2016 SHAREHOLDER REVIEW

DELIVERING VALUE
TODAY AND TOMORROW

Wesfarmers

2016 SHAREHOLDER REVIEW

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 220,000 employees and has a shareholder base of approximately 530,000.

About this review

This annual review is a summary of Wesfarmers' and its subsidiary companies' operations, activities and financial position as at 30 June 2016. In this summary 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 review to a 'year' are to the financial year ended 30 June 2016 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 this review and printed copies are only posted to shareholders who have elected to receive a printed copy. This review is printed on environmentally responsible paper manufactured under ISO 14001 environmental standards.

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

Wesfarmers

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CHAIRMAN'S MESSAGE

It is with great pleasure that I introduce Wesfarmers' shareholder review for 2016. It was a real privilege for me to have been invited last year to return as Chairman of the company from which I retired as Chief Executive Officer 10 years earlier.

I take this opportunity to pay particular tribute to Bob Every AO, who retired as Chairman during the year. Bob served the company with distinction, focused at all times on protecting shareholder interests, ensuring ethical behaviour and guarding the Wesfarmers culture. We thank him for his significant contribution.

The 2016 year was one of mixed results for the company, with very strong performances from the larger businesses offset to some extent by difficult trading conditions in some others. Underlying profit after tax fell 3.6 per cent to $2,353 million. After accounting for the impairments of Curragh and the Target retail business, as well as restructuring costs in Target, statutory net profit was $407 million compared with $2,440 million in 2015.

The Board declared a final dividend of 95 cents per share (2015: 111 cents), bringing the full year payment to $1.86 per share, a reduction of 7.0 per cent on the previous year, broadly in line with free cash flow for the year, excluding the acquisition of Homebase.

The impairments of Target and Curragh resulted predominantly from poor trading results and a reduced outlook in the former case and a significant fall in current and projected coal prices in the latter. The accounting impairments, of course, had no cash flow effect and the Group continued to generate very substantial free cash flow. Our balance sheet is conservatively geared and, with a strong credit rating, we are well placed to take advantage of investment opportunities as they arise.

Wesfarmers continues to maintain the particular strengths for which it has become well known, namely: a clear focus on shareholder wealth creation rather than on empire building; strict disciplines around the achievement of return on invested capital and investment analysis; the development of high performing people; rigid adherence to high standards of behaviour; and a determination to make meaningful contributions to the communities in which we operate.

As always, there are many challenges. Every business faces competition from existing players and new entrants, from new technologies and new regulations, but in my experience it has never been any different. The pace of change has stepped up but we have all been saying that for three or four decades.

Michael Chaney AO
Chairman

The key to long-term corporate success is evolution – looking for new ways to do business, for new businesses and new geographies to operate in. One of my own exhortations has always been: 'If it ain't broke, get ready to change it'.

Wesfarmers is a great example of this in practice. In the mid-1980s there was constant worry about how we could cope with increasing competition in the fertiliser business, which contributed around 80 per cent of the Group's profit. Today that business remains strong but has itself evolved also to be a substantial industrial chemicals supplier. Fertilisers now contributes around the same dollars of profit as it did then, but that represents only a very small proportion of Group earnings. Continuous diversification and adaptation has enabled Wesfarmers to remain relevant and to provide superior shareholder returns over the long term.

During the last year, the company made its first significant move offshore with the purchase of the Homebase hardware business in the United Kingdom and Ireland. Entering any new country is always challenging – and there are many examples of Australian companies which have tried and failed

– but this investment was only made after a very extensive analysis of the business, the market and the prospects. Bunnings looks forward to applying the skills it has acquired in understanding customer needs, supply chain management and merchandising, and the size of the Homebase investment, while not small, is very manageable given the Group's balance sheet. This, I believe, is a very good example of the growth philosophy of 'logical incrementalism' which has proven successful for the company over the years and while the success of such a venture is never guaranteed, the Bunnings team will give it their best shot.

Closer to home, one of the big challenges facing all companies is the modest rate of growth of the domestic economy and the difficulty of achieving meaningful economic reform at the federal level of government. As the recent election result demonstrated, populism triumphs all-too-often over rational policy development. While the level of Commonwealth Government debt in Australia is quite low in comparison to that in many other developed countries, this situation can change rapidly in times of economic downturn – as we saw in Ireland and Spain in 2007 to 2010 – a debt blowout giving rise to drastic fiscal remedies and high unemployment. Australia has now enjoyed an unprecedented 25 years without a recession and, given the past and forecast deficits at a Commonwealth level, the Government's armoury to counter any economic downturn is limited. It is essential that the task of fiscal repair is tackled with urgency.

A second factor counting against corporate prosperity is the increasing volume of regulation in Australia – regulation which unnecessarily delays investment and renders business operations less effective. During the year, the Federal Government announced plans to enact changes to Section 46 of the Competition and Consumer Act which would introduce a so-called 'effects test'. These proposed changes may make it potentially illegal for a business with substantial market power to act competitively and in a way that benefits consumers, if it has the effect of reducing competition due to the exit of inefficient or inferior competitors. In our view such a provision would discourage competition to the detriment of consumers, would increase uncertainty and create a field day for lawyers. We have expressed our disappointment to the Government that, despite extensive opposition from the business community, the Productivity Commission, the Federal Opposition and previous reviews of competition policy, the Government is now taking steps to introduce the proposal. It is another regrettable instance of regulation threatening the competitiveness of Australia and Australian companies.

There is, we believe, too little appreciation of the contribution companies make to Australia's prosperity, as evidenced by the readiness with which arguments against company tax cuts during the recent election campaign were accepted by some. That 80 per cent of working Australians are employed by companies represents just one benefit. In Wesfarmers' case, we pay our 220,000 employees over $8 billion, our suppliers more than $45 billion, our landlords $3 billion, our shareholders more than $2 billion and the Government over $1 billion in taxes. The health of the Australian economy is inextricably linked to the health of Australian companies.

Sustainability

Long-term value creation is only possible if we play a positive role in the communities we serve. This year, we continued to focus on keeping our people safe and reduced our total recordable injury frequency rate by 15.2 per cent. 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 have increased the number of Indigenous employees to more than 3,300. Wesfarmers is committed to minimising our own environmental footprint and to delivering solutions which help our customers and the community do the same. We reduced our greenhouse gas emissions by more than two per cent in the last year and have decreased the emissions intensity of our business by more than 30 per cent since 2012.

Outlook

Your Board considers the outlook for the company to be strong. Notwithstanding the challenges described above and economic concerns around the globe, the Wesfarmers businesses generate strong cash flows which, in combination with a strong balance sheet and financial discipline, should enable us to cope with competition and take advantage of growth opportunities. We look forward to continuing the company's record of providing satisfactory shareholder returns.

In closing, I pay tribute to our management and Board. The management team, led so ably by Richard Goyder, comprises individuals with great energy and enthusiasm for the job and a determination to achieve superior returns. The Board has, in my view, an excellent balance of experience and the skills required for strong governance. On their behalf, I convey my thanks to the management team and to all of our 220,000 employees for their efforts for the company.

MANAGING DIRECTOR'S REPORT

Wesfarmers is a strong company. We are strong because we have a portfolio of businesses which are cash generating over time, because we have strong governance, excellent employees, and have a culture which is shareholder focused while working to create value for all our stakeholders.

Wesfarmers' financial discipline and values is why our balance sheet is strong and over time we have fulfilled our objective of providing satisfactory returns to shareholders. Indeed, $1,000 invested in Wesfarmers since listing in 1984 is worth more than $300,000 today.[1]

Our financial results in the 2016 year reflect the diversification of our portfolio and some of the challenges of operating these businesses in the world today. We made non-cash impairments to Target and our Curragh coal mining operation (totalling $2,116 million), reflecting the operating performance and environment of those businesses. These impairments, along with restructuring charges in Target, meant our underlying profit was 3.6 per cent lower than last year. That is why your dividend reduced this year – it does, however, reflect a very high (89 per cent) payout ratio, and we understand how important the dividend is to you. Importantly, we have increased the value of Wesfarmers with Coles, Bunnings, Kmart, Officeworks and our Chemicals, Energy and Fertilisers businesses all increasing in value over time.

Our retail businesses Coles, Bunnings, Kmart and Officeworks are strong and performed well in the 2016 financial year. We continue to invest in these businesses through better products and services for our customers, continually developing our people and building new stores and refurbishing existing stores, as well as our digital platforms. We run our businesses for the long term – our focus is on building sustainable wealth for all stakeholders.

Target is operating in a challenging environment and is implementing strategies which we think will give it a bright future. We are disappointed that we have not made more rapid progress in turning around this business. Now, with Guy Russo having responsibility for both of our department store businesses, we are working hard to get Target back into good shape.

In the Industrials division, the performance at Wesfarmers Chemicals, Energy & Fertilisers was very strong. Our plants performed well and we were able to take advantage of good investments and strategies in each business to generate growth.

Our Industrial and Safety business is in a tough environment as our major customers look to reduce costs. We have done some significant restructuring to ensure that we have a business model suited to this environment.

It has been a difficult year for our Resources business. We are focused on reducing costs and managing for cash flow while coal prices remain low. We are convinced that there is value in the Industrials division and its businesses, and will operate them in a way in which we think we can derive the best value over time for our shareholders.

We will always seek to maintain a strong balance sheet. This enables us to take advantage of opportunities to grow the company as they arise, and protects us from volatility in markets as they inevitably occur.

