes were lower due to a dry start to the 2017 season. Growth in natural gas and electricity revenue contributed to growth in Energy revenue.

Reported EBIT of $395 million was 34.4 per cent higher than last year including $33 million relating to WesCEF's share of revaluation gains in Quadrant Energy and a $22 million profit on sale of land in the current year, and $32 million of costs associated with the cessation of PVC manufacturing in the prior year. Excluding these one-off items, underlying EBIT increased 4.3 per cent to $340 million.

Pleasingly, safety performance improved significantly during the year.

Our business

WesCEF operates eight businesses in Australia and employs approximately 1,200 team members. WesCEF's business units are Chemicals, Energy (Kleenheat), and CSBP Fertilisers.

Our market

Chemicals includes:

- the manufacture and supply of ammonia, ammonium nitrate (AN) and industrial chemicals primarily to the Western Australian resources and industrial sectors through CSBP
- Queensland Nitrates (QNP), CSBP's 50 per cent joint venture with Dyno Nobel Asia Pacific which manufactures and supplies AN to the resources sector in the Bowen Basin coal fields
- Australian Gold Reagents (AGR), CSBP's 75 per cent joint venture with Coogee Chemicals which manufactures and supplies sodium cyanide to the Western Australian and international gold mining sectors
- Australian Vinyls, which supplies PVC resin to the Australian industrial sector
- ModWood, which manufactures wood-plastic composite decking and screening products

Kleenheat extracts LPG from natural gas and distributes bulk and bottled LPG to the residential and commercial markets in Western Australia and the Northern Territory. It distributes bulk LNG through its subsidiary, EVOL LNG, primarily to the remote power generation market in Western Australia. Kleenheat is also a retailer of natural gas to residential and commercial markets, and electricity to businesses in Western Australia.

CSBP Fertilisers manufactures, imports and distributes phosphate, nitrogen and potassium-based fertilisers for the Western Australian agricultural sector. CSBP Fertilisers also provides technical support services for growers through a network of employees and accredited partners in regional Western Australia.

Wesfarmers owns a 13.7 per cent interest in Quadrant Energy, which supplies domestic gas in Western Australia and oil across Australia. Earnings from this interest are included in WesCEF's results.

Prospects

Chemicals, Energy and Fertilisers continues to focus on maintaining strong operational performance, developing new business opportunities and deploying new technologies. A key activity in the 2018 financial year is the commissioning of the ammonium nitrate emulsion plant.

Industrials

Industrial and Safety

Revenue

$1,776m

2017	**1,776**
2016	1,844
2015	1,772
2014	1,621
2013	1,647

EBIT

$115m

2017	**115**
2016	63
2015	70
2014	131
2013	165

Performance drivers

Revenue of $1,776 million was 3.7 per cent below last year, with challenging market conditions affecting sales in Blackwoods and Workwear Group's industrial wear business. Blackwoods' revenue has shown recent signs of stabilising following a prolonged period of decline. Coregas experienced revenue growth as it continued to increase market share and develop new market opportunities.

Reported EBIT of $115 million represented an 82.5 per cent increase on last year. Excluding restructuring costs of $35 million in the prior year, underlying EBIT increased 17.3 per cent with higher earnings across all businesses. Blackwoods delivered increased earnings supported by higher gross margins from improved category management and supplier relationships, and stronger pricing disciplines. Workwear Group earnings increased as a result of cost savings achieved through the 'Fit for Growth' program.

Our business

Industrial and Safety operates three main businesses: Blackwoods (comprising Blackwoods Australia and NZ Safety Blackwoods); Workwear Group; and Coregas.

Blackwoods is a leading supplier of tools, safety, workwear and other industrial supplies to businesses of all sizes across Australia and New Zealand. It distributes its products through an extensive national supply chain and branch network and online platforms. Its broad product range is supported by expert technical advice and solutions.

Workwear Group is Australia's largest provider of industrial and corporate workwear, featuring iconic Australian brands such as Hard Yakka, King Gee and Stubbies. Workwear Group also supplies bespoke and catalogue uniforms to leading airlines, financial services providers, retailers and other large corporates through NNT and Incorporatewear (UK), as well as specialised garments to defence and emergency services customers in Australia and New Zealand.

Coregas is a national industrial gas distributor in Australia and New Zealand, serving customers of all sizes through multiple sales channels and distribution networks including Blackwoods and Bunnings.

Our market

In Australia, Blackwoods, Workwear Group and Coregas service customers across diverse industries such as construction, mining, manufacturing, retail, food and beverage, transport, facilities maintenance and government.

In New Zealand, NZ Safety Blackwoods' market is primarily small-to-medium sized businesses in a wide range of industries, supplemented by selected large enterprise customers.

Prospects

In Industrial and Safety the reset of the Blackwoods and Workwear Group businesses, together with investments in upgraded systems and management capability, are expected to provide a platform to support future growth. The businesses will continue to improve systems and processes to enhance supply chain efficiency and customer service, and optimise category management and sourcing to improve sales and margins.

Industrials

Resources

Revenue

$1,746m

2017	1,746
2016	1,008
2015	1,374
2014	1,544
2013	1,539

EBIT

$405m

2017	405
2016	(310)
2015	50
2014	130
2013	148

Performance drivers

Revenue of $1,746 million was 73.2 per cent above last year, primarily due to significantly higher export coal prices and higher sales volumes.

Reported EBIT was $405 million, $715 million above last year, primarily due to significantly higher export sales revenue.

At Curragh, a continued focus on productivity and a revised mine plan drove an increase in production, supplemented by the opportunistic use of contractor fleet to take advantage of higher export metallurgical coal prices.

Our business

Resources has investments in two coal mines. Both mines are world-scale, low-cost, open-cut producers. The majority of production is exported to Asia.

Curragh (100 per cent)

Situated in Queensland's Bowen Basin, Curragh is one of the world's largest metallurgical coal mines with an operating track record of more than 30 years. It produces metallurgical coal for export markets and also supplies steaming coal to the Queensland Government's Stanwell Corporation under a long-term contract until approximately 2025. Curragh's baseline production capacity is 8.5 million tonnes per annum (mtpa) for export metallurgical coal and 3.5 mtpa for steaming coal.

Bengalla (40 per cent)

The business has a 40 per cent interest in the Bengalla mine, located south-west of Muswellbrook, in the Hunter Valley region of New South Wales. Bengalla produces steaming coal for export markets and has a 10.7 mtpa run-of-mine capacity (100 per cent basis).

Our market

Curragh

Curragh is reliable, flexible and one of a small number of independent Australian producers of metallurgical coal. It has a well-established and geographically diverse customer portfolio with a number of long-standing relationships with world-leading steel-makers. In the 2017 financial year, Curragh's metallurgical exports by volume went to Japan (36 per cent), South Asia (30 per cent), North Asia (22 per cent), Europe (8 per cent) and other (4 per cent).

Bengalla

Bengalla's steaming coal is used for power generation and is exported primarily to customers based in Japan and North Asia.

Prospects

In Resources, both mines continue to focus on operational productivity, cost control and capital discipline. Metallurgical and thermal coal prices are expected to remain volatile in the near-term.

Other activities

Wesfarmers is also a major investor in the BWP Trust, Gresham Partners and Wespine Industries.

BWP Trust

Wesfarmers' investment in the BWP Trust (the Trust) contributed earnings of $55 million, compared to $77 million last year.

The Trust was established in 1998 with a focus on warehouse retailing properties and, in particular, Bunnings warehouses leased to Bunnings Group Limited. BWP Management Limited, the responsible entity for the Trust, is a wholly owned subsidiary of Wesfarmers Limited. Units in the Trust are listed on the Australian Securities Exchange and Wesfarmers holds, through a wholly owned subsidiary, 24.8 per cent of the total units issued by the Trust as at 30 June 2017.

The Trust performed in line with its business objectives during the year, providing a 4.3 per cent increase in full year distributions and a 5.1 per cent net increase in the assessed valuation of the Trust's property investment portfolio.

The Trust's portfolio as at 30 June 2017 consisted of a total of 80 properties: 79 established Bunnings warehouses, eight of which have adjacent retail showrooms that the Trust owns and are leased to other retailers; and one fully-leased stand-alone large format showroom property.

Gresham Partners

Wesfarmers has a 50 per cent shareholding in Gresham Partners Group Limited, the holding company for the Gresham Partners investment house operations. Gresham is a leading independent financial services business focused on the provision of corporate and property advisory services, funds management, property financing and debt solutions.

During the year, Gresham participated in a number of significant advisory transactions, including mergers and acquisitions, corporate restructurings and debt refinancing on behalf of a range of domestic and international clients. Its property funds management business, which is the manager of established institutional funds and syndicates, continued to finance a range of Australian development projects.

Wesfarmers is a participant in the Gresham Private Equity funds with the remaining holding being an underground mining services business operating both in Australian and overseas markets.

Wespine Industries

The 50 per cent-owned Wespine Industries operates a plantation softwood sawmill in Dardanup, Western Australia.

Timber sales for the 2017 financial year decreased by 11 per cent largely due to further softening in Western Australian house building activity. Operating margins also deteriorated during the year due to increased competition from imported timbers and an overall surplus in supply volumes.

Safety performance improved with a 32 per cent reduction in the TRIFR for the year. The management team is continuing its focus on the identification and mitigation of occupational risks, notably manual handling.

Sustainability

Wesfarmers has been committed to creating value for its shareholders, customers, employees and communities for more than a century.

Long-term value creation is only possible if we play a positive role in the communities we serve. At Wesfarmers, sustainability is about understanding and managing the ways we impact our community and the environment, to ensure that we will still be creating value in the future.

We are committed to working with our suppliers to adhere to ethical business conduct and proactively address potential human rights issues through a range of actions. Our statement pursuant to the UK Modern Slavery Act appears in the Wesfarmers sustainability report.

We acknowledge that the world is changing and climate change will have serious implications for our customers, the economy and the communities in which we operate. We recognise that we have a role in investing in Australia's response to climate change as this will deliver significant economic, social and environmental benefits for us all. For Wesfarmers, this is about good governance, prudent risk management and positioning our businesses competitively for the future.

The Dow Jones Sustainability Index tracks sustainability performance of leading companies around the world. In September 2017 Wesfarmers was advised it had scored 78 out of 100, two points behind the global leader in the food and staples sector.

Our full sustainability report will be available in October 2017 at **sustainability.wesfarmers.com.au**

Our performance

This year we are proud of our progress in the following areas.

SAFETY

Injury rate

↘16%

Reduced our Total Recordable Injury Frequency Rate by 16 per cent to 28.3.

ETHICAL SOURCING AND HUMAN RIGHTS

Factories[1] in our audit program

5,455

Improved the transparency of our supply chain with 5,455 factories in our audit program.