This year, we publish our nineteenth sustainability report. We seek to operate your company in a sustainable and ethical way, and as shareholders, you can be proud of what we do. Events at Target earlier this year, where rebates were brought forward, did not meet our standards and there were consequences as a result.

Wesfarmers makes a very significant contribution to the Australian and New Zealand economies.

In the 2016 financial year Wesfarmers generated $66 billion in revenue, which we distributed to our various stakeholders. We are among Australia's top 10 taxpayers (and have adopted the voluntary Tax Transparency Code) and importantly, we are the largest private sector employer in Australia. Last year, we paid more than $8 billion in wages and salaries and paid our suppliers more than $45 billion.

Our businesses make additional community contributions (last year totalling more than $110 million), and of course, when we find opportunities we invest for growth. In the 2016 financial year we invested $665 million expanding the Group with the acquisition of Homebase, our first offshore retail acquisition. We believe this is a great opportunity to deliver long-term earnings growth for the Group and value for our shareholders. In addition, we invested $1.9 billion in our existing businesses which generated more economic activity in the communities where that investment was made.

[1] Assumes capital adjusted price, 100 per cent dividend reinvestment and full participation in capital management initiatives.

Richard Goyder

Richard Goyder AO
Managing Director

It is so important for the wellbeing of the economies we operate in that businesses are successful. The private sector is the engine room of an economy and having an environment which encourages businesses to take appropriate risks, invest, deploy more working capital and employ more people is critical. Business success will determine whether economies grow.

My colleagues and our 530,000 shareholders have a role to play in imploring our elected representatives to make the right decisions which together with business investment will sustain a positive economic environment. Just as we make mistakes, so will governments. We should be judged on how we address these and the biggest mistake would be for government to run up unsustainable debt and spending commitments which we cannot afford.

Wesfarmers is blessed to be based in Australia, and operate in economies with strong fundamentals and good prospects. We will work hard to grow our businesses and meet our objective of providing shareholders with a satisfactory return.

People

Stewart Butel retired after 16 years in our Resources business, the last 10 years as Managing Director of the Resources division. Stewart has done an outstanding job and we wish him well. I would also like to thank Tom O'Leary who has left the Group for another great opportunity. Tom made an enormous contribution during his 16 years at Wesfarmers in senior roles. I also extend my thanks to Stuart Machin who resigned in March 2016.

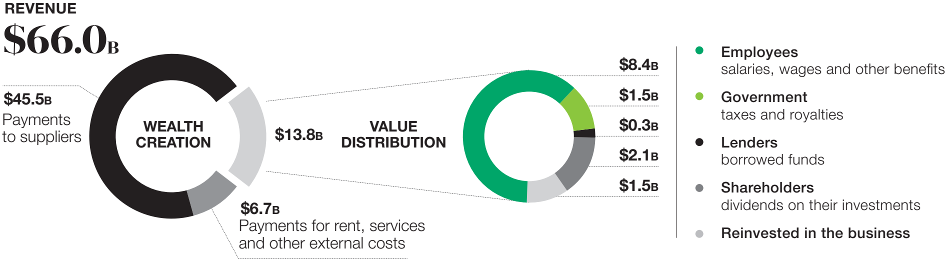
Ben Lawrence, the Group's Chief Human Resources Officer, recently announced his intention to retire mid-next year and I thank him for his contribution and support in that role over the past nine years. I am delighted Jenny Bryant will succeed Ben as Chief Human Resources Officer, effective 1 October 2016, to ensure a smooth transition. Jenny joined the Group in 2011 as Human Resources Director at Coles, where she has made an outstanding contribution, and I welcome her to the Wesfarmers Executive Leadership Team.

The management team enjoys a very positive working relationship with the Wesfarmers Board. We thank Bob Every for his leadership, and welcome Michael Chaney back to the Group as Chairman.

Finally, thank you to everyone in the Wesfarmers team for your contribution over the past 12 months. I appreciate the sacrifices you all make to ensure the Wesfarmers Group is stronger now than we have ever been, and will be stronger in the future.

PERFORMANCE OVERVIEW

CREATING WEALTH AND ADDING VALUE



GROUP PERFORMANCE

KEY FINANCIAL DATA		2016	2015
Revenue from ordinary activities	$m	**65,981**	62,447
Earnings before interest, tax, depreciation and amortisation	$m	**2,642**	4,978
Earnings before interest, tax, depreciation and amortisation (excluding significant items)[1]	$m	**4,903**	4,978
Depreciation and amortisation	$m	**1,296**	1,219
Earnings before interest and tax	$m	**1,346**	3,759
Earnings before interest and tax (excluding significant items)[1]	$m	**3,607**	3,759
Finance costs and income tax expense	$m	**939**	1,319
Net profit after tax	$m	**407**	2,440
Net profit after tax (excluding significant items)[1]	$m	**2,353**	2,440
Operating cash flows	$m	**3,365**	3,791
Net capital expenditure on property, plant and equipment, and intangibles	$m	**1,336**	1,552
Free cash flows	$m	**1,233**	1,893
Equity dividends paid	$m	**2,270**	2,597
Total assets	$m	**40,783**	40,402
Net debt	$m	**7,103**	6,209
Shareholders' equity	$m	**22,949**	24,781
KEY SHARE DATA			
Basic earnings per share	cents	**36.2**	216.1
Basic earnings per share (excluding significant items)[1]	cents	**209.5**	216.1
Operating cash flow per share	cents	**299.2**	335.1
Free cash flow per share	cents	**109.6**	167.3
Dividends per share (declared)	cents	**186.0**	200.0
KEY RATIOS			
Return on average shareholders' equity (R12) (excluding significant items)[1]	%	**9.6**	9.8
Fixed charges cover (R12)[2]	times	**2.7**	3.0
Interest cover (R12) (cash basis)[2]	times	**16.8**	20.5
Gearing (net debt to equity)	%	**30.9**	25.1

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).

DIVISIONAL PERFORMANCE

COLES		2016	2015
Revenue	$m	**39,242**	38,201
Earnings before interest and tax	$m	**1,860**	1,783
Segment assets	$m	**22,122**	21,533
Segment liabilities	$m	**4,273**	3,913
Capital employed (R12)	$m	**16,541**	16,276
Return on capital employed (R12)	%	**11.2**	11.0

HOME IMPROVEMENT		2016	2015
Revenue	$m	**11,571**	9,534
Earnings before interest and tax	$m	**1,214**	1,088
Segment assets	$m	**6,620**	4,610
Segment liabilities	$m	**2,186**	1,115
Capital employed (R12)	$m	**3,599**	3,244
Return on capital employed (R12)	%	**33.7**	33.5

DEPARTMENT STORES		2016[1]	2015
Revenue	$m	**8,646**	7,991
Earnings before interest and tax	$m	**275**	522
Segment assets	$m	**3,970**	5,203
Segment liabilities	$m	**1,336**	1,364
Capital employed (R12)	$m	**3,629**	3,778
Return on capital employed (R12)	%	**7.6**	13.8

OFFICEWORKS		2016	2015
Revenue	$m	**1,851**	1,714
Earnings before interest and tax	$m	**134**	118
Segment assets	$m	**1,379**	1,349
Segment liabilities	$m	**416**	361
Capital employed (R12)	$m	**994**	1,034
Return on capital employed (R12)	%	**13.5**	11.4

INDUSTRIALS		2016[2]	2015
Revenue	$m	**4,672**	4,985
Earnings before interest and tax	$m	**47**	353
Segment assets	$m	**4,220**	5,250
Segment liabilities	$m	**1,221**	1,094
Capital employed (R12)	$m	**4,244**	4,245
Return on capital employed (R12)	%	**1.1**	8.3

1 The 2016 earnings before interest and tax for Department Stores includes $145 million of restructuring and provision costs 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

THE WESFARMERS WAY

Our objective is to provide a satisfactory return to shareholders

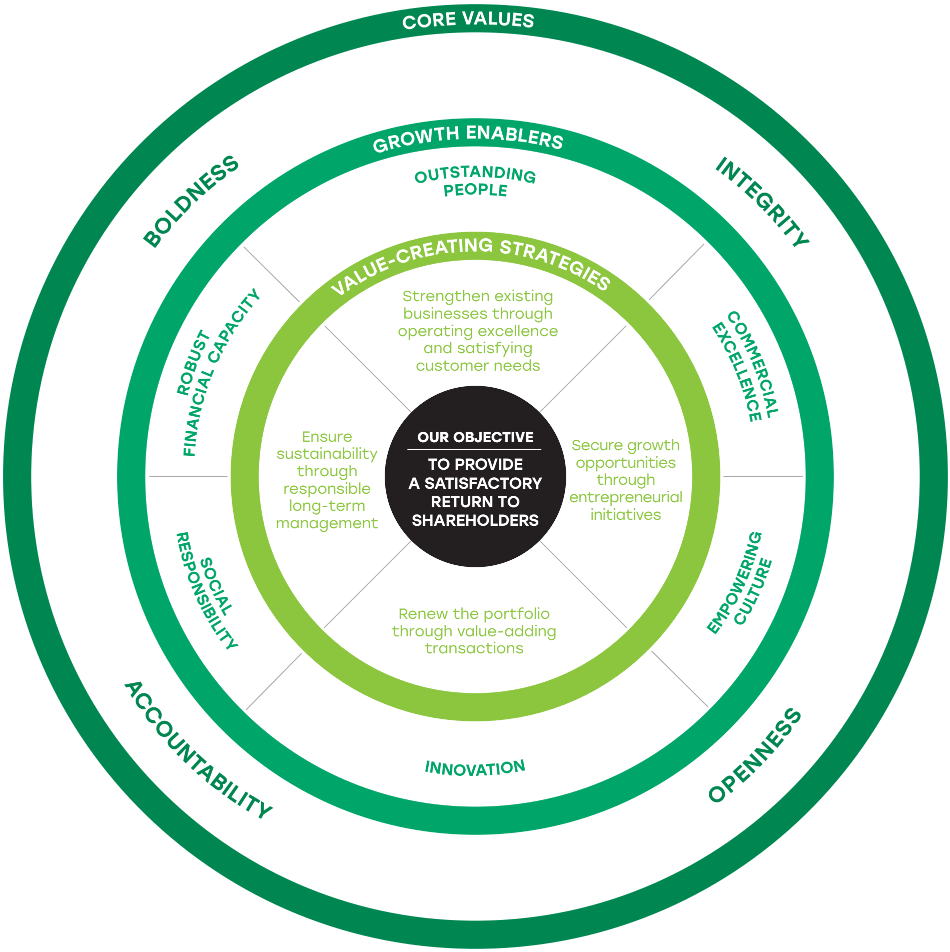


Photo from left: Maya vanden Driesen, Group General Counsel; Terry Bowen, Finance Director; Linda Kenyon, Company Secretary; and Olivier Chretien, Managing Director, Business Development and Corporate Planning.

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

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 2016 financial year, as well as summarising its risks and prospects. The 2016 financial performance is also outlined for each division, together with its prospects.

The review should be read in conjunction with the financial statements, which are presented on pages 85 to 131 of the 2016 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 220,000 employees and 530,000 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

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 S&P/ASX 50 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 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 factors within their control, 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 investments 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 and an optimised cost of capital.

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

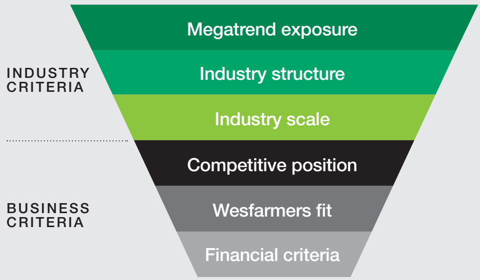
With a focus on generating strong cash flows and maintaining balance sheet strength, the Group aims to deliver satisfactory returns to shareholders through improving returns on capital invested in the Group. As well as share price appreciation, Wesfarmers seeks, where possible, to grow dividends over time. 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 applies various filters, as illustrated in the following 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.

ACQUISITION FILTERS



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

CORE VALUES

Integrity

- Acting ethically in all dealings

Openness

- Openness and honesty in reporting, feedback and ideas
- Accepting that people make mistakes 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 shown 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 of the 2016 annual report.

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 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 through strengthening its core business, including creating better experiences for customers, investing in new and existing stores, and delivering greater digital reach. Bunnings United Kingdom and Ireland will focus on building strong business foundations and establishing pilot Bunnings Warehouse stores. – **Target** will continue to embed its revised strategy, focusing on completing the conversion to everyday low prices, prioritising volume lines, further reducing inventory levels and improving the quality of ranges. These initiatives will be supported by higher levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification. – **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 across the business. – **Officeworks** will continue to deliver a unique 'one-stop shop' via its 'every channel' strategy while extending reach across all channels 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 invest in sales and service, merchandising, digital and supply chain, supported by the simplification of its business model. Workwear Group will shift focus from integration to turnaround and Coregas will further develop new channels to market. – **Resources** will maintain 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 our 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 drive 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	– Acquired Homebase, the second largest home improvement and garden retailer in the United Kingdom and Ireland, from Home Retail Group.	– 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

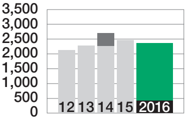
OUR STRATEGIES	OUR ACHIEVEMENTS	OUR FOCUS FOR THE COMING YEARS
Ensure sustainability through responsible long-term management	– Maintained a strong balance sheet. – Achieved good improvements in our safety performance. – Maintained a very strong focus on the development and management of our teams. – Continued to promote diversity in our workplaces, with 20.5 per cent more self-identified Indigenous employees this year, including more than 500 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 2016 financial year, we made community contributions, both direct and indirect, of more than $110 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. – Minimise our environmental footprint. – Contribute positively to the communities in which we operate. – Provide appropriate governance structures to safeguard future value creation.

YEAR IN REVIEW

NET PROFIT AFTER TAX

$2,353M

(excluding significant items)

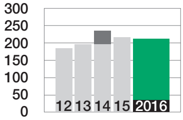


2016	2,353
2015	2,440
2014	2,689
2013	2,261
2012	2,126

EARNINGS PER SHARE

209.5cents

(excluding significant items)

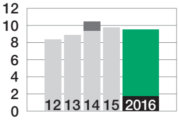


2016	209.5
2015	216.1
2014	234.6
2013	195.9
2012	184.2

RETURN ON EQUITY

9.6%

(excluding significant items)



2016	9.6
2015	9.8
2014	10.5
2013	8.9
2012	8.4

- Excluding 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.
- Including 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 net profit after tax (NPAT) of $407 million for the 2016 financial year. This result included non-cash impairments of Target and Curragh totalling $2,116 million (pre-tax), as well as $145 million (pre-tax) of restructuring costs and provisions to reset Target. Excluding these significant items, NPAT for the full-year decreased 3.6 per cent to $2,353 million.

Strong performances across a majority of the Group's businesses were offset by challenging trading conditions and restructuring activities in Target, and the effects of low commodity prices and hedge losses in the Resources business.

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. Excluding Target, the retail portfolio delivered growth in earnings before interest and tax (earnings or EBIT) of 7.5 per cent.

A highlight for the year was the Group's acquisition of Homebase, the second largest home improvement and garden retailer in the United Kingdom and Ireland, which provides a platform for long-term value creation.

The performance of the Industrials division during the year was significantly affected by depressed conditions across the resources sector. Underlying earnings for the division declined significantly, primarily driven by an operating loss from the Resources business. The WesCEF business had a strong year, with earnings growth achieved across all three business units, while Industrial and Safety made good progress to simplify its operations and reduce costs.

Operating cash flow

Operating cash flows of $3,365 million were $426 million or 11.2 per cent below last year. Lower operating cash flows mainly reflected higher working capital investments across the retail portfolio, including initiatives to improve stock availability in Homebase and investments made to support sales growth across the retail businesses, as well as the effect of a lower Australian dollar. These effects were partially offset by working capital improvements across the Industrials businesses.

Cash realisation (excluding non-trading items (NTIs)) for the year was 94.9 per cent. Excluding inventory investments made in Homebase, cash realisation was 99.7 per cent for the year.

Capital expenditure

The Group retains very strong disciplines in respect to capital expenditure, with generally conservative business cases and appropriate hurdle rates commensurate with project risks. Gross capital expenditure of $1,899 million was $340 million or 15.2 per cent lower than last year, mainly due to lower expenditure on new store openings in Bunnings and Coles. Growth and refurbishment of retail store networks which deliver strong incremental returns on capital was a key driver of capital expenditure. Coles and Bunnings combined accounted for 70.3 per cent of total expenditure, with these businesses delivering a return on capital, excluding goodwill, of 30.0 per cent and 48.6 per cent respectively for the year.

Net capital expenditure of $1,336 million was $216 million or 13.9 per cent lower than the prior year. Proceeds from disposals of $563 million were $124 million below last year, due to fewer retail property sales and the sale of Kleenheat's east coast LPG assets in the prior year.

Free cash flow

Free cash flows of $1,233 million were $660 million or 34.9 per cent below last year, largely reflecting the $665 million acquisition of Homebase.

Balance sheet

The Group maintained a strong balance sheet during the year. Net financial debt, including interest rate swap assets and excluding financing of the Coles credit card book, was $5,727 million at 30 June 2016, $981 million above last year. Debt increased due to the acquisition of Homebase and working capital investments.

Capital employed at year-end was $27,663 million. This was $1,370 million lower than last year mainly due to non-cash impairments in Target and Curragh, and higher provisions. A non-cash impairment of $1,266 million was recorded in the carrying value of Target, with $1,208 million of this recognised against Target's goodwill. This was partially offset by goodwill recognised on the acquisition of Homebase, contributing to a $236 million decline in intangible assets to $19,073 million. A non-cash impairment of $850 million was recognised against Curragh's assets. Provisions and other liabilities finished higher, reflecting the acquisition of Homebase, restructuring in Target and Industrial and Safety, and the effect of a lower discount rate.

Working capital increased, with higher inventories and receivables only partially offset by an increase in payables. The increase in working capital was largely driven by the acquisition of Homebase and business growth across the retail portfolio.

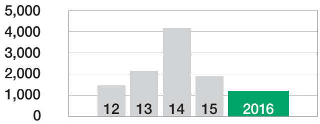
Net tax balances increased mainly due to deferred tax assets recognised in relation to the non-cash impairment of Curragh's assets and the acquisition of Homebase, as well as lower tax payable due to losses recorded in Target and Curragh.