DIVERSITY

Indigenous employees

4,231

Worked to promote diversity in our workplaces, with 4,231 employees identifying as Indigenous[2].

COMMUNITY CONTRIBUTIONS

Direct funding

›$73m

Contributed more than $73 million in direct funding to community organisations.

We acknowledge that we can always do better.

PEOPLE DEVELOPMENT

While Wesfarmers' workforce is made up of 54 per cent women and 46 per cent men, a key opportunity for the Group is to increase the percentage of leadership positions held by women.

WASTE AND WATER USE

Despite our efforts, ongoing reduction in waste disposed and water use is hard to maintain as our businesses continue to grow. We will continue to seek opportunities to do this.

ETHICAL SOURCING AND HUMAN RIGHTS

We will continue to focus on ethical sourcing, especially supply chain transparency. Strengthening our relationships with suppliers ensures that we can contribute positively in this area.

CLIMATE CHANGE RESILIENCE

We will continue to focus on climate change resilience, especially energy efficiency. Wesfarmers is committed to minimising its footprint and to deliver solutions that help its customers and the community do the same.

1 Factories include supplier sites.
2 As at 30 June 2017.

Safety

We maintain a relentless focus on providing safe workplaces.

Keeping our employees, customers, suppliers and visitors across all our sites safe is our highest priority. Improvements to safety are core to all our operations, whether it is in a department store or at an industrial site. We are focused on continual improvements in safety leadership, strategies targeting risk reduction and improving physical and mental health.

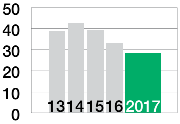
We are seeing the benefits of this relentless focus on making our workplaces safer but we acknowledge that if team members are injured at work, our safety performance still requires improvement and remains our highest priority.

To monitor our historical safety performance, we use total recordable injury frequency rate (TRIFR) and lost time injury frequency rate (LTIFR), which show injuries per million hours worked by employees and long-term contractors. This year, our TRIFR decreased by 16 per cent from 33.6 to 28.3, with improvements across most divisions. Our LTIFR increased 1.4 per cent this year compared to the same period last year.

We were pleased that our workers' compensation claims decreased by more than 1,000 to 6,294.

Total recordable injury frequency rate[1]

28.3



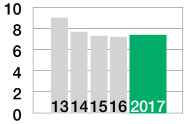
2017	**28.3**
2016[2]	33.6
2015	39.4
2014	42.7
2013	38.7

[1] TRIFR is the number of lost time injuries and medical treatment injuries per million hours worked.

[2] Restated due to maturation of data.

Lost time injury frequency rate[1]

7.4



2017	**7.4**
2016	7.3[2]
2015	7.3
2014	7.7
2013	9.0

[1] LTIFR is the number of lost time injuries per million hours worked.

[2] Restated due to maturation of data.

People development

We provide opportunities for our people to enhance their job performance and develop their careers.

We employ approximately 223,000 people globally, including more than 203,000 in Australia, making Wesfarmers Australia's largest private-sector employer. Of our people, approximately 68 per cent are employed on a permanent basis and 32 per cent are employed on a casual basis.

Wesfarmers businesses provide employment to approximately one in 60 working Australians or one in 14 working Australians under 20 years of age.

In 2017, we distributed $8.7 billion to our employees in salaries, wages and benefits.

The quality of our people is our greatest competitive advantage and providing them with opportunities to improve their performance and their careers is key to our success.

Training and development

Wesfarmers is committed to providing strong skills-based training and leadership development to all employees. In addition to on-the-job training, Wesfarmers' divisions provide job-specific training opportunities as well as more general training opportunities covering areas like technical skills, customer service, team work and leadership. These programs are available to full-time, part-time and casual employees.

Workplace relations

More than 83 per cent of our workforce is covered by collective agreements. We recognise the right of those we employ to negotiate either individually or collectively, with or without the involvement of third parties. We also believe in maximising the flexibility of workplace arrangements available to our employees.

This year, workplace relations at Coles received some attention. The Fair Work Commission declined to approve a new enterprise bargaining agreement covering all Coles store team members. Following that decision, the majority of Coles team members are now covered by the 2011 Store Team Enterprise Agreement. Most meat team members are covered by state-based agreements and a small number of team members (Coles Online customer service agents) are covered by the General Retail Industry Award.

In July 2016, an individual Coles team member filed an application to terminate the 2011 agreement. This matter is currently before the Commission.

Diversity

We strive to create an inclusive work environment, with particular attention to gender balance and the inclusion of Indigenous people.

Wesfarmers considers building a diverse and inclusive workforce an opportunity to drive strong and sustainable shareholder returns. Creating an environment that attracts, retains, and promotes talent with a wide range of strengths and experiences ensures Wesfarmers is best equipped for future growth.

Our commitment to diversity across Wesfarmers extends to all individuals and all perspectives. Particular focus is paid to achieving a balance of men and women in senior management positions across our divisions and continuing to boost employment of Indigenous people.

Gender balance

While Wesfarmers' workforce is made up of 54 per cent women and 46 per cent men, a key opportunity for the Group is to increase the percentage of leadership positions held by women. Women hold 47 per cent of salaried roles and 56 per cent of award or enterprise bargaining agreement (EBA) roles.

Female representation across the Group *(percentage of employees)*

	2017	2016
Wesfarmers Limited Non-Executive Directors	38%	38%
Senior executive positions (General manager or above)	24%	23%
All management and professional roles	32%	30%
Total workforce	54%	55%

The Wesfarmers Diversity Policy outlines four core objectives which are used to measure performance in this area. The objectives are reviewed annually by the Board, as well as Wesfarmers' progress in achieving these objectives. Specific progress targets are linked to senior executive key performance objectives under the incentive plan. Given the diversity of the Wesfarmers portfolio, each division has developed its own gender balance plan in line with the Group objectives.

Indigenous representation in our workforce

Our vision for reconciliation is an Australia that affords equal opportunities to all. Wesfarmers aims to ensure that Indigenous people feel welcome in our businesses as employees, customers, suppliers and visitors. We will know that we have succeeded when we have a workplace that reflects the diversity of the communities we serve.

Wesfarmers produced its first public Reconciliation Action Plan (RAP) in 2009. Our RAP outlines specific measurable actions undertaken across the Group, targeting Indigenous employment, business engagement, community partnerships and team member volunteering with Indigenous organisations.

During the year we increased the employment of Indigenous team members by 27 per cent

Kmart creates an inclusive environment

The employment of people with (dis)abilities remained a key focus for Kmart this year. Kmart worked with Mylestones and the Australian Network on Disability, to ensure people with (dis)abilities could participate equitably in the employment process and feel safe in Kmart stores.

Indigenous team members

2017	**4,231**
2016	3,327
2015	2,762
2014	1,711
2013	1,302

Indigenous employment

As Australia's largest private sector employer, we believe we are able to provide Indigenous people with greater opportunities to participate in sustainable employment, and this remains the primary focus of our RAP. At 30 June 2017, Wesfarmers had 4,231 Indigenous team members, representing two per cent of our current Australian workforce. This is a 27 per cent increase on the previous year.

Wesfarmers has committed to increasing its procurement from Indigenous suppliers. We are a founding member of Supply Nation, Australia's leading supplier diversity accreditation organisation.

Our RAP is available at **wesfarmers.com.au**

Suppliers

We commit to strong and respectful relationships with our suppliers.

Our relationships with more than 18,000 suppliers across the Group are very important to us. This year we incurred costs to suppliers of $46.4 billion. We want to provide value to our customers and sustainable growth for our suppliers and their employees. Striving for better efficiency in our consumer supply chains ensures their continued competitiveness.

Australia first at Coles

Coles has an Australia first sourcing policy to source Australian-grown food whenever and wherever it can. Coles sources more than 96 per cent of fresh fruit and vegetables from Australian growers, 100 per cent of fresh milk and eggs, and 100 per cent of fresh meat for the meat department from Australian producers.

Coles provides more than $9 million to support innovation

Cattle producer Bill Crowther will become the first cattle producer in Queensland to supply to Coles' grass-fed GRAZE beef range, using a $500,000 grant from the Coles Nurture Fund.

Coles is supporting Australian producers and growers with new and extended long-term contracts. During the year, Coles signed a 10-year agreement with TOP Pork Pty Ltd which paves the way for 12 Victorian and South Australian farming families to supply sow stall free pork directly to Coles each week. In 2015, Coles entered into a 10-year agreement with Sundrop Farms to supply tomatoes and in 2016, secured an eight-year agreement with Manbulloo Mangoes.

During the year Coles extended its milk contract with Norco. The original five-year contract, signed in 2014, has been extended until 2023 with Coles having an option to extend until 2026. Under the arrangement, around 220 New South Wales and Queensland dairy farmers will supply 60 million litres of Coles Brand milk annually.

Under a supply contract with Simplot, which has been extended until 2024, Coles has committed to sourcing an additional six million kilograms a year of Australian-grown vegetables which were previously sourced from overseas.

Ethical sourcing and human rights

We strive to source products in a responsible manner while working with suppliers to improve their social and environmental practices.

Wesfarmers' businesses source products from a range of locations. Some of the major locations we source from outside Australia include China, Bangladesh, Europe, Indonesia, India, Thailand, New Zealand, Vietnam, South Korea and Malaysia. Buying products from these regions creates economic benefits for them as well as allowing our businesses to provide affordable products to consumers.

We are committed to working with our suppliers to adhere to ethical business conduct and proactively address human rights through a range of actions.

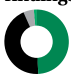
Ethical sourcing audit programs

To mitigate the risk of unethical practices occurring in our supply chains, the relevant Wesfarmers businesses (Coles, Bunnings, Target, Kmart, Officeworks, and Industrial and Safety) apply an ethical sourcing audit program to certain suppliers. Suppliers are considered lower risk if they are supplying recognised international brands. While high-risk jurisdictions mainly correlate to our suppliers from emerging markets, we know human rights issues can happen anywhere and we accept that we cannot consider suppliers low risk if they operate in more regulated countries, like Australia.

This year, our audit program covered 5,455 factories (this includes supplier sites) in Australia and overseas used to produce products for sale across our retail businesses.

Factories in the audit program are required to have undertaken an assessment as mandated by our business. Factories may then be required to undertake further assessments including having a current audit certificate, which means they have been audited by us or another party whose audits we accept. Those audits identify a range of non-compliances, from minor non-compliances such as minor gaps in record keeping to critical breaches, such as incidences of forced labour or bribery.

Ethical sourcing audit program findings



5,455
Total number of factories[1]

Approved	2,686
Conditionally Approved	2,416
Expired Audits	287
Critical Breaches	66

[1] Factories include supplier sites.

Climate change resilience

We strive to improve the emissions intensity of our businesses and improve their resilience to climate change.

Wesfarmers supports the recommendations of the Task Force on Climate-related Financial Disclosures and is committed to providing stakeholders with information in relation to how we are managing climate change risks.