CASH CAPITAL EXPENDITURE

Year ended 30 June	**2016 $m**	2015 $m
Coles	**797**	941
Home Improvement	**538**	711
Kmart	**163**	169
Target	**129**	127
Officeworks	**40**	39
WesCEF	**60**	56
Industrial and Safety	**52**	57
Resources	**116**	137
Other	**4**	2
Total capital expenditure	**1,899**	2,239
Sale of property, plant and equipment	**(563)**	(687)
Net capital expenditure	**1,336**	1,552

FREE CASH FLOW

$1,233M



2016	**1,233**
2015	1,893
2014	4,178
2013	2,171
2012	1,472

GROUP CAPITAL EMPLOYED

Year ended 30 June[1]	**2016 $m**	2015 $m
Inventories	**6,260**	5,497
Receivables and prepayments	**1,950**	1,658
Trade and other payables	**(6,492)**	(5,764)
Other	**411**	393
Net working capital	**2,129**	1,784
Property, plant and equipment	**9,612**	10,205
Intangibles	**19,073**	19,309
Other assets	**619**	775
Provisions and other liabilities	**(3,770)**	(3,040)
Total capital employed	**27,663**	29,033
Net financial debt excluding financial services debt[2]	**(5,727)**	(4,746)
Net tax balances	**1,013**	494
Total net assets	**22,949**	24,781

[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.

95 BASIS POINTS REDUCTION IN THE GROUP'S 'ALL-IN' EFFECTIVE BORROWING COST TO 4.5 PER CENT.

DEBT SOURCES[1]

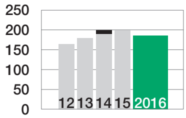
BANK BILATERALS	38%
US BONDS	11%
EURO BONDS	24%
DOMESTIC BONDS	27%

1 As at 30 June 2016.

DIVIDENDS PER SHARE

186 cents

- TOTAL ORDINARY DIVIDENDS
- SPECIAL DIVIDEND[1]

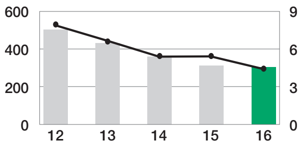


2016	186
2015	200
2014	200[1]
2013	180
2012	165

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

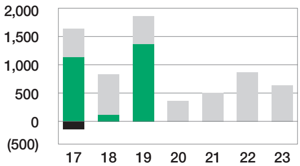
FINANCE COSTS ($M) AND WEIGHTED AVERAGE COST OF DEBT (%)

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



DEBT MATURITY PROFILE[1] ($M)

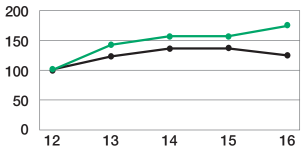
- BANK BILATERALS
- CAPITAL MARKETS
- CASH AT BANK AND ON DEPOSIT



1 As at 30 June 2016.

TSR: WESFARMERS AND ASX 50

- WESFARMERS LIMITED TSR INDEX[1]
- ASX 50 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.

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 February 2016, the Group established £515 million of three-year bank facilities and £115 million of one-year bank facilities (totalling $1,135 million) to fund the Homebase acquisition and provide working capital to the business.

In July 2015, the Group repaid €500 million ($756 million) of Euro medium-term notes, and in May 2016 repaid US 144A bonds totalling US$650 million ($604 million), utilising existing facilities and cash balances. These were partially replaced through the establishment of $500 million of new three-year bank facilities.

Finance costs decreased 2.2 per cent to $308 million, driven by a 95 basis points reduction in the Group's 'all-in' effective borrowing cost to 4.5 per cent, as a result of active management of debt sources and the benefit of a lower bank bill swap rate.

The Group maintained strong credit ratings during the year. Moody's Investors Services' rating remained unchanged at A3 (stable). Standard and Poor's revised the Group's outlook from 'stable' to 'negative', while retaining the A- rating, due to the short-term impact of the Homebase acquisition on the Group's credit metrics.

Dividends

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

Wesfarmers' dividend policy seeks to deliver growing dividends over time, subject to the Group's earnings, cash flows and available franking credits.

The Board declared a fully-franked final ordinary dividend of 95 cents per share, taking the full-year ordinary dividend to 186 cents per share. The final dividend will be paid on 5 October 2016 to shareholders on the company's register on 30 August 2016, 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 2 September 2016 to 22 September 2016.

The last date for receipt of applications to participate in, or to cease or vary participation in the Plan, was 31 August 2016. 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 5 October 2016.

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.

Wesfarmers operates its businesses in accordance with the Group's 10 community and environment principles, which relate to our people, sourcing networks, the communities in which we operate, and environmental and governance standards.

In implementing our overarching strategies, we maintain a long-term focus and act sustainably in creating value across our business portfolio.

Further information on our sustainability performance can be found on pages 27 to 35 of this review.

Our full 2016 Sustainability Report will be available in October on our website **sustainability.wesfarmers.com.au**

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

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

Competition in the retail sector is expected to remain robust, with value continuing to be important to customers. Within this environment, the Group's retail businesses are well-positioned to continue to deliver growth through strategies that are focused on achieving further improvements in value, service and range. These strategies will be supported by ongoing productivity savings and strong cost disciplines. Ongoing merchandise innovations, digital strategies and store network improvements and expansions are expected to contribute to growth. Bunnings will continue to progress the establishment of its United Kingdom and Ireland business, with a focus on driving a stronger operating performance in Homebase while establishing pilot Bunnings Warehouse stores and infrastructure in line with a low-cost and high-capability operating model. The 2017 financial year will be a transitional year for Target, with the business focusing on embedding its revised strategy.

The outlook for the Group's Industrials division remains challenging in the short term. The Resources business will continue to focus on improving operational efficiency. While its earnings will be largely dependent on export coal prices and exchange rates, the business will report lower depreciation and lower hedge losses in the 2017 financial year. The Group continues to evaluate all strategic options for this business. The outlook for WesCEF is subject to international commodity pricing, exchange rates, competitive factors and seasonal conditions. Industrial and Safety will continue to invest in capability and performance improvements across the business, supported by transformation savings, to mitigate ongoing sales and margin pressures.

The Group will continue to prioritise cash flow generation, capital discipline and balance sheet strength, while managing its business portfolio with a long-term view. Wesfarmers is strongly focused on delivering organic growth opportunities in each of its businesses, where satisfactory returns can be achieved, while being well-positioned to take advantage of any other opportunities that deliver value to shareholders.

COLES

REVENUE

$39,242M

2016	**39,242**
2015	38,201
2014	37,391
2013	35,780
2012	34,117

EBIT

$1,860M

2016	**1,860**
2015	1,783
2014	1,672
2013	1,533
2012	1,356

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 102,000 team members and operates 2,431 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 787 supermarkets, 865 liquor stores, 89 hotels and 690 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, life and landlord insurance and credit cards. Coles Financial Services has more than one million customer accounts.

Performance drivers

Coles' earnings increased 4.3 per cent to $1,860 million for the full-year, with revenue growth of 2.7 per cent.

Food and liquor recorded sales growth of 5.8 per cent, increasing $1,780 million in a competitive market, driven by improvements in value, quality and service. The key metrics of transaction volumes, basket size and sales density improved as a result of continued investment in the customer offer.

Coles' sales growth in food continues to be led by the fresh food categories. A focus on delivering outstanding quality, with market-leading service, at great prices, continues to drive growth in weekly transactions.

A focus on trusted value continued through the year. At 30 June, there were more than 3,100 products on 'Every Day' prices, representing Coles' ongoing commitment to lowering the cost of the weekly shop. This marks the seventh consecutive year that Coles has lowered prices for customers, with cumulative deflation of 7.5 per cent recorded since the 2009 financial year.

The Liquor transformation is progressing. Positive comparable sales growth was achieved for the 2016 financial year, reflecting investments made in price, range and the store network.

Coles Express recorded revenue (including fuel) of $6.7 billion for the year, 10.0 per cent lower than the previous year due to lower fuel volumes and lower fuel prices. Despite a decline in fuel sales, convenience store sales increased by 11.1 per cent for the year as the compelling value offering continues to resonate with customers.

Coles Online achieved more than 25 per cent growth in average weekly transactions.

Prospects

In a highly competitive food and grocery market, Coles remains committed to being a customer-led business and continually providing better value, quality and service at all stores across Australia.

Coles aims to continue to lower the cost of the weekly shopping basket at a time when the cost of living remains a challenge for Australian households. Coles will fund the investment in prices, store network, and training and retaining the best talent, by simplifying the business end-to-end.

Coles will also seek to provide more reasons for customers to shop at its stores through further enhancements and innovation in its Online, Financial Services and flybuys businesses.

Coles remains on track to deliver its five-year transformation of the liquor business, with improving sales trends validating the activity so far. To drive the next wave of improvement, Coles Liquor is dedicated to delivering lower prices, an improved range and a better store network.

Coles Express expects further growth with its alliance partner through the establishment of new outlets, and by extending the value offer and convenience range in stores.

HOME IMPROVEMENT

REVENUE

$11,571M

2016	**11,571**
2015	9,534
2014	8,546
2013	7,661
2012	7,162

EBIT

$1,214M

2016	**1,214**
2015	1,088
2014	979
2013	904
2012	841

Our business

Bunnings is the leading retailer of home improvement and outdoor products in Australia and New Zealand and a major supplier to project builders, commercial tradespeople and the housing industry.

In February 2016, Bunnings acquired Homebase which is the second largest home improvement and garden retailer in the United Kingdom and Ireland.

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 out of 314 trading locations (of which more than 240 are warehouse stores).

In the United Kingdom and Ireland, Bunnings currently operates the recently acquired Homebase business, servicing the home improvement and garden market from 260 trading locations.

Performance drivers

Bunnings

Sales growth was achieved across all areas of the business: in consumer and commercial; in every merchandise category; and in every major trading region. Continued increases in customer participation reflected ongoing actions to improve each of the key offer elements: price, range and service.

EBIT increased as a result of good trading, productivity gains and operating cost disciplines, which offset higher network development costs and the impact of creating more value for customers.

Ongoing work within a disciplined capital expenditure program supported more expansion and upgrade projects across the store network, together with the renewal of business infrastructure. Well-managed property divestment activity took advantage of favourable market conditions.

During the period, 22 trading locations were opened, including 14 new warehouse stores, seven smaller format stores and one trade centre.

Homebase

Trading across the early months of ownership has been steady, a good result given disruption from repositioning activities.

Core ranges are being quickly reshaped to focus on the home improvement and garden market. Wider product choices and deeper stock holdings are being established.

New marketing, pricing and operational strategies have also been implemented. On a like-for-like trading basis for the period from sale completion to the end of June 2016, customer participation (as measured by transactions) has increased by 7.5 per cent.

Prospects

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

The competitive environment remains diverse and robust. Bunnings will continue its focus on delivering breathtaking value to customers, funded by ongoing productivity improvements and strong operating cost disciplines.

In the United Kingdom and Ireland, current work is prioritised around building strong business foundations. This includes driving a stronger operating performance from the repositioned Homebase business and implementing plans for the establishment of four to six pilot Bunnings Warehouse stores in the 2017 financial year. We will continue to restructure the underlying business infrastructure to provide support for low-cost, high-capability operations.

DEPARTMENT STORES
TARGET

REVENUE

$3,456M

2016	**3,456**
2015	3,438
2014	3,501
2013	3,658
2012	3,738

EBIT

$(195)M

2016	**(195)**
2015	90
2014	86
2013	136
2012	244

Our business

Target operates a national network of more than 300 stores as well as an online business. Its objective is to provide quality, fashion and basics for everyone at low prices. Target employs more than 16,000 team members across its stores, support offices and direct sourcing operations in Asia.

Our market

Target participates in the Australian clothing, homewares and general merchandise retail sector. This sector is competitive and comprises department stores, independent 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. 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.

Performance drivers

Target's revenue increased 0.5 per cent to $3.5 billion for the year, with an operating loss of $195 million reported. The result included restructuring costs and provisions of $145 million to significantly reset the business, including initiatives to restructure and relocate the store support centre, streamline the supply chain and reduce inventory. On an underlying basis, the business recorded a loss of $50 million due to high levels of stock clearance and the impact of a lower Australian dollar.

Prospects

Target will continue to focus on embedding the business' revised strategy of quality fashion and basics to everyone at low prices, accelerating the conversion to everyday low prices (EDLP), exiting unprofitable ranges, prioritising volume/everyday lines, further reducing inventory levels and improving the quality of ranges. These priorities will be supported by increased levels of direct sourcing, improved merchandise disciplines and planning systems, and operational simplification.

A strong focus on capital efficiency is expected to result in moderated capital expenditure. The renewal format will be reset, and working capital management improved to support increased cash flow generation. Two Target stores will be rebadged to Kmart during the first half of the 2017 financial year.

DEPARTMENT STORES
KMART

REVENUE

$5,190M

2016	**5,190**	
2015	4,553	
2014	4,209	
2013	4,167	
2012	4,055	

EBIT

$470M

2016	**470**	
2015	432	
2014	366	
2013	344	
2012	268	

Our business

Kmart was established in 1969 with the opening of its first store in Burwood, Victoria. Kmart operates more than 200 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 more than 240 centres in Australia, providing customers with retail automotive services, repairs and tyres.

Our market

Kmart operates in the department store market with key competitors including Big W, Myer, Target and David Jones. Trading both in-store and online, Kmart also competes with specialist shops and online businesses locally and internationally. The market is highly competitive and this will continue to increase as international retailers enter the market and existing competitors expand store networks.

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

Performance drivers

Kmart delivered revenue of $5.2 billion for the year, up 14.0 per cent on the prior year, with earnings growing 8.8 per cent to $470 million.

Sales growth was achieved through growth in customer transactions and units sold, driven by a continued focus on providing Australian and New Zealand families with the lowest prices on everyday items. All categories achieved sales growth, driven by core ranges in home, apparel and kids general merchandise.

Earnings growth was delivered through ongoing enhancement of Kmart's range architecture, as well as end-to-end productivity improvements to reduce costs of doing business. The growth in earnings, combined with a continued focus on working capital management, resulted in a 479 basis points improvement in return on capital to 37.7 per cent.

Prospects

Kmart will continue to focus on delivering the lowest prices on everyday items for Australian and New Zealand families. The business remains committed to improving its range architecture, driving end-to-end productivity and maintaining a high performance culture.

Kmart will continue to invest in its store network, with plans to open 11 new stores, including the rebadge of two existing Target stores to Kmart, and complete 33 store refurbishments in the 2017 financial year.

OFFICEWORKS

REVENUE

$1,851M

2016	**1,851**
2015	1,714
2014	1,575
2013	1,506
2012	1,482

EBIT

$134M

2016	**134**
2015	118
2014	103
2013	93
2012	85

Our business

Officeworks is Australia's leading retailer and supplier of office products and solutions for home, small-to-medium size businesses and education. Operating through a nationwide network of stores, online platforms, a call centre and a business sales force, Officeworks is focused on delivering a one-stop shop for small-to-medium businesses, students and households.

Our market

The office products market in Australia is approximately $12 billion. The market remains highly competitive, with a wide variety of participants in both multiple categories and specialist areas.

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

Performance drivers

Officeworks' earnings of $134 million were 13.6 per cent higher than the prior year, with revenue growth of 8.0 per cent.

Strong sales growth was achieved both in stores and online.

The introduction of new and expanded merchandise categories, ongoing price investments to strengthen the value proposition, and improved service levels both in stores and online, all contributed to growth in sales and earnings.

An improved customer experience was supported through store layout and design changes, along with ongoing enhancements to the online offer. Strong momentum in the business-to-business segment was also maintained.

Strong sales growth, effective cost control and disciplined capital management delivered strong growth in earnings and an increase in return on capital of 207 basis points to 13.5 per cent.

Ongoing investment in stores and online to support the future growth of the business was reflected in a strong capital expenditure program during the year, which represented Officeworks' largest capital deployment since the 2009 financial year.

Six new stores were opened during the year and at the end of June 2016 there were 159 stores operating across Australia.

Prospects

Officeworks will continue to drive growth and productivity by executing its 'every channel' strategy and providing customers with a compelling offer. The market is expected to remain competitive, requiring a continued focus on cost and margin management.

Key focus areas in the 2017 financial year will include strengthening and expanding the customer offer by adding new products and ranges, strengthening Officeworks' position as a one-stop shop for small-to-medium size businesses, students and households. Improving and extending more value-adding services to complement the existing range will also be a priority. Officeworks will continue to focus on providing more value to customers by delivering the lowest prices and great customer service through an engaged team.

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

Officeworks remains committed to making a positive difference in the community and providing our team with a safe, rewarding and engaging place to work.

CHEMICALS, ENERGY AND FERTILISERS

REVENUE

$1,820M

2016	**1,820**
2015	1,839
2014	1,812
2013	1,805
2012	1,786

EBIT

$294M

2016	**294**
2015	233
2014	221
2013	249
2012	258

Our business

WesCEF operates eight businesses in Australia and employs approximately 1,200 people. WesCEF is structured into three business units: Chemicals, 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 resource and industrial sectors through CSBP
- Queensland Nitrates (QNP): CSBP's 50 per cent joint venture with Dyno Nobel Asia Pacific which manufactures and supplies ammonium nitrate to the resource 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 West Australian and international gold mining sector
- Australian Vinyls which supplies polyvinyl chloride (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 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.

Performance drivers

Operating revenue of $1.8 billion was one per cent below the prior year, with higher volumes in fertilisers and chemicals offset by the sale of Kleenheat's east coast LPG operations in February 2015.

EBIT of $294 million was 26.2 per cent higher than last year, including $32 million in closure costs associated with the cessation of PVC manufacturing. Excluding these costs, EBIT of $326 million was 46.2 per cent higher than last year, with higher earnings reported across all businesses.

Prospects

Chemicals, Energy and Fertilisers will continue to focus on maintaining strong operational performance although earnings will remain subject to international commodity pricing, exchange rates, competitive factors and seasonal outcomes.

INDUSTRIAL AND SAFETY

REVENUE

$1,844M

2016	**1,844**
2015	1,772
2014	1,621
2013	1,647
2012	1,690

EBIT

$63M

2016	**63**
2015	70
2014	131
2013	165
2012	190

Our business

Wesfarmers Industrial and Safety (WIS) comprises three main operating businesses: Blackwoods Australia and NZ Safety Blackwoods; Workwear Group; and Coregas.

Blackwoods Australia is a leading supplier of industrial supplies and safety products, offering a large range of quality and competitively priced products. During the year, the business significantly consolidated its operations through the merger of 17 branches and four distribution centres, nationalised its merchandising and supply chain capabilities, and simplified its structure and brands. Under new leadership, the business has established a platform to deliver tailored products and specialist technical services to the business-to-business markets in which it operates.

NZ Safety Blackwoods services business customers in New Zealand with an extensive national branch network in a range of specialty areas including maintenance, repair and operations, engineering, safety, workwear and packaging.

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

Coregas is a national industrial gas distributor serving customers of all sizes through multiple sales channels including Blackwoods Gas and Trade N Go Gas.

Our market

In Australia, Blackwoods, Coregas and Workwear Group service customers across diverse industries including mining, construction, retail, food and beverages, manufacturing, transport, facilities maintenance and government. They provide a comprehensive range of industrial, safety and workwear products and services, which is complemented by technical expertise in safety and specialised products such as industrial gases and lifting and rigging.