Our position on climate change

Wesfarmers accepts the Intergovernmental Panel on Climate Change's (IPCC) assessment of climate change science and believes the world can pursue three objectives: a stable and reliable energy market; reduce emissions; and reduce the cost of energy. We have identified climate change as the most material environmental and social sustainability issue relevant to our businesses and have incorporated it into our long-term planning.

We recognise that the climate is changing due to human actions and we acknowledge that business has a part to play in mitigating this climate change. Wesfarmers supports Australia's commitments under the Paris Agreement to limit global warming to 1.5°C – 2°C above pre-industrial levels. Industry and governments must work together to achieve this outcome. Long-term policy certainty is a prerequisite for decarbonisation (meaning the economy reaches net zero carbon emissions) by 2050 to occur efficiently and affordably. During the year, we met with the Federal Government to reiterate our position that stable bipartisan action on climate change is critical for business to manage risk and invest in climate mitigation.

Climate change is a critical, Board-level, governance and strategic issue at Wesfarmers. Management is responsible for assessing and managing climate related risks and opportunities and the Board of Wesfarmers has oversight of these risks and opportunities.

Climate change strategy

Climate change is incorporated into our broader sustainability strategy. The governance structure we have in place has been designed so that it is flexible enough to cater to the needs of our diverse conglomerate business model while remaining clear and practical.

Given the diversity of our businesses and consequently the range of risks and opportunities posed by climate change, we believe this approach is more effective than a stand-alone Group strategy.

Two degree scenario analysis

To understand the longer term impacts to the Australian economy, including risks and opportunities for Wesfarmers, of limiting global warming to less than two degrees Celsius above pre-industrial levels, we have undertaken scenario analysis.

Coles invests in renewable energy

In a first for Coles in Western Australia, its new supermarket at Byford installed solar power to generate enough electricity for 50 average Australian homes. Powered by 770 solar panels, up to 20 per cent of the supermarket's annual energy use comes from the 1,260sqm of solar panels installed on the store's roof.

Shadow carbon price

Since 2014, we have put a shadow price on carbon to help reduce our carbon footprint cost effectively. Shadow pricing is a method of investment decision analysis that adds a hypothetical surcharge to market prices for goods that involve significant carbon emissions.

Climate change risk management

Our divisions respond to climate change in two ways. Firstly, we work to understand the specific risks created by climate change for our businesses and address those risks. Secondly, we actively monitor and manage our own greenhouse gas emissions and reduce them where possible.

Once again this year we have tested the robustness of our businesses against climate change using CSIRO 2030 data in our annual risk process. Our annual risk review process confirmed existing operational, strategic and compliance risk controls are adequate for managing climate change risk in our businesses. We believe suitable action is being taken and we are making appropriate disclosures.

Our annual risk review process has identified climate change as an emerging risk and our businesses are therefore taking steps to actively consider and monitor its potential impact on business operations, the community and the broader economy. The climate change risks we assess are physical, regulatory, reputational and competitive risks.

Physical risks

Our analysis has found that projected changes in sea level, storm surge intensity, temperature, precipitation and more frequent changes in extreme weather will exacerbate existing risks while also exposing our divisions to the following risks:

- energy infrastructure reliability
- food safety
- energy cost
- store openings
- infrastructure damage.

To mitigate the effect of physical risks for our businesses, we are working to improve the efficiency of our electricity supply which reduces our overall emissions as well as demands on distribution networks. Some of our retail business units are working to include solar systems into new stores as standard and on existing stores where feasible and with landlord agreement. Most of our stores have detailed equipment-level energy consumption monitoring in place. Intelligent management systems go beyond the equipment level to optimise overall site operations, interfacing with preventive maintenance, proactive energy management and forward planning of energy efficiency opportunities.

Strong business continuity plans are in place to ensure we can still transport and provide products to customers living in areas experiencing extreme weather events.

We work to educate our customers about sustainable living choices to reduce their carbon footprint and provide them with products which can assist with adapting to climate change.

Regulatory risks

Our businesses test resilience against a climate change regulatory risk scenario where the governments of Australia and our trading partners implement regulation to limit global warming to 1.5°C – 2°C above pre-industrial levels.

We anticipate that there are a number of policy levers the Federal Government could use between now and 2030, which could have an impact on our businesses.

By reducing our emissions as much as possible through employing innovative energy efficiency projects, staying abreast of any regulatory changes and incorporating a shadow carbon price into our capital expenditure decision-making, we believe our existing controls are adequate for managing regulatory risk.

Reputational risks

In the context of more frequent severe weather events and shifting global attitudes, customers may have changing expectations of companies, including their operational efficiency, environmental transparency in their supply chain and product range. While this is difficult to quantify, by reducing emissions as much as possible through employing innovative energy efficiency initiatives and reporting on our progress to stakeholders, we believe our existing controls are adequate for managing reputational risk.

Competitive risks

Emerging business models that take advantage of climate change opportunities or are more resilient to climate change risks may become a threat. Such business models are considered in the context of our current business model and our businesses consider whether any competitive risk mitigation is required over the next 10 years.

There is recognition that as our economy transitions to a low carbon economy as a result of climate change there will be opportunities for our businesses. The Group actively explores opportunities to support positive environmental outcomes.

Managing our emissions

The scale of the climate challenge is great but the IPCC highlights that the world has the means to address it. Our divisions are looking for ways to improve energy efficiency, reduce emissions across their operations and supply chains and invest in low-emissions and renewable technologies.

Australian first on LNG refuelling

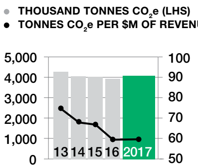
EVOL LNG successfully conducted Australia's first commercial liquid natural gas (LNG) refuelling (or 'bunkering' as it is known in the industry) to supply a vessel near Dampier in Western Australia. This was followed by the first LNG bunkering at Fremantle Port in February. LNG is a cleaner fuel alternative to marine diesel, emitting less carbon dioxide and nitrogen oxides, almost zero sulphur oxides and fewer harmful particulates.

This year, we emitted a total of 4,078 thousand tonnes of carbon dioxide equivalent (CO_2e) in scope one and two emissions, which was 4.2 per cent higher than last year. This represents an improvement in emissions intensity of 16 per cent over the past five years. This year, the increase in our emissions was driven predominantly by an increase in mining activity in our Resources business where production was up 13.7 per cent on 2016 levels.

Greenhouse gas emissions

4,078

tonnes CO_2e: '000



2017	**4,078**
2016	3,915
2015	4,012
2014	4,047
2013	4,241

Community contributions

We make a positive contribution to the communities in which we operate.

Reflecting the divisional autonomy of the Group, our approach to community engagement is driven and managed by our businesses to ensure value is created in ways that best fit with their operations and geographic spread.

With businesses right across Australia, New Zealand, United Kingdom and Ireland, Wesfarmers has a local footprint in many communities. Many of our divisions have major, long-term partnerships at a national level, such as Coles' support of national cancer charity Redkite. This partnership achieved a significant milestone in 2017, with more than $20 million raised since the partnership started in 2013.

In addition to these major partnerships, a significant part of our community investment is directed to smaller, not-for-profit organisations operating locally. For example, the Bunnings sausage sizzles and cake stalls enjoyed by many Bunnings customers every week are valuable fundraising opportunities for local community groups, where all of the funds raised go directly to the group conducting the fundraiser. Coles, Kmart and Target provide gift cards to community groups or facilitate the collection of customer donations for local fundraising initiatives. As a result of these locally-driven activities, there is a significant number of community programs supported across Australia, including environmental projects, education programs and mental health initiatives.

For Wesfarmers Limited, the Board approves partnerships focused on four areas: medical research and health; Indigenous programs, particularly targeting education and employment outcomes; community and education initiatives; and the Wesfarmers Arts program. The majority of these partnerships are long-term commitments with West Australian-based organisations.

Wesfarmers continues to support organisations in the medical research and health field, believing that investing in innovation now benefits future generations. Our support for community and education was strengthened with a new partnership with Teach For Australia. Wesfarmers is also committed to establishing community partnerships focused on Indigenous programs. In 2017, our contribution in this area increased in part due to the greater funding directed towards Clontarf Foundation to support its national expansion.

Our community contributions were $132m. This includes $73m in direct contributions and a further $59m from our customers and team members.

Wesfarmers Arts and WASO celebrate 20-year partnership

In recognition of our long-term relationship we announced an expanded partnership with WASO which will focus on regional and international touring, as well as the development of WASO's extensive and award-winning education and community program.

Wesfarmers Arts

Wesfarmers has supported the arts in Australia for more than three decades. Our engagement in the cultural life of the Western Australian and broader national community embraces our long-term support for a wide range of premier performing and visual arts organisations and the ongoing development of The Wesfarmers Collection of Australian Art.

In 2017, the Wesfarmers Arts program continued to build on the contribution made by our arts partnerships and our art collection to the life of the company and our engagement with the community. Wesfarmers provided $3.1 million in support of the activities of 12 leading arts organisations.

Waste and water use

We strive to reduce our waste to landfill and water use where possible.

We are working to reduce our waste to landfill intensity rate and to divert as much as possible to recycling, both in our operations and for our customers.

Water use is a material issue in our industrial businesses and our focus is on using water more efficiently, reducing our water use intensity rate and replacing scheme water with reclaimed or recycled water where possible.

Recycling and waste

This year, we increased our waste to landfill by six per cent to close to 160,000 tonnes and increased our waste recycled by six per cent to 373,000 tonnes. This was primarily due to an increase in our store network to include 255 Homebase and Bunnings stores in the United Kingdom and Ireland.

In July 2017, Coles announced it would phase out single use plastic bags from all stores nationwide over the next year.

More than 670 Coles supermarkets across Australia also donate surplus fresh food to SecondBite, an organisation redistributing food to community food programs, with a total of 23 million kilograms donated since the partnership began in late 2011.

Reducing water use

This year, the Group's water use increased slightly to close to 16,000 megalitres. Of this, 32 per cent is reclaimed and recycled water at the Curragh mine site.

Water use by source

16,000
megalitres

Municipal supply	57%
Recycled and reclaimed	32%
Ground water	11%

Curragh reduces water use

Since raw water saving initiatives were introduced in 2014, Curragh mine has cut back consumption by almost one-third. This means the team is exceeding its target of a five per cent annual reduction.

Product safety

We are committed to providing consumers with safe products.

All consumer products we supply must be safe and meet consumer guarantees under the consumer laws of the countries where we operate. We do not sell banned products and ensure that all our products comply with relevant mandatory standards before they are offered for sale. As well as safety testing and compliance with required standards, our divisions implement product recalls where possible safety issues arise.

Robust governance

We maintain robust corporate governance policies in all our businesses.