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

Performance drivers

Revenue increased by 4.1 per cent to $1.8 billion largely due to the full-year contribution from Workwear Group which was acquired in December 2014. Reported earnings of $63 million included $35 million of one-off restructuring costs and represented a 10.0 per cent decline on the prior year. Excluding one-off restructuring costs, underlying earnings increased 8.9 per cent to $98 million.

Prospects

Industrial and Safety will benefit from the simplification of its business model and a reduction in operating costs delivered through the 'Fit for Growth' program. This, together with the ability to leverage its new platforms for growth, will mitigate market and competitive pressures in the coming year. Blackwoods in Australia and New Zealand will invest in sales and service, merchandising, digital and supply chain to deliver improved performance.

Workwear Group will shift focus from integration to turnaround and Coregas will continue to grow through further development of new channels to market.

RESOURCES

REVENUE

$1,008M

2016	**1,008**
2015	1,374
2014	1,544
2013	1,539
2012	2,132

EBIT

$(310)M

2016	**(310)**
2015	50
2014	130
2013	148
2012	439

Our business

Resources has investments in two coal mines producing metallurgical and steaming coal. Both mines are world-scale, low-cost, open-cut producers, and 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 current nameplate 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).

Our market

Curragh

Curragh is reliable, flexible and one of a select few 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 2016 financial year, Curragh's metallurgical exports by volume went to Japan (39 per cent), South Asia (29 per cent), North Asia (20 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.

Performance drivers

Revenue of $1.0 billion was 26.6 per cent below last year due to a continued decline in export metallurgical and steaming coal prices, with the benefits of a lower Australian dollar more than offset by currency hedging losses, and a 13.0 per cent decline in metallurgical export coal sales volumes.

Despite continued cost control, the business reported an operating loss of $310 million, which excludes the non-cash impairment charge of $850 million in the carrying value of Curragh.

Prospects

Market conditions are expected to remain challenging for Resources. The business will continue to focus on improving operational productivity, cost control and capital discipline.

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 $77 million, compared to $52 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 2016.

During the 2016 financial year, the Trust acquired one site adjoining a Trust-owned Bunnings Warehouse property, and completed two Bunnings Warehouse upgrades. The Trust also completed the sale of one industrial property.

The Trust's portfolio as at 30 June 2016 consisted of a total of 81 properties: 79 established Bunnings warehouses, eight of which have adjacent retail showrooms that the Trust owns and are leased to other retailers; and two fully-leased stand-alone showroom properties.

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 primarily on the provision of financial advisory services, structured finance, and property and private equity funds management.

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

Wesfarmers is a participant in the Gresham Private Equity funds which saw the progressive realisation of investments during the year, 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 2016 financial year decreased by 24 per cent largely due to the deterioration 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 20 per cent reduction in the total recordable injury frequency rate for the year, achieving a period of 98 continuous days injury-free. The management team is continuing its focus on the identification and mitigation of occupational risks, notably manual handling.

SUSTAINABILITY OVERVIEW

Wesfarmers has been committed to creating value for our shareholders, 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 acknowledge that the world is changing. Climate change is here and it has the potential to impact our operations and supply chains. We believe climate change has serious implications for our customers, the community and the economy. These are risks we are managing because investing in Australia's response to climate change will deliver significant economic, social and environmental benefits for us all.

Wesfarmers is committed to minimising our footprint and to delivering solutions that help our customers and the community do the same. We endeavour to improve continuously our performance and publicly report on our progress in our annual sustainability report. The Dow Jones Sustainability Index tracks sustainability performance of leading companies around the world. In September 2016, Wesfarmers was advised it had recorded a significant increase in its ranking.

Innovative technologies are helping to drive business efficiency, limit risk and improve safety at our CSBP operations in Kwinana, Western Australia.

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

- Total recordable injury frequency rate reduced by 15.2 per cent.
- Promoted diversity in our workplaces, with more than 3,300 employees identifying as Indigenous.
- Improved the transparency of our supply chain with more than 3,000 factories in our audit program.
- Contributed more than $110 million to the community through direct support and contributions from our customers and team members.
- Reduced our scope one and two emissions by more than two per cent in the last year, and decreased the emissions intensity of our business by more than 30 per cent over five years.

We acknowledge that we can always do better.

- While Wesfarmers' workforce is made up of 55 per cent women and 45 per cent men, a key opportunity for the Group is to increase the percentage of leadership positions held by women.
- 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.
- 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.

OUR COMMUNITY AND ENVIRONMENTAL IMPACT PRINCIPLES

We have 10 principles related to sustainability issues that have been identified as being most 'material' to the Group.

SAFETY

We maintain a relentless focus on providing safe workplaces.

Maintaining a safe workplace for our employees and keeping our customers, suppliers and other visitors safe across all our sites is our highest priority. Sustainable improvements in safety will continue to be core to our operations and we remain focused on safety leadership, strategies targeting risk reduction and improving physical and mental health.

Our safety performance still requires improvement but we are pleased that we are seeing the benefits of this relentless focus on making our workplaces safer.

'Have you seen me' campaign in Coles distribution centres.

Our safety performance

Across the Group, our safety performance is monitored by measuring total recordable injuries and lost time injuries.

There were no team member fatalities across the Group during the year, and team member safety continues to be our highest priority.

This year, our total recordable injury frequency rate was 33.4, a decrease of 15.2 per cent on last year.

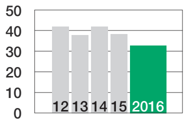
Our safety initiatives

Each of our divisions have undertaken safety initiatives this year that target their particular safety risks.

- Bunnings engaged its team in driving a simplified safety strategy. This is reflected in a 6.9 per cent reduction in the number of injuries recorded and an 11.1 per cent reduction in the total recordable injury frequency rate. Key initiatives at Bunnings include its 'See Something… Do Something' campaign, which encourages team members to act in the moment, address any safety risks and acknowledge great safety practices. Further training for Bunnings forklift operators on manual handling and training for leaders on mental health are key programs that were implemented to support Bunnings' vision that everyone goes home safe.
- As part of creating a mentally healthy workplace, Coles launched the 'Mind Your Health' program with three pillars of the strategy being awareness, leadership and risk reduction.
- Target delivered a new team member safety training program, upgraded the Target incident reporting database and held a safety focus week.
- In Wesfarmers' Industrial and Safety Blackwoods business, branch and warehouse teams have been well supported during the branch merger program with careful risk management planning, resilience training and leadership tools and resources.

TOTAL RECORDABLE INJURY FREQUENCY RATE[1]

33.4



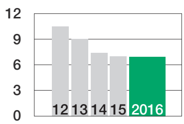
2016	**33.4**
2015	39.4[2]
2014	42.7
2013	38.7
2012	42.7

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]

7.2



2016	**7.2**
2015	7.3
2014	7.7
2013	9.0
2012	10.9

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

PEOPLE DEVELOPMENT

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

Wesfarmers businesses provide employment to approximately one in 60 working Australians or one in 17 working Australians under 20 years of age.

We distribute 61 per cent of the wealth we create in salaries, wages and benefits to our employees.

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.

We employ approximately 220,000 people globally, including more than 198,000 in Australia, making Wesfarmers Australia's largest private sector employer. Of our people, approximately 73 per cent are employed on a permanent basis and 27 per cent are employed on a casual basis.

In addition to our employees, our divisions engage contractors in a range of roles. There are also seasonal variations in employment numbers, with a peak throughout the Christmas/summer period in line with the broader retail industry.

In the 12 months to 30 June 2016, we employed 50,607 new people across the Group in a range of permanent, part-time and casual roles. Over the same period we have had a net increase in our overall employee numbers of approximately 13,500 people. This increase is due to the acquisition in February 2016 of the Homebase business from the Home Retail Group.

Training and development

Each division provides a wide range of training and development in job-specific technical aspects as well as generic skills, such as customer service, teamwork and leadership.

DIVERSITY

We strive to create an inclusive work environment, with particular attention to gender diversity and the inclusion of Aboriginal and Torres Strait Islander peoples.

Gender diversity

While Wesfarmers' workforce is made up of 55 per cent women and 45 per cent men, a key opportunity for the Group is to increase the percentage of leadership positions held by women. Women hold 44 per cent of salaried roles and 56 per cent of award or Enterprise Bargaining Agreement (EBA) roles.

The Wesfarmers Diversity Policy outlines four core objectives which are used to measure performance in this area. The objectives are reviewed annually and are intended to remain relevant to the Group over a number of years. Specific progress targets are linked to senior executive key performance objectives under the annual incentive plan. Given the diversity of the Wesfarmers portfolio, each division has developed its own gender diversity plan in line with the Group policy and tailored to the specific circumstances of that division.

The four core objectives of the Wesfarmers Diversity Policy are:

- Foster an inclusive culture.
- Improve talent management.
- Enhance recruitment practices.
- Ensure pay equity.

Further details on gender diversity at Wesfarmers, including indications of progress for the core objectives, is available on our website.

Indigenous engagement

Wesfarmers produced its first public Reconciliation Action Plan (RAP) in 2009, with a focus on 'Relationships', 'Respect', and 'Opportunities'. Using the RAP as a guide our businesses identify and implement opportunities that best suit their operations.

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 it is the primary focus of our RAP.

At 30 June 2016, Wesfarmers had 3,329 Indigenous team members, representing 1.7 per cent of Wesfarmers' Australian workforce. This is a 20.5 per cent increase on the previous year.

Over the past year, Coles has increased its number of Indigenous team members by more than 500, taking its total number of Indigenous team members to 2,318.