Wesfarmers is committed to being transparent with all our stakeholders about our sustainability risks and opportunities. We measure and publish our performance for each of our material issues in our sustainability report. Our full sustainability report contains more than 45 case studies, detailed information about the individual performance of each of our businesses and data available for download. It is prepared in accordance with Global Reporting Initiative Standards and assured by Ernst & Young. It will be available in October 2017 at **sustainability.wesfarmers.com.au**

Board of directors

MICHAEL CHANEY AO *Age 67*
Chairman
BSc, MBA, Hon. LLD W.Aust, FTSE

Term: Chairman since November 2015; Director since June 2015.

Skills and experience: After an early career in petroleum geology and corporate finance, Michael joined Wesfarmers in 1983 as Company Secretary and Administration Manager. He became Finance Director in 1984 and was appointed Managing Director in July 1992. He retired from that position in July 2005.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Chairman of Woodside Petroleum Limited (since July 2007)
- Chancellor of The University of Western Australia (since December 2005)
- Member of Commonwealth Science Council (since October 2014)
- Chairman of Gresham Partners Holdings Limited (retired May 2015)
- Chairman of National Australia Bank Limited (retired December 2015)
- Member of Prime Minister's Business Advisory Council (retired December 2015)

RICHARD GOYDER AO *Age 57*
Managing Director
BCom, FAICD

Term: Director since July 2002.

Skills and experience: Richard joined Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He was Managing Director of Wesfarmers Landmark Limited in 1999 until he became Finance Director of Wesfarmers Limited in 2002 and then Deputy Managing Director and Chief Financial Officer in 2004. Richard assumed the role of Managing Director and Chief Executive Officer in July 2005.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Director and Chairman-elect of Woodside Petroleum Limited (since August 2017)
- Director of Gresham Partners Holdings Limited (since July 2002)
- Director of the Business Council of Australia (since October 2009)
- Chairman of the Australian Football League Commission (Commissioner since November 2011, Chairman since April 2017)
- Chairman of JDRF Australia (director since March 2016, Chairman since June 2016)

TERRY BOWEN *Age 50*
Finance Director (to 4 September 2017)
BAcct, FCPA

Term: Director appointed May 2009 resigned September 2017.

Skills and experience: Terry held a number of finance positions with Tubemakers of Australia Limited. Terry joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark Limited, including Chief Financial Officer until 2003. He then became Chief Financial Officer for Jetstar Airways, prior to rejoining Wesfarmers as Managing Director, Wesfarmers Industrial and Safety in 2005. Terry became Finance Director, Coles in 2007 and Wesfarmers Finance Director in 2009. He resigned as Finance Director in September 2017, and will remain as the Group's Chief Financial Officer until 10 November 2017.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Director of Gresham Partners Group Limited (resigned August 2017)
- Director of Gresham Partners Holdings Limited (resigned August 2017)
- Chairman of the West Australian Opera Company Incorporated (since April 2014)
- Director of West Coast Eagles Board (since May 2017)
- President of the National Executive of the Group of 100 Inc (retired December 2013)

JENNIFER WESTACOTT *Age 57*
BA (Honours), FAICD, FiPAA

Term: Director since April 2013.

Skills and experience: Jennifer is Chief Executive of the Business Council of Australia. Prior to that, she was a Board director and lead partner at KPMG. Jennifer has extensive experience in critical leadership positions in the New South Wales and Victorian governments.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Adjunct Professor at the City Futures Research Centre of the University of New South Wales
- Co-chair, Advisory Board, Australia Sino One Hundred Year Agricultural and Food Safety Partnership (since July 2015)
- Chair of the Mental Health Council of Australia (since January 2013)
- Co-chair of the Australia-Canada Economic Leadership Forum Organising Committee (since February 2016)
- Member of the Melbourne School of Government Advisory Board (since March 2016)
- Member of the Prime Minister's Expert Advisory Panel on the Reform of the Federation (concluded December 2015)
- Member of the Prime Minister's Cyber Security Review Panel (concluded April 2016)

VANESSA WALLACE *Age 54*
B.Comm (UNSW), MBA (IMD Switzerland), MAICD

Term: Director since July 2010.

Skills and experience: Vanessa is an experienced strategy management consultant who had been with Strategy& (formerly Booz & Company) for more than 25 years. She has deep expertise in the financial services sector across the spectrum of wealth management, retail banking and insurance, with particular functional depth in risk management, post-merger integration and capturing business opportunities associated with channels, customers and markets.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Director of SEEK Limited (since 1 March 2017)
- Director of AMP Limited (since March 2016)
- Chairman of AMP Capital Holdings Limited (director since March 2016, Chairman since August 2016)
- Executive Chairman of Strategy& (Japan) Inc. (retired June 2015)

Board of directors

WAYNE OSBORN *Age 66*
Dip Elect Eng, MBA, FAICD, FTSE

Term: Director since March 2010.

Skills and experience: Wayne started working in the iron ore industry in the mid-1970s and joined Alcoa in 1979. He worked in various roles across the Australian business, including accountability for Alcoa's Asia Pacific operations, prior to being appointed Managing Director in 2001, retiring in 2008.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Director of South32 Limited (since May 2015)
- Director of Alinta Holdings (retired April 2017)
- Director of Iluka Resources Limited (retired May 2016)
- Chairman of the Australian Institute of Marine Science (retired December 2014)

TONY HOWARTH AO *Age 65*
CitWA, Hon.LLD (UWA), SF Fin, FAICD

Term: Director since July 2007.

Skills and experience: Tony has more than 30 years' experience in the banking and finance industry. He was Chairman of Home Building Society Limited and Deputy Chairman of Bank of Queensland Limited. Tony has held several senior management positions during his career, including Managing Director of Challenge Bank Limited and Chief Executive Officer of Hartleys Limited.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Director of BWP Management Limited (since October 2012)
- Chairman of MMA Offshore Limited (director since July 2001, Chairman since August 2006)
- Chairman of St John of God Health Care Inc. (since January 2004)
- Chairman of the West Australian Rugby Union Inc. (since September 2015)
- Director of Alinta Holdings (since March 2011)
- Director Alinta Energy Limited (since September 2016)
- Chairman of International Chamber of Commerce, Australia Limited (retired March 2014)

PAUL BASSAT *Age 49*
B.Comm, LL.B. (Melb)

Term: Director since November 2012.

Skills and experience: Paul started his career as a lawyer in 1991. He co-founded SEEK Limited in 1997, and served as Chief Executive Officer and then as joint Chief Executive Officer until 2011. He is a co-founder and director of Square Peg Capital Pty Ltd, a venture capital fund that invests in early stage and growth stage technology companies. He is also a director of the Peter MacCallum Cancer Foundation, Mt Scopus College Foundation and the P&S Bassat Foundation and is a member of Innovation and Science Australia.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Australian Football League Commissioner (since February 2012)
- Director of AFL Sportsready Pty Ltd (since August 2015)

DIANE SMITH-GANDER *Age 59*

B.Ec, MBA, Hon.DEc W.Aust (UWA), FAICD, FGIA

Term: Director since August 2009.

Skills and experience: Diane has extensive experience in corporate governance and providing strategic advice to corporations in Australia and overseas. She was a partner with McKinsey & Company in the USA, became a senior adviser to McKinsey & Company in Australia in 2016 and has more than a decade of executive experience in the banking industry.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Director of AGL Energy Limited (since September 2016)
- Chairman of Broadspectrum Limited (formerly known as Transfield Services Limited) which delisted in June 2016 (director since October 2010, Chairman since October 2013, retired September 2016)
- Chair of Safe Work Australia (since February 2016)
- Trustee and director of CEDA – Committee for Economic Development of Australia (trustee since September 2014, director since November 2015)
- Director of Keystart Home Loans (since July 2016)
- Board member of Henry Davis York (since July 2016)
- Chair of the Asbestos Safety and Eradication Council (since December 2016)

JAMES GRAHAM AM *Age 69*

BE (Chem)(Hons)(Syd), MBA (UNSW), FiEAust, FTSE, FAICD, SF Fin

Term: Director since May 1998.

Skills and experience: James has had an active involvement in the growth of Wesfarmers since 1976 as Chairman and Managing Director of Gresham Partners Limited, and previously as Managing Director of Rothschild Australia Limited. James was also previously Chairman of Rabobank Australia Limited, Chairman of the Darling Harbour Authority and a director of Hill Samuel Australia Limited.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Chairman of the Advisory Council of the Institute for Neuroscience and Muscle Research (since 1999)
- Director of Wesfarmers General Insurance Limited (resigned June 2014)

Corporate Governance Overview

The Board of Wesfarmers Limited is committed to providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interests of the company and its stakeholders. This statement details the key aspects of the governance framework and practices of Wesfarmers. Wesfarmers regularly reviews its governance framework and practices so as to ensure it consistently reflects market practice and stakeholder expectations.

Set out below is an overview of selected aspects of Wesfarmers' corporate governance framework and key focus areas of the Board and its committees in 2017.

A copy of Wesfarmers' full 2017 Corporate Governance Statement, which provides detailed information about governance, and a copy of Wesfarmers' Appendix 4G which sets out the company's compliance with the recommendations in the third edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Principles) is available on the corporate governance section of the company's website at **www.wesfarmers.com.au/cg**

The Board believes that the governance policies and practices adopted by Wesfarmers during 2017 are in accordance with the recommendations contained in the ASX Principles.

Roles and responsibilities of the Board and management

The role of the Board is to approve the strategic direction of the Group, guide and monitor the management of Wesfarmers and its businesses in achieving its strategic plans and oversee good governance practice. The Board aims to protect and enhance the interests of its shareholders, while taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

In performing its role, the Board is committed to a high standard of corporate governance practice and fostering a culture of compliance which values ethical behaviour, personal and corporate integrity, accountability and respect for others.

The Wesfarmers Group Managing Director has responsibility for the day-to-day management of Wesfarmers and its businesses, and is supported in this function by the Wesfarmers Leadership Team. Details of the members of the Wesfarmers Leadership Team are set out under the Wesfarmers Leadership Team profiles in the corporate governance section of the company's website (**www.wesfarmers.com.au/cg**).

The Board maintains ultimate responsibility for strategy and control of Wesfarmers and its businesses.

In fulfilling its roles and responsibilities, some key focus areas for the Board during the 2017 financial year are set out below.

Key focus areas of the Board during the 2017 financial year included:

- Overseeing Group Managing Director succession planning, resulting in the appointment in February 2017 of Mr Rob Scott as the Group's Deputy Chief Executive Officer, to succeed the current Group Managing Director, Mr Richard Goyder, at the conclusion of the 2017 Annual General Meeting
- Approving leadership appointments, including Mr Anthony Gianotti who became the Group's Deputy Chief Financial Officer in July 2017 and will succeed the current Chief Financial Officer, Mr Terry Bowen, on 10 November 2017, and senior management changes
- Overseeing management's performance in strategy implementation
- Monitoring the Group's operating and cash flow performance, financial position and key metrics, including financial covenants and credit ratings
- Reviewing business operations and development plans of each division likely to impact long-term shareholder value creation through portfolio management and consideration of divestment options
- Monitoring the Group's safety performance and overseeing implementation of strategies to improve safety performance and enhance workplace safety awareness
- Reviewing talent management and development
- Monitoring and evaluating growth opportunities to complement the existing portfolio
- Approving revisions to the Board and committee charters
- Reviewing policies, reporting and processes to improve the Group's system of corporate governance

Structure and composition of the Board

Wesfarmers is committed to ensuring that the composition of the Board continues to include directors who bring an appropriate mix of skills, experience, expertise and diversity (including gender diversity) to Board decision-making.

The Board currently comprises nine directors, including eight non-executive directors. Detailed biographies of the directors as at 30 June 2017 are set out on pages 38 to 41 of this annual review. The current directors possess an appropriate mix of skills, experience, expertise and diversity to enable the Board to discharge its responsibilities and deliver the company's strategic priorities as a diversified corporation with current businesses operating in supermarkets, liquor, hotels and convenience stores; home improvement; department stores; office supplies; and an Industrials division with businesses in chemicals, energy and fertilisers, industrial and safety products, and coal.

Corporate Governance Overview

On 14 February 2017 Wesfarmers announced that Mr Richard Goyder will retire from the Board and his role as Group Managing Director at the end of the 2017 Annual General Meeting after serving as a director for more than 15 years. Mr Rob Scott was appointed as Wesfarmers' Deputy Chief Executive Officer in February 2017 and will join the Board as Group Managing Director at the conclusion of the 2017 Annual General Meeting.

On 4 September 2017 Wesfarmers announced that Mr Terry Bowen resigned from the Board after serving as a director for eight years. Mr Bowen will remain as Wesfarmers Chief Financial Officer until 10 November 2017.

The Board skills matrix set out below describes the combined skills, experience and expertise presently represented on the Board.

Skills, experience and expertise	
– CEO level experience	– Capital markets
– ASX-listed company experience	– Finance and banking
– Strategy and risk management	– E-commerce and digital
– Governance	– Human resources and executive remuneration
– Financial acumen	– Marketing/customers/retail
– Regulatory and government policy	– Resources and industrial
– International experience	– Corporate sustainability

To the extent that any skills are not directly represented on the Board, they are augmented through management and external advisors.

Mr Archie Norman, who has significant retail experience, was appointed in 2009 as an advisor to the Board on retail issues. In this role, Mr Norman attends Wesfarmers Board meetings as required and is a director of the Coles and Target boards. Mr Norman is also an advisor to the Bunnings UK & Ireland business.

Director independence

Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business or other relationship or circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement, having regard to the best interests of the company as a whole.

The Board's assessment of independence and the criteria against which it determines the materiality of any facts, information or circumstances is formed by having regard to the ASX Principles, in particular, the factors relevant to assessing the independence of a director set out in recommendation 2.3; the materiality guidelines applied in accordance with Australian Accounting Standards; any independent professional advice sought by the Board at its discretion; and developments in international corporate governance standards.

The Board has reviewed the position and relationships of all directors in office as at the date of this report and considers that:

– Seven of the eight non-executive directors are independent.
– The Chairman is independent.
– Mr James Graham is not independent, by virtue of his position as Chairman of Gresham Partners Limited (Gresham), which acts as an investment advisor to the company. Details of Mr Graham's association with Gresham are set out in note 25 on pages 134 and 135 of the 2017 annual report.

Committees of the Board

The Board has established a Nomination Committee, a Remuneration Committee, an Audit and Risk Committee, and a Gresham Mandate Review Committee as standing committees to assist with the discharge of its responsibilities. Details of the current membership and composition of each committee are set out in the 2017 Corporate Governance Statement.

Role of the Nomination Committee

As part of the Nomination Committee's oversight of Board succession planning, it is responsible for identifying suitable candidates to fill Board vacancies as and when they arise, or to identify candidates to complement the existing Board, and make recommendations to the Board on their appointment. Where appropriate, external consultants are engaged to assist in searching for candidates. The Nomination Committee is responsible for scheduling formal performance reviews of the Board and its committees at least every two years. The Board then undertakes an evaluation process to review its performance which is facilitated by an external consultant. More details about Wesfarmers' review process for both the Board and its committees is set out in the 2017 Corporate Governance Statement.

Key focus areas of the Nomination Committee during the 2017 financial year included:

– Succession planning for the Group Managing Director
– Consideration of directors to be recommended to shareholders for re-election at the 2016 Annual General Meeting
– Consideration of feedback from major shareholders during the Chairman's Roadshow conducted prior to the 2016 Annual General Meeting

Corporate Governance Overview

Role of the Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board in relation to overall remuneration policy. Full details of the remuneration paid to non-executive and executive directors, and senior executives are set out in the remuneration report on pages 73 to 92 of the 2017 annual report.

Senior executives comprising members of the Wesfarmers Leadership Team have a variable or 'at risk' component as part of their total remuneration package either under an annual incentive and long-term incentive arrangement or under the Key Executive Equity Performance Plan (KEEPP). The mix of remuneration components and the performance measures used in the incentive plans have been chosen to ensure that there is a strong link between remuneration earned and the achievement of the Group's strategy and business objectives and, ultimately, generating satisfactory returns for shareholders. Annual performance reviews of each member of the Wesfarmers Leadership Team, including the executive directors, for the 2017 financial year have been undertaken. More details about Wesfarmers' performance and development review process for senior executives is set out in the 2017 Corporate Governance Statement.

Key focus areas of the Remuneration Committee during the 2017 financial year included:

- Reviewing and making a recommendation to the Board in relation to the fixed remuneration, annual incentive and long-term incentive awards for the Group Managing Director and his direct reports
- Reviewing the succession and transition plans for the Wesfarmers Leadership Team, including recommending to the Board the remuneration package and contractual arrangements for the incoming Group Managing Director and Group Chief Financial Officer
- Reviewing the senior executive remuneration framework and policies, including terms of employment such as notice periods, restraint and non-solicitation clauses
- Reviewing and making a recommendation to the Board in relation to the structure of the Wesfarmers variable remuneration plans, including the approval and implementation of KEEPP and recommending to the Board the vesting outcomes of the 2013 Wesfarmers Long Term Incentive Plan shares, based on the achievement of the performance conditions as at 30 June 2017
- Reviewing and making a recommendation to the Board in relation to non-executive director fees
- Reviewing and monitoring diversity targets and gender pay equity

Role of Audit and Risk Committee

Wesfarmers is committed to the identification, monitoring and management of material risks associated with its business activities across the Group.

The Board recognises that a sound culture is fundamental to an effective risk management framework. Wesfarmers promotes a culture which values the principles of honesty, integrity, fairness and accountability, and these values are reflected in the Group Code of Conduct.

The Audit and Risk Committee monitors internal control policies and procedures designed to safeguard Group assets and to maintain the integrity of financial reporting.

Key focus areas of the Audit and Risk Committee during the 2017 financial year included:

- Reviewing and assessing the Group's processes which ensure the integrity of financial statements and reporting, and associated compliance with accounting, legal and regulatory requirements
- Reviewing the processes and controls around the recognition of commercial income by the retail divisions to ensure recognition is in accordance with Accounting Standards and accepted industry practice
- Monitoring the ethical sourcing of products for resale through the Group's retail networks to ensure that there are appropriate safeguards and processes in place
- Monitoring the Group's cyber security framework, including data protection management, and the reporting structure and escalation process on information security risks
- Reviewing and evaluating the adequacy of the Group's insurance arrangements to ensure appropriate cover for identified operational and business risks
- Monitoring the retail shrinkage control measures and reporting procedures in the Group's divisions
- Monitoring the Group's tax compliance program both in Australia and overseas, including cross-border intra-Group transactions, to ensure its obligations are met in the jurisdictions in which the Group operates.

Role of the external auditor

The company's external auditor is Ernst & Young. The effectiveness, performance and independence of the external auditor is reviewed annually by the Audit and Risk Committee. Mr Darren Lewsen is the lead partner for Ernst & Young and was appointed on 1 July 2013.

Ernst & Young provided the required independence declaration to the Board for the financial year ended 30 June 2017. The independence declaration forms part of the directors' report and is provided on page 72 of the 2017 annual report.

Corporate Governance Overview

Risk Management Framework

The Risk Management Framework of Wesfarmers is reviewed by the Board on an annual basis and was approved in May 2017. This framework details the overarching risk management controls that are embedded in the Group's risk management processes, procedures and reporting systems, and the division of the key risk management functions between the Board, Wesfarmers Managing Director and Finance Director, Audit and Risk Committee, divisional management and Group Assurance and Risk, including:

- the Group Code of Conduct;
- established Group and divisional structures, reporting lines and, appropriate authorities and responsibilities, including guidelines and limits for approval of all expenditure, including capital expenditure and investments, and contractual commitments;
- Operating Cycle and Divisional Reporting Requirements documents that clearly set out the Board, Board committees and divisional board activities and reports;
- a formal director induction program and a directors' program of annual site visits to Wesfarmers' operations to enhance the Board's understanding of key and emerging business risks;
- a formal corporate planning process which requires each division to assess trends that are likely to affect and shape their industry, perform scenario planning and prepare a SWOT analysis;
- Group policies and procedures for the management of financial risk and treasury operations, such as exposures to foreign currencies and movements in interest rates;
- a Group compliance reporting program supported by approved guidelines and standards covering safety; information technology; the environment; legal liability; taxation compliance; risk identification, quantification and reporting; and financial reporting controls;
- a comprehensive risk financing program, including risk transfer to external insurers and reinsurers;
- annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends;
- appropriate due diligence procedures for acquisitions and divestments;
- crisis management systems for all key businesses in the Group; and
- external and internal assurance programs.

Investor engagement

Wesfarmers recognises the importance of providing its shareholders and the broader investment community with facilities to access up-to-date high quality information, participate in shareholder decisions of the company and provide avenues for two-way communication between the company, the Board and shareholders. Wesfarmers has developed a program on investor engagement for engaging with shareholders, debt investors, the media and the broader investment community. In addition, the company's shareholders have the ability to elect to receive communications and other shareholder information electronically.

Governance policies

The corporate governance section of the company's website (**www.wesfarmers.com.au/cg**) contains access to all relevant corporate governance information, including Board and committee charters, and Group policies referred to in the 2017 Corporate Governance Statement.

Ethical and responsible behaviour

Wesfarmers' primary objective is to deliver satisfactory returns to shareholders through financial discipline and exceptional management of a diversified portfolio of businesses. The Wesfarmers Way is the framework for the company's business model and comprises our core values of integrity, openness, accountability and boldness. The Wesfarmers Way, together with the Code of Conduct and other policies, guide the behaviour of everyone who works at Wesfarmers as we strive to achieve our primary objective.