INDIGENOUS TEAM MEMBERS

2016	**3,329**
2015	2,762
2014	1,711
2013	1,302
2012	1,152

Across the Group, we have made commitments to: increasing our Indigenous cultural awareness; investing in partnerships supporting Indigenous education; increasing purchasing from Indigenous-owned businesses; and growing our Indigenous workforce.

Our RAP is registered with Reconciliation Australia and is the overarching document for divisional Indigenous engagement strategies. It will be available in October 2016 at **wesfarmers.com.au/our-impact/indigenous-engagement**

SUPPLIERS

We commit to strong and respectful relationships with our suppliers.

Our relationships with more than 15,000 suppliers across the Group are very important to us. This year we paid more than $45 billion to our suppliers. 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.

Coles is our largest consumer business and it continues to look for efficiencies in its supply chain. Coles' relationship with food and grocery suppliers in Australia continues to be the focus of some attention, and Coles is focused on strengthening these relationships to develop sustainable, long-term agreements with suppliers around Australia.

Australian first at Coles

Coles has an Australian Sourcing Policy, which aims to support Australian farmers and manufacturers where possible when sourcing fresh produce and Coles brand products. Today, 96 per cent of fresh fruit and vegetables sourced for Coles are Australian-grown and 100 per cent of its fresh milk, eggs and fresh meat from the meat department are produced in Australia.

Supporting small business

In April 2015, Coles established the Nurture Fund which is allocating $50 million over five years to help small Australian food and grocery producers, farmers and manufacturers to innovate and grow their businesses. Successful applicants receive grants or interest-free loans to fund new market-leading products, technologies, systems and processes.

In 2016, Coles allocated nearly $4 million in grants and interest-free loans from the Nurture Fund, with nine small businesses receiving assistance. Among the recipients were:

- Ashley Wiese and his business partners from Three Farmers in Western Australia, who have used a $500,000 grant to help build mainland Australia's first quinoa processing plant. Three Farmers has since started processing Australian white quinoa and supplying Coles brand, replacing imports from South America.
- Australian Fresh Leaf Herbs in outer Melbourne, which has used an interest-free loan of more than $430,000 to build a state-of-the-art greenhouse, which uses cloud technology to help advise the best time to plant, pick and pack their herbs.
- The Clark family from Westerway Raspberry Farm in Tasmania, who have used a $260,000 grant from Coles to adopt new freezing technology to supply Tasmanian frozen raspberries to customers.
- Onion and garlic grower Moonrocks, which has used a $400,000 grant to help grow and pack garlic in remote Queensland, extending the availability of Australian-grown garlic in that state.
- Family business Harvey Citrus which has used a $500,000 grant to develop Western Australia's first seedless lemons and has planted thousands of additional lime and mandarin trees to provide locally-grown produce for the upcoming citrus season.

Food and Grocery Code of Conduct

Since 2013, Coles has been a leading voice in the development and implementation of a voluntary Food and Grocery Code of Conduct with the Australian Food and Grocery Council. Coles signed the code once it was ratified by Parliament and it came into effect from 1 July 2015. The voluntary code governs certain conduct between grocery retailers and wholesalers in their dealings with suppliers, including

By changing the way broccoli is transported Coles has reduced waste to landfill.

supply agreements, payments, termination of agreements and dispute resolution. The Australian Competition and Consumer Commission regulates the code which is prescribed under the *Competition and Consumer Act 2010.*

Coles and dairy farmers

Following a dramatic fall in world dairy prices caused by global oversupply, milk processors Murray Goulburn and Fonterra announced in May 2016 that they would retrospectively cut prices paid to farmers for their milk.

The retrospective price reductions led to widespread media coverage about what factors were to blame and Coles' '$1 a litre' milk was brought into focus as part of the debate.

As a result, there was a reduction in sales of Coles' $1 a litre milk and orders of branded milk were increased to meet the change in demand.

In response, Coles highlighted that:

- Coles brand milk is 100 per cent fresh milk sourced from Australian farmers.
- Coles brand milk accounts for around three per cent of Australian dairy production.
- Coles' drinking milk only accounts for five per cent of Murray Goulburn's production.

Coles announced in May 2016 that it would support the dairy industry in southern Australia by working with farmer organisations to launch a new milk brand that would deliver 20 cents a litre to an independent industry fund.

ETHICAL SOURCING

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

Wesfarmers' retail businesses source products for resale 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 create economic benefits for them as well as allowing our businesses to provide affordable products to consumers.

The breadth, depth and interconnectedness of our supply chain make it challenging to manage ethical sourcing risks including child labour, forced labour and freedom of association. However, we are committed to working with our suppliers to adhere to ethical business conduct and proactively address these issues through a range of actions.

We have a Group-wide Ethical Sourcing Policy, which sets the minimum standards expected of our divisions. Each division has its own ethical sourcing policy appropriate to its business.

During the year, Target, Kmart and Coles continued to lead the way for Australian retailers in relation to supply chain transparency by disclosing supplier details on their websites.

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 WIS) apply an ethical sourcing audit program to certain suppliers. Suppliers are considered lower risk if they operate in more regulated countries, or if they are supplying recognised international brands.

This year, our audit program covered 3,211 factories used to manufacture house-brand products for resale.

Factories in the audit program are required to have a current audit certificate, which means they have been audited by us or another party whose audits we accept.

Ethical sourcing training

We deliver training on ethical sourcing requirements to our team members, third party auditors, suppliers and factories to ensure they understand ethical sourcing risks and the standards expected by our divisions. During the year, our divisions delivered more than 2,800 hours of training.

Our divisions continuously review and make enhancements to ensure our ethical sourcing programs run effectively and are up to industry standards and the expectations of our customers and stakeholders. The ethical sourcing teams in the divisions participate in forums and seminars and have regular discussions with other stakeholders including retailers, industry associations, non-government organisations and third-party audit firms to understand emerging trends and risks.

Our cross-divisional ethical sourcing forum meets quarterly to share best practice and audit program outcomes, and ethical sourcing practices are reported regularly to the Audit and Risk Committee.

Timber procurement

As the leading timber product retailer in Australia and New Zealand, Bunnings' material ethical sourcing risk relates to the procurement of sustainable timber and wood-based products. Bunnings' timber and wood products purchasing policy has been part of Bunnings' mandatory supplier trading terms since 2003, requiring all timber and wood products to originate from legal and well-managed forest operations.

Bunnings is confident that more than 99 per cent of timber products are confirmed as originating from low risk sources including plantation, verified legal, or certified responsibly sourced forests. Within that, more than 90 per cent of its total timber products are sourced from independently certified forests or sourced with demonstrated progress towards achieving independent certification, such as that provided by the Forest Stewardship Council and the Programme for the Endorsement of Forest Certification (PEFC).

Living wage

Sourcing products from less developed countries contributes to the economic development of those countries, but concerns are sometimes raised as to whether workers, particularly in apparel supply chains, earn enough to meet their basic needs (a 'living wage').

Kmart and Target have signed 'ACT' (Action, Collaboration, Transformation), a partnership between brands, retailers, manufacturers and IndustriALL (the global union) aimed at achieving living wages in apparel-sourcing countries.

ETHICAL SOURCING FACTORY AUDIT PROGRAM

3,211
TOTAL NUMBER OF FACTORIES

APPROVED	1,555
CONDITIONALLY APPROVED	1,373
EXPIRED AUDITS	241
CRITICAL BREACHES	42

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. As well as safety testing and compliance with required standards, our divisions implement product recalls where possible safety issues arise.

Product safety initiatives

During the year, Kmart made a business-wide commitment to improve the quality and safety of its products. As part of this commitment, a framework was developed to provide a foundation for quality improvement programs.

Coles regularly reviews and improves its Coles brand range as part of its strategy to deliver quality, affordable products to customers. Coles has invested in developing the Coles food manufacturing supplier requirements to support suppliers in demonstrating compliance and traceability.

Target continually strives to improve quality and safety standards to ensure its customers can be confident in the products they buy. Approval processes continue to be reviewed to ensure that products that do not meet these strict standards are not shipped.

Bunnings continues to proactively engage with suppliers to ensure adherence to product safety standards. Bunnings conducts regular product audits to ensure conformance with relevant mandatory standards, and also undertakes independent safety tests on selected products to confirm compliance to safety standards and customer expectations.

We ensure that all our products comply with relevant mandatory standards before they are offered for sale.

Officeworks continues to work closely with suppliers to ensure its products conform to all quality and safety standards and labelling. During the year, Officeworks published quality assurance guides on furniture and electrical equipment to all relevant suppliers.

WIS has established an accredited product test laboratory in its Global Sourcing Office in China, giving it the opportunity to test products closer to their source of manufacture. This will ensure safety and quality issues are identified quickly and addressed prior to shipping.

WIS also enhanced its purchasing specification procedures with a checklist to ensure thorough product safety and compliance due diligence is completed before a product is launched. This checklist includes mandatory packaging requirements and product-related risk assessments which will further strengthen sourcing processes.

In relation to button batteries, relevant Wesfarmers businesses have participated in the Australian Competition and Consumer Commission-facilitated industry working group, tasked with developing an industry code for button battery safety. Wesfarmers' retail divisions have been actively involved in the development of this new standard.

COMMUNITY CONTRIBUTIONS

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

We have an impact on our communities in a variety of ways: meeting the basic needs of the community such as food, clothing and tools; providing employment; paying taxes to governments; and providing support to not-for-profit organisations. With 96 per cent of our revenue earned in Australia and the vast majority of our shares held in Australia, we have a significant positive impact on the Australian economy, as well as contributing to other economies.