Diversity

As a diverse workforce is of significant social and commercial value, Wesfarmers recognises the importance of being an inclusive employer. Wesfarmers strives to create a work environment which is inclusive of all people regardless of gender, age, race, disability, sexual orientation, cultural background, religion, family responsibilities or any other areas of potential difference. All areas of diversity are important and Wesfarmers pays particular attention to gender diversity and the inclusiveness of Indigenous people.

Further details on diversity are set out on page 56 of the 2017 annual report and in the 2017 Corporate Governance Statement on the company's website at **www.wesfarmers.com.au/cg**

Remuneration Overview

Introduction

This summary provides an overview of how Wesfarmers' performance for the 2017 financial year has driven remuneration outcomes for senior executives.

The Wesfarmers Limited Board is committed to an executive remuneration framework that is focused on driving a performance culture to reflect the diversified portfolio of businesses. It seeks to link executive pay to the achievement of the Group's strategy and business objectives and, ultimately, to generate satisfactory returns for shareholders.

Senior executive remuneration is set at levels which are competitive with executives in comparable companies and roles, noting that the leaders of our four main operating divisions, our divisional managing directors[1], are responsible for strategy and the direction of large stand-alone businesses. This is vital to attracting and retaining the best people and reflects each executive's contribution, competencies and capabilities.

The remuneration report, which can be found on pages 73 to 92 of the 2017 annual report, explains how Wesfarmers' performance for the 2017 financial year has driven remuneration outcomes for senior executives. The audited remuneration table can be found on page 87 of the 2017 annual report.

1 This includes the Managing Director, Coles; Managing Director, Bunnings Group; Managing Director, Wesfarmers Industrials and Chief Executive Officer, Department Stores;

2017 – a year of transition

The 2017 financial year has been one of transition for the Wesfarmers Group.

Key management personnel (KMP) changes

Having led the Wesfarmers Group for more than 12 years as the Group's Managing Director, Richard Goyder will be retiring at the conclusion of the 2017 Annual General Meeting (AGM). Demonstrating our strong commitment to developing talent internally, Rob Scott was appointed Deputy Chief Executive Officer in February 2017 to allow for a smooth transition of leadership responsibilities and will be appointed Group Managing Director upon Mr Goyder's retirement.

In May 2017, Wesfarmers announced three senior executive appointments as part of the Group's leadership transition.

At a Group level, Anthony Gianotti will be the next Group Chief Financial Officer, succeeding Terry Bowen, who stepped down as Finance Director in September 2017 after eight years in the role and 12 years on the Wesfarmers Leadership Team.

At a divisional level, David Baxby was appointed Managing Director, Wesfarmers Industrials, effective August 2017, succeeding Mr Scott.

Michael Schneider, previously Managing Director, Bunnings Australia and New Zealand, was promoted to Managing Director, Bunnings Group, replacing John Gillam who stepped down from the role in December 2016.

Key Executive Equity Performance Plan (KEEPP)

After an extensive review of the effectiveness and appropriateness of our reward and retention framework for the Group's operating model and the circumstances of our divisions, engagement with key stakeholders both internally and externally, and a review of the overarching principles on which our remuneration is based, the Board has made a major change to our reward framework.

There are two primary objectives of the new structure:

- firstly to reflect our operating model - each of the divisions has a strong and autonomous management capability that is accountable for strategy execution, as well as day-to-day operational performance; and
- secondly to reward our executives for achieving the objectives for which they are accountable and responsible.

We seek to provide very strong alignment to the interests of the Group and its shareholders by delivering the major part of that reward in Wesfarmers shares that are held for the long term.

Key design principles of the KEEPP are:

- To provide focus on the long term with each KEEPP cycle operating over seven years.
- Annual awards under the plan are determined with respect to performance against a scorecard that comprises financial and strategic metrics relevant to the role of each participant. For the divisional managing directors these comprise divisional financial and divisional strategic measures.
- The award is delivered primarily in shares as detailed overleaf, with a cash component which is lower than under our legacy incentive schemes and will reduce over time. The shares comprise 50 per cent Restricted Shares and 50 per cent Performance Shares. The total award granted for 'at target' performance is 200 per cent of fixed annual remuneration (FAR) and the maximum award is 300 per cent of FAR.

Remuneration Overview

The Full KEEPP Cycle:

YEAR 1 Annual KEEPP scorecard agreed (e.g., in the 2017 financial year)	**KEEPP scorecard**		
YEAR 2 Outcome against KEEPP scorecard calculated following the end of Year 1	**Cash**[1]	**Restricted Shares**	**Performance Shares**
YEARS 2 TO 7 Remainder of KEEPP cycle		**Shares not completely released until the end of full KEEPP cycle**	**Hurdles set for Years 2 to 5, measured at the end of Year 5**

[1] There was no cash component for the 2016 KEEPP allocation as the 2016 annual incentives were tested, as reported in the 2016 remuneration report.

The cash and shares awarded under the KEEPP have the following features:

- The maximum cash component is lower under the KEEPP than under the legacy annual incentive and is only paid when performance against the scorecard generates a total award of more than 100 per cent of FAR. In the 2017 financial year, a maximum of 22.5 per cent of the divisional managing directors' at target award may be paid in cash. The maximum cash component for these participants will reduce over the next four of KEEPP cycles.
- One half of the award (after reduction for the cash component) is provided in the form of Restricted Shares, with half (50 per cent) of these shares restricted for five years and half (50 per cent) restricted for six years. These time periods have been chosen to align the ultimate value of this part of the award with the long-term experience of our shareholders. The shares are subject to forfeiture conditions if the participant resigns within a set period of time following allocation, resigns to join a competitor or is dismissed for circumstances such as cause or significant underperformance. Otherwise they will remain in the plan for the balance of the full restriction period even if employment ceases.
- The other half of the award is provided as Performance Shares that are subject to a four-year performance period with performance measures relevant to the role of the participant. The Performance Shares will forfeit if the participant resigns during the performance period, subject to Board discretion.

During the 2017 financial year, our divisional managing directors transitioned from our legacy incentive scheme into the KEEPP. Due to the timing of Mr Gillam stepping into an advisory role, neither Mr Gillam nor Mr Schneider participated in the 2016 KEEPP. Mr Schneider will participate in the 2017 KEEPP.

KEEPP for the incoming Group Managing Director and the incoming Group Chief Financial Officer

The incoming Group Managing Director and the incoming Group Chief Financial Officer will participate in the 2017 KEEPP.

Following the end of the 2017 financial year it was determined that the performance conditions to apply to the Performance Shares allocated to the incoming Group Managing Director and the incoming Group Chief Financial Officer under the 2017 KEEPP will be relative total shareholder return against the ASX100 (50 per cent weighting), absolute return on equity (20 per cent weighting) and strategic measures (30 per cent weighting). The performance period will be four years, measured from 1 July 2017 until 30 June 2021. The conditions applicable for the Restricted Shares will be as per other KEEPP participants.

The annual KEEPP scorecards for the incoming Group Managing Director and the incoming Group Chief Financial Officer will comprise financial (Group NPAT and Group ROE) and strategic measures. As a transitional arrangement, up to 10 per cent of the total 'at target' opportunity can be paid in cash for the 2018 financial year outcomes. This is a third of the amount that would have been paid in cash in a year 'at target' to the outgoing Group Managing Director and the outgoing Group Chief Financial Officer under the legacy annual incentive and long-term incentive arrangements. By the end of year three of the KEEPP, the incoming Group Managing Director and the incoming Group Chief Financial Officer will not receive any annual cash amount under the KEEPP.

Further details on the terms of the KEEPP and on how the KEEPP has been applied for this financial year are set out in section 3.5 of this remuneration report.

Remuneration Overview

2017 Summary

Fixed remuneration

The fixed remuneration of our Group Managing Director was not increased this year and has not changed since October 2011.

The Board, upon recommendation from the Remuneration Committee, has continued to exercise restraint in relation to FAR increases. In the October 2016 remuneration review, the salaries of the Executive Leadership Team increased on average by 2.9 per cent.

In February 2017, Mr Scott's FAR increased to $2,000,000 per annum on his appointment as Deputy Chief Executive Officer in recognition of his greater workload as he transitions to the Group Managing Director at the conclusion of the 2017 AGM.

Reward arrangements that applied this year

As this is a year of transition, we had three categories of executive remuneration in place this year:

- The divisional managing directors transitioned to the KEEPP, replacing both the annual incentive plan and the Wesfarmers Long Term Incentive Plan (WLTIP). They received their initial 2016 KEEPP allocation in Restricted Shares and Performance Shares only. Following the end of the 2017 financial year, their 2017 KEEPP allocation (comprising cash, Restricted Shares and Performance Shares) has been determined using their performance against their 2017 KEEPP scorecard.
- Given the already significant tenure of the Group Managing Director and the Group Chief Financial Officer, both participated in the legacy annual incentive plan and received a final grant under WLTIP in the 2017 financial year. Mr Scott (as the incoming Group Managing Director) and Mr Gianotti (as the incoming Group Chief Financial Officer) will participate in the 2017 KEEPP.
- Mr Schneider was designated a KMP during the year (following Mr Gillam stepping into an advisory role) and participated in the legacy annual incentive plan during the 2017 financial year. He will participate in the 2017 KEEPP.

Annual incentives

For the 2017 financial year, the Board, upon recommendation from the Remuneration Committee, increased the weighting of the financial performance targets under the annual incentive for the Group Managing Director from 60:40 financial/strategic to 70:30 and for the Group Chief Financial Officer from 50:50 financial/strategic to 70:30.

Mr Goyder, Mr Bowen and Mr Schneider received greater than target awards under the annual incentive plan for the 2017 financial year due to strong Group results and, for Mr Schneider specifically, due to strong results for Bunnings Australia and New Zealand.

2013 WLTIP

The 2013 WLTIP grant was available to vest this year. Following testing of the relative TSR and relative ROE performance measures, 56.7 per cent of the 2013 WLTIP grant vested.

2017 KEEPP scorecards

An annual scorecard (comprising financial and strategic divisional measures agreed between the participant and the Group Managing Director) is used in determining the KEEPP award allocation to be recommended by the Group Managing Director to be made for our divisional managing directors.

Following the end of the 2017 financial year and assessment of the 2017 KEEPP scorecards, Mr Scott achieved a maximum 2017 KEEPP allocation due to the strong results of Wesfarmers Industrials. Mr Russo achieved an above target award as the Department Stores division performed well overall. Mr Durkan faced a challenging trading environment within Coles and achieved a below target outcome. The 2017 KEEPP cash component for Mr Scott and Mr Russo was paid on 22 August 2017.

Executive KMP and remuneration frameworks

Executive KMP

The executive KMP includes the Group Managing Director and the Group Chief Financial Officer and those executives who have authority and responsibility for planning, directing and controlling the activities of a major profit generating division of Wesfarmers. The executive KMP are:

Executive KMP
Group Managing Director (Richard Goyder)
Group Chief Financial Officer (Terry Bowen)
Deputy Group Chief Executive Officer (Rob Scott)[1]
Managing Director, Coles (John Durkan)
Chief Executive Officer, Department Stores (Guy Russo)
Newly appointed executive KMP
Managing Director, Bunnings Group (Michael Schneider)[2]
Former executive KMP
Chief Executive Officer, Bunnings Group (John Gillam)[3]

1 R G Scott commenced in the role of Deputy Group Chief Executive Officer on 14 February 2017.

2 M D Schneider was appointed as an executive KMP on 7 December 2016 and appointed Managing Director, Bunnings Group on 29 May 2017.

3 J C Gillam ceased in the role of CEO, Bunnings Group on 6 December 2016 and from this date his new role as Senior Advisor no longer met the definition of a KMP.

Remuneration Overview

Following the changes announced by Wesfarmers throughout the 2017 financial year, it is anticipated that there will be changes to the members of the executive KMP for 2018. Mr Gianotti, as the Group Chief Financial Officer, and David Baxby as Managing Director, Wesfarmers Industrials, are expected to become executive KMP with Mr Goyder and Mr Bowen ceasing to be executive KMP during the 2018 financial year.

Remuneration framework and policy

Wesfarmers is committed to an executive remuneration framework that is focused on:

– driving a performance culture; and
– our autonomous management model which rewards our executives for achieving the objectives for which they are accountable and responsible, while providing very strong alignment to the interests of the Group and its shareholders by delivering, at target, the vast majority of that reward in Wesfarmers shares that are held for the long term.

The primary objective is to provide satisfactory returns to shareholders and the remuneration principles are focused on driving the leadership performance and behaviours consistent with achieving this objective.

In this transitional year, our executive remuneration framework comprises FAR and variable incentives (either participation in the KEEPP or participation in the annual incentive (STI) and a long-term incentive (LTI)). The graphs opposite show each of the components as a percentage of total target remuneration for the 2017 financial year – for the divisional managing directors this is calculated using a weighted average:

Group Managing Director

Group Chief Financial Officer

Divisional managing directors

Remuneration Overview

The following table shows the way in which each element of remuneration has been structured in the 2017 financial year to support our Group business objectives with a view to generate satisfactory returns to shareholders. In this transitional year, executives either received their FAR and participated in the annual incentive and WLTIP, or received their FAR and participated in the KEEPP.

Component	FIXED ANNUAL REMUNERATION (FAR)	ANNUAL INCENTIVE[1]	WESFARMERS LONG-TERM INCENTIVE PLAN (WLTIP)
	Salary and other benefits (including statutory superannuation).	Cash for target performance. Restricted shares for performance above target. Voluntary deferral (of portion of cash award into shares).	Performance rights.
Performance measure	**Key result areas for the role:** As outlined in the individual's position description.	**For the Group Managing Director and the Group Chief Financial Officer:** **70% of the annual incentive comprises Group financial measures:** Group NPAT and ROE. **30% of the annual incentive comprises Group strategic measures:** Including strategy execution, succession, gender balance, talent management, safety and agreed key objectives.	**Total Shareholder Return (TSR),** relative to ASX 50 Index (100% weighting). Measured over a four-year performance period.
Opportunity	Total remuneration levels are set at competitive levels to attract, retain and engage key talent, with FAR set at a level that is appropriate given the Group's focus on long-term performance.	100-120% of FAR for the Group Managing Director and the Group Chief Financial Officer.	100-200% of FAR for the Group Managing Director and 80-160% for the Group Chief Financial Officer.
Strategic objective/ performance link	Considerations: – Role and responsibility. – Business and individual performance. – Internal and external relativities. – Contribution, competencies and capabilities.	– Rewards performance at Group level. The financial performance measures were chosen principally because Group NPAT and ROE should drive dividends and share price growth over time. – Drives leadership performance and behaviours consistent with achieving the Group's long-term objectives in areas including safety, gender balance, succession planning and talent management. – Aligns to the Group's material business risks, including strategy execution (earnings delivery) and loss of key management personnel (succession planning).	– Provides a link with the creation of shareholder value. – TSR was chosen because it provides a relative, external market performance measure having regard to Wesfarmers' ASX 50 peers. – While the Board and management are committed to managing the generation of acceptable levels of ROE, it was not felt appropriate to use ROE given the impairment charges taken against Target and Curragh and the material effect these had in the 2016 financial year ROE (which would be the starting point from when performance would be measured).

[1] As set out in section 1.2, the Managing Director, Bunnings Group also participated in the legacy annual incentive measured by Bunnings Australia and New Zealand financial measures (Earnings Before Interest and Tax (EBIT) and Return on Capital (ROC)) and strategic measures (including gender balance, talent management, safety and agreed key objectives) and a target opportunity of 60 per cent of FAR and a maximum opportunity of 120 per cent of FAR.

Remuneration Overview

Component	KEY EXECUTIVE EQUITY PERFORMANCE PLAN (KEEPP)		
	2016 KEEPP ALLOCATION As no annual scorecard was in place prior to the 2017 financial year, the amount of the 2016 KEEPP allocation was determined based on the recommendation of the Group Managing Director to the Board based on performance for the 2016 financial year. Accordingly there is no ongoing performance condition for the Restricted Shares but these are subject to a service condition. There was no cash component – the 2016 KEEPP allocation consisted of Restricted Shares (50%) and Performance Shares (50%) only (see section 3.5).	**2017 KEEPP ALLOCATION** For the 2017 KEEPP allocation, the amount of the allocation to current KEEPP participants has been determined using performance against the 2017 scorecard. The 2017 KEEPP allocation to these participants consists of: – cash; – with the remainder split between Restricted Shares (50%) and Performance Shares (50%). The cash component is only paid to the extent that the KEEPP award is above 100% of FAR and up to a maximum of 22.5% of the participant's total at target opportunity.	
Performance measure	**Restricted Shares:** 50% will be released after 5 years and the remaining 50% after 6 years. Restricted Shares are subject to forfeiture if a participant leaves within 12 months from the date of allocation or leaves Wesfarmers and breaches the restraint clause in their employment agreement or is dismissed in certain circumstances including cause or significant underperformance. **Performance Shares:** Performance Shares are subject to the following measures: – Cumulative divisional EBIT targets over a four-year period subject to a divisional ROC gateway (80% weighting); and – Total Shareholder Return (TSR), relative to ASX 50 Index (20% weighting). These are measured over a four-year performance period from the grant date of the Performance Shares.	**2017 KEEPP Scorecard:** **60% of the annual scorecard comprises divisional financial measures:** Divisional EBIT, divisional ROC and, where appropriate, store sales growth and transaction growth. **40% of the annual scorecard comprises divisional strategic measures:** Including delivery of strategy in line with the approved Corporate Plan, gender balance, talent management, succession planning, safety improvement and other agreed key objectives. **2017 KEEPP Allocation (Restricted Shares and Performance Shares):** As at the date of this report, the service and performance conditions to determine vesting of the 2017 KEEPP allocation had not yet been finalised.	
Opportunity	200-230% of FAR	**Target:** 200% of FAR	**Maximum:** 300% of FAR
Strategic objective/ performance link	– Recognises and rewards achievement of divisional goals over both the short term and the long term. – Aligns to the Group's material business risks, including strategy execution (earnings delivery) and loss of key management personnel (succession planning). – Drives leadership performance and behaviours consistent with achieving the Group's long-term objectives in areas including safety, customer metrics, gender balance, succession planning and talent management, which are lead indicators of financial performance. – The Restricted Shares and Performance Shares provide long-term alignment with shareholders. – Performance Shares are measured against the four-year divisional EBIT target (80% weighting), subject to average ROC, to ensure the remuneration of participants is directly linked to the achievement of long-term financial returns for the businesses in which they are directly involved. – In addition Performance Shares are measured against TSR (20% weighting) to ensure participants are still remunerated against Group results, in addition to the majority of the KEEPP award being delivered in Wesfarmers shares.		

The applicable components of remuneration make up Total Remuneration:

The remuneration mix is designed to reflect the diversified nature of Wesfarmers and is structured to reward executives for performance at a Group level and, for divisional executives, also at a divisional level, and to align executive and stakeholder interests through share ownership.

Remuneration Overview

Outcomes

Overview of company performance

The Group reported NPAT of $2,873 million for the 2017 financial year. This is an increase of $2,466 million from the 2016 financial year, which included $1,946 million of significant items being $1,249 million non-cash impairment of Target, $595 million non-cash impairment of Curragh and $102 million of restructuring costs and provisions to reset Target.

The majority of Wesfarmers' businesses have continued to demonstrate strong performance against key measures. The 2017 financial year has seen strong results from our Industrials division, Bunnings Australia and New Zealand, Officeworks and Kmart. The table below summarises details of Wesfarmers' performance for key financial measures over the past five financial years.

Financial year ended 30 June	2013	2014	2015	2016	2017
Net profit after tax (NPAT) ($m)	2,261	2,689	2,440	407	2,873
Adjusted NPAT ($m)[1]	2,261	2,253	2,440	2,353	2,873
Total dividends per share (declared) (cents)	180	200[2]	200	186	223
Closing share price ($ as at 30 June)	39.60	41.84	39.03	40.10	40.12
Capital management distribution (paid) (cents)	-	50	100	-	-
Earnings per share (cents)	195.9	234.6[3]	216.1	36.2	254.7
Return on equity (rolling 12) (%)	8.9	10.5	9.8	1.7	12.4

1 2014 excludes $1,179 million in discontinued operations relating to the disposal of the Insurance division and WesCEF's interest in Air Liquide WA Pty Ltd along with ($743) million in non-trading items relating to the impairment of Target's goodwill and Coles Liquor restructuring provision. 2016 excludes $1,249 million non-cash impairment of Target, $595 million non-cash impairment of Curragh and $102 million of restructuring costs and provisions incurred to reset Target.

2 2014 total dividends per share includes the 10 cent special 'Centenary' dividend.

3 2014 earnings per share includes the items outlined in footnote 1 above; excluding these items, earnings per share were 196.6 cents per share.

Annual incentive overview

The details of Wesfarmers' annual incentive plan is set out on page 79 of the 2017 annual report. The plan is designed to reward performance against measures developed for each participant based upon their areas of responsibility and execution of key strategic objectives. For the Group Managing Director and the Group Chief Financial Officer, these include measures of Group NPAT and Group ROE.

The Board, upon recommendation from the Remuneration Committee, increased the weighting on the financial metrics for both the Group Managing Director and the Group Chief Financial Officer for the 2017 financial year.

The following table sets out the performance conditions for the 2017 annual incentive for the three participating KMP and the weighting between these measures. The strong Group results and, for Mr Schneider specifically, the strong results for Bunnings Australia and New Zealand resulted in at or above target awards for Mr Goyder, Mr Bowen and Mr Schneider. Specific information relating to the actual incentive awards for the 2017 financial year are shown on page 79 of the 2017 annual report.

Remuneration Overview

	Measure	Outcome	Performance commentary
Group Managing Director (R J B Goyder)			
Financial measures (70%)	Group NPAT (with ROE gate)	●	Both the 2017 Group NPAT and ROE results were greater than budget with strong results from most businesses.
Strategic measures (30%)	Succession/transition, gender balance, talent management and safety	●	Mr Goyder was judged to have performed well against each of his objectives, exceeding overall targets.
Group Chief Financial Officer (T J Bowen)			
Financial measures (70%)	Group NPAT (with ROE gate)	●	Both the 2017 Group NPAT and ROE results were greater than budget with strong results from most businesses.
Strategic measures (30%)	Gender balance, talent management and succession planning	●	Mr Bowen performed very strongly against each of his objectives and the maximum score was given.
Managing Director, Bunnings Group and Managing Director, Bunnings Australia and New Zealand (M D Schneider)			
Financial measures (70%)	Divisional EBIT and Divisional ROC	●	Bunnings Australia and New Zealand continued with another strong year of financial results with both divisional EBIT and ROC exceeding budget.
Strategic measures (30%)	Gender balance, talent management and key objectives agreed with the Group Managing Director	●	Mr Schneider was judged as having made strong progress against his objectives.
	Safety	●	Safety improved across Bunnings Australia and New Zealand, and the annual improvement target was exceeded.

● Threshold not met ● Threshold met or exceeded ● Target met or exceeded ● Maximum achieved

2013 WLTIP

The Group Managing Director and the Group Chief Financial Officer received performance rights granted under the WLTIP during the 2017 financial year. While originally a four-year service period, the Group Managing Director and the Group Chief Financial Officer's WLTIP grants will be left restricted in the plan upon retirement and tested in the normal course. Key terms of this scheme are detailed on page 82 of the 2017 annual report.

The 2013 WLTIP grant was available to vest this year. The 2013 WLTIP was measured against both relative TSR and relative compound annual growth rate (CAGR) in ROE over the past four years to 30 June 2017. Following testing, 56.7 per cent of the 2013 grant vested and the remaining performance rights lapsed.

KEEPP

During the 2017 financial year, for the first time, our divisional managing directors received an allocation of KEEPP awards, being the '2016 KEEPP allocation'. In the 2018 financial year, they will receive their second KEEPP allocation, being the '2017 KEEPP allocation' determined using the performance outcomes against their 2017 financial year scorecard. For more information on KEEPP, including the key terms, see section 3.5 (on page 82) of the 2017 annual report.

Remuneration Overview

Following the end of the 2017 financial year and assessment of the 2017 KEEPP scorecards, Mr Scott achieved a maximum 2017 KEEPP allocation due to the strong results of Wesfarmers Industrials. Mr Russo achieved an above target award as the Department Stores division performed well overall. Mr Durkan faced a challenging trading environment within Coles and achieved a below target outcome. The following table sets out the results of the performance against the annual scorecard for the 2017 KEEPP allocation:

	Measure	Outcome	Performance commentary
Deputy Chief Executive Officer, Wesfarmers Limited (R G Scott)			
Divisional financial measures (60%)	Divisional EBIT Divisional ROC	●	Very strong financial results for Wesfarmers Industrials resulted in Mr Scott receiving maximum for these measures.
Strategic measures (40%)	Business turnaround and strategic outcome Succession Safety Talent Gender balance	●	As Managing Director, Wesfarmers Industrials, Mr Scott delivered very strong results across each of his objectives, in addition to taking on Deputy Chief Executive Officer duties part way through the year.
Managing Director, Coles (J P Durkan)			
Divisional financial measures (60%)	Divisional EBIT Divisional ROC Comparative sales Comparative transactions	●	Difficult trading conditions for Coles resulted in below threshold performance for financial measures.
Strategic measures (40%)	Strategic outcome Succession Safety Talent Gender balance	●	Mr Durkan achieved good progress in relation to safety, talent and gender balance and overall was considered to have exceeded threshold for his strategic measures.
Chief Executive Officer, Department Stores (G A Russo)			
Divisional financial measures (60%)	Divisional EBIT Divisional ROC	●	Despite below target financial results for Target, the strong financial performance for Kmart and for the Departments Stores division overall, resulted in above target performance.
Strategic measures (40%)	Business turnaround and strategic outcome Succession Safety Talent Gender balance	●	Although Mr Russo did not meet the target set for safety improvement for the year, he has performed very well and achieved good results in relation to his other objectives.

● Threshold not met ● Threshold met or exceeded ● Target met or exceeded ● Maximum achieved

Remuneration governance

Responsibility for setting a remuneration policy and determining non-executive director, executive director and senior executive remuneration rests with the Board.

The Remuneration Committee is delegated responsibility to review and make recommendations to the Board. Management and remuneration consultants provide information to assist the Board and Remuneration Committee, but do not substitute for the Board and committee processes.

Detail of the composition of the Remuneration Committee is set out on page 88 of the 2017 annual report. Further information regarding the objectives and role of the Remuneration Committee is contained in its Charter, which is available on the corporate governance section of the company's website at **www.wesfarmers.com.au/cg**

Five-year financial history

All figures in $m unless shown otherwise	2017	2016	2015	2014[1] Restated	2013[2] Restated
Summarised income statement[3]					
Sales revenue	**68,099**	65,643	62,129	59,903	57,466
Other operating revenue	**345**	338	318	278	283
Operating revenue	**68,444**	65,981	62,447	60,181	57,749
Operating profit before depreciation and amortisation, finance costs and income tax	**5,668**	2,642	4,978	3,877	4,486
Depreciation and amortisation	**(1,266)**	(1,296)	(1,219)	(1,082)	(1,033)
EBIT	**4,402**	1,346	3,759	2,795	3,453
Finance costs	**(264)**	(308)	(315)	(346)	(417)
Income tax expense	**(1,265)**	(631)	(1,004)	(939)	(908)
Profit after tax from discontinued operations	**-**	-	-	1,179	133
Operating profit after income tax attributable to members of Wesfarmers Limited	**2,873**	407	2,440	2,689	2,261
Capital and dividends					
Ordinary shares on issue (number) 000's as at 30 June	**1,133,840**	1,126,131	1,123,753	1,143,275	1,157,194
Paid up ordinary capital as at 30 June	**22,268**	21,937	21,844	22,708	23,290
Fully-franked dividend per ordinary share declared (cents)	**223**	186	200	200	180
Capital management: capital return and fully-franked dividend components	**-**	-	100	50	-
Financial performance					
Earnings per share (weighted average) (cents)	**254.7**	36.2	216.1	234.6	195.9
Earnings per share growth	**603.6%**	(83.2%)	(7.9%)	19.8%	6.4%
Return on average ordinary shareholders' equity (R12) (excluding significant items[4])	**12.4%**	9.6%	9.8%	10.5%	8.9%
Fixed charges cover (R12, times) (excluding significant items[4])	**3.1**	2.7	3.0	3.2	3.0
Interest cover (cash basis) (R12, times) (excluding significant items[4])	**25.0**	16.8	20.5	15.9	12.2
Financial position as at 30 June					
Total assets	**40,115**	40,783	40,402	39,727	43,155
Total liabilities	**16,174**	17,834	15,621	13,740	17,133
Net assets	**23,941**	22,949	24,781	25,987	26,022
Net tangible asset backing per ordinary share	**$4.44**	$3.45	$4.85	$6.14	$4.69
Net debt to equity	**20.1%**	31.0%	25.1%	13.1%	20.2%
Total liabilities/total assets	**40.3%**	43.7%	38.7%	34.6%	39.7%
Stock market capitalisation as at 30 June	**45,490**	45,158	43,860	47,835	45,936

1 The 2014 numbers have been restated to reflect the disposal of WesCEF's interest in Air Liquide WA Pty Ltd as a discontinued operation.

2 The 2013 numbers have been restated to reflect the classification of the Insurance division as a discontinued operation.

3 The summarised income statement for 2016 includes significant items relating to the following pre-tax (post-tax) items: $1,266 million ($1,249 million) non-cash impairment of Target; $850 million ($595 million) non-cash impairment of Curragh; and $145 million ($102 million) of restructuring costs and provisions to reset Target.

4 The 2016 number excludes the significant items outlined in footnote 3 above.

Corporate directory

Registered office

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Facsimile: (+61 8) 9327 4216
Website: **www.wesfarmers.com.au**
Email: info@wesfarmers.com.au

Executive directors

Richard Goyder AO
Group Managing Director and Chief Executive Officer

Terry Bowen
Finance Director (to 4 September 2017)

Non-executive directors

Michael Chaney AO
Chairman

Paul Bassat

James Graham AM

Tony Howarth AO

Wayne Osborn

Diane Smith-Gander

Vanessa Wallace

Jennifer Westacott

Company Secretary

Linda Kenyon

Share registry

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Facsimile
Australia: (03) 9473 2500
International: (+61 3) 9473 2500

Website: **www.investorcentre.com/wes**

Financial calendar+

Record date for final dividend	23 August 2017
Final dividend paid	28 September 2017
Annual general meeting	16 November 2017
Half-year end	31 December 2017
Half-year profit announcement	February 2018
Record date for interim dividend	February 2018
Interim dividend payable	April 2018
Year-end	30 June 2018

+Timing of events is subject to change.

Annual general meeting

The 36th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia on Thursday, 16 November 2017 at 1:00pm (Perth time).

Website

To view the 2017 annual report, shareholder and company information, news announcements, background information on Wesfarmers' businesses and historical information, visit the Wesfarmers website at **www.wesfarmers.com.au**

Wesfarmers brands

Coles

coles
coles.com.au
coles express
Vintage Cellars
first choice liquor
BI-LO
Liquorland
spirit hotels
coles Financial Services

Home Improvement

Bunnings Warehouse
Bunnings
Bunnings Trade
Homebase

Department Stores

Kmart
Kmart Tyre & Auto Service
Target

Officeworks

Officeworks

Industrials

Wesfarmers Chemicals, Energy & Fertilisers
CSBP
Australian Vinyls
AGA
QNP
EVOL LNG
Kleenheat
Modwood
Quadrant Energy
Wesfarmers Industrial and Safety
Blackwoods
NZ Safety Blackwoods
Workwear Group
coregas
Greencap
Wesfarmers Resources
Curragh
Bengalla

Other businesses

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