Wesfarmers has always believed that a strong business environment is underpinned by a cohesive and inclusive community environment. Accordingly, Wesfarmers has had a long-term commitment to investing in community initiatives linked to long-term social and economic outcomes.

In 2016, the Wesfarmers Group collectively contributed $58 million in direct funding to community organisations across Australia, New Zealand and other countries where we operate. The Group also facilitated donations from customers and employees of $54 million this year.

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

At a corporate level, the Wesfarmers 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

LUMINOUS WORLD: contemporary art from the Wesfarmers Collection on display at the National Art School, Sydney February 2016.

Officeworks stores participated in the Australian Literacy and Numeracy Foundation's (ALNF) Wall of Hands campaign throughout September 2015.

organisations, such as the Telethon Kids Institute, the Harry Perkins Institute of Medical Research, the Clontarf Foundation and Curtin Business School. In 2015, we renewed our partnership with Surf Life Saving WA by continuing to support the Wesfarmers Lifesaver Jetski teams. We also established a new partnership with Reconciliation WA, a commitment which builds on our other partnerships supporting Indigenous programs and reflects our ongoing commitment to closing the gap.

Financial and in-kind emergency relief support was provided by Wesfarmers and a number of its businesses to the West Australian communities of Esperance and Yarloop, who both suffered devastating bushfires over the 2015/16 summer.

Many of our divisions have major, long-term partnerships at a national level. However, a significant part of the contribution from our businesses is directed towards local community groups, either through financial or in-kind donations. For example, some of our retail businesses support local community groups by providing gift vouchers for use in their stores, or facilitate the collection of customer donations for local fundraising initiatives.

The well-recognised Bunnings 'sausage sizzles' provide opportunities for different local community groups to fundraise for their cause. As a result of these locally-driven fundraising activities, there is a significant number of community programs supported across Australia, including environmental projects, education programs and mental health initiatives.

Wesfarmers Arts

Wesfarmers has supported the arts in Australia for more than three decades, with long-term support of a wide range of premier performing and visual arts organisations as well as the ongoing development of the Wesfarmers Collection of Australian Art.

During the year, *Luminous World: contemporary art from the Wesfarmers Collection* embarked on the final leg of an extensive three-year national tour that saw the exhibition enjoyed by regional communities across Australia, from the Northern Territory to Tasmania. *Luminous World* completed its tour at the acclaimed historic National Art School in Sydney in February 2016.

Wesfarmers also contributed $2.5 million in support of the activities of 12 leading arts organisations, including the National Gallery of Australia, Perth International Arts Festival, the Art Gallery of Western Australia, West Australian Ballet, West Australian Opera, West Australian Symphony Orchestra, Black Swan Theatre Company, Awesome Children's Festival, Form Contemporary Craft and Design, the Western Australian tours of the Australian Chamber Orchestra, the Bell Shakespeare Company and Musica Viva Australia.

Wesfarmers Arts continued its major support of the performing arts in Western Australia as Principal Partner of West Australian Symphony Orchestra, West Australian Opera and the Art Gallery of Western Australia. In May 2016, we made a major donation to the Gallery to refurbish and upgrade rooms and open spaces formerly closed to the public. The new Sky and Garden Micro Galleries and Imagination Room now present changing displays of large-scale works from the Wesfarmers Collection and a dedicated area for education, family and artist events.

CLIMATE CHANGE RESILIENCE

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

We acknowledge that the world is changing due to climate change. Many communities are experiencing the effects of rising temperatures, water shortages and increasingly scarce food supplies. These changes will continue to have serious implications for our employees, our customers, the community and the economy.

We want to be proactive about managing these risks because responding to climate change will deliver significant economic, social and environmental benefits for us all.

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

Our position on climate change

We recognise that the climate is changing due to human actions and we acknowledge that business and Australia have a part to play in mitigating this climate change.

We will continue to improve the GHG efficiency of our operations, which reduces our own business costs and risk, as well as contributing to climate change mitigation.

As the global population steadily grows, the continued development of emerging economies depend on access to affordable energy. Both renewables and lower-emission fossil fuels will form an integral part of the energy generation mix throughout the transition to a low emission global economy.

Managing our emissions

Our divisions are continually looking for ways to improve energy efficiency, reduce emissions across their operations and supply chains and invest in low-emissions and renewable technologies.

We emit greenhouse gases both directly and indirectly. Our direct (scope one) emissions come from our industrial businesses, including the use of natural gas and diesel, and fugitive emissions from coal mining. Our main source of indirect (scope two) emissions is electricity used in our operations. We also estimate other indirect (scope three) emissions that occur as a result of our operations such as air travel, but are not controlled by us.

This year, we emitted a total of 3.9 million tonnes carbon dioxide equivalent (CO_2-e) in scope one and two emissions, which was more than two per cent lower than last year.

This year, the reduction in our emissions was driven by continued monitoring and management of electricity use across all sites. Our retailers all invested in LED lighting upgrades in some of their stores, with Kmart recording an average reduction in energy consumption of 31 per cent for stores where LED has been implemented to date. Bunnings continued to rollout solar photovoltaic systems at its stores, generating between 10 and 20 per cent of the stores' daily energy needs. At Target, energy use is down due to continued monitoring and management of electricity use across all sites and investment in LED lighting upgrades at 104 stores which was completed in November 2015.

This year, WesCEF's GHG emissions increased by 6.3 per cent compared to last year as a result of increased operating hours across its plants. The performance of the nitrous oxide abatement technology installed in CSBP's nitric acid plants continues to minimise GHG emissions. An average 90 per cent total nitrous oxide abatement was achieved during the year, which equates to a reduction of 1,220,422 tonnes of CO_2-e.

Adapting for climate change

Natural resource management

We are committed to being responsible stewards of the natural resources we use in our operations. Forests are a critical part of our efforts to reduce GHG emissions and our divisions are focused on ensuring the forestry products they source are from legal and well-managed forests.

Helping customers reduce their emissions

Our divisions are committed to helping customers avoid GHG emissions. For example, Bunnings continues to provide information and education to help customers make sustainable living choices and take practical actions at low cost or no cost to save energy, use less water and reduce waste. This includes providing a wide range of expert advice in-store and online, free do-it-yourself workshops and guides.

Officeworks is Australia's largest retail collector of used printer cartridges, computers and electronic accessories. Through recycling these materials, Officeworks has reduced the need for resource extraction, thus reducing the carbon intensity of its products.

Internal shadow carbon price

Since 1 July 2015, we have used an internal shadow carbon price in capital allocation processes. This shadow carbon price is designed to promote marginal emissions abatement projects and to ensure that regulatory, reputational and stranded asset risks are taken into account in relation to emissions intensive investments.

WASTE AND WATER USE

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

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

Our retail businesses produce most of our waste. We are working to reduce the quantity of our waste and to divert as much as possible to recycling, both in our operations and for our customers.

Recycling and waste

This year, we increased our waste to landfill by 11 per cent to 151,000 tonnes and increased our waste recycled by 17 per cent to 356,000 tonnes. This is primarily due to improved data capture methods (which allow us to capture liquid waste disposed and recycled at Coles, Kmart and WesCEF) as well as store growth at Coles and Bunnings.

As one of Australia's largest food retailers, the Group's main source of waste is cardboard, food and plastic at Coles. Coles has comprehensive strategies to recycle and divert waste from landfill for these components. The principal component of Coles' recycling stream is cardboard, and this year its stores recycled 5.3 per cent more than last year. Coles donated more than 7,800 tonnes of food via its partnerships with SecondBite and Foodbank, a 50 per cent increase on last year.

During the year Kmart conducted a review of its waste, and identified a number of opportunities for improvement. This includes better separation and recycling of flexible plastic and cardboard, and the reduction or recycling of polystyrene packaging.

Officeworks has increased the percentage of waste recycled to 71 per cent. Major initiatives included a waste optimisation program aimed at reducing waste bin size and an ongoing awareness program to educate team members on what is recyclable.

This year, Target, Kmart and Officeworks funded the collection and recycling of more than 142 tonnes of unwanted televisions and computer waste, under the National Television and Computer Recycling Scheme Product Stewardship Agreement.

Reducing water use

This year, the Group recorded water use of 16,000 megalitres, which is in line with consumption last year. Of this, 29 per cent is reclaimed and recycled water at the Curragh mine site.

Curragh continues to reduce raw water consumption. River water use at the mine has decreased over the past two years by 27 per cent. This can be attributed to greater water efficiencies, innovation and increased use of reclaimed mine water.

ROBUST GOVERNANCE

We maintain robust corporate governance policies in all our businesses.

Anti-bribery Policy

Wesfarmers is committed to complying with the laws and regulations of the countries in which its businesses operate and acting in an ethical manner, consistent with the principles of honesty, integrity, fairness and respect.

Bribery and the related improper conduct are serious criminal offences for both the company and any individuals involved. They are also inconsistent with Wesfarmers' values.

Political donations

Our Anti-bribery Policy stipulates that political donations must not be made at business unit or divisional level. Any political donations must be authorised by the Wesfarmers Board and disclosed as required by law and recorded in the Wesfarmers Group accounts. Any donations above a level determined in Federal legislation must be disclosed annually to the Australian Electoral Commission and will be published on its website.

Wesfarmers does not make political donations. However, occasionally and on a non-partisan basis, Wesfarmers representatives do pay fees to attend functions and forums organised by political parties. These forums provide an opportunity to discuss and exchange views with policymakers on issues of importance to the company and its shareholders.

An important part of sustainability at Wesfarmers is being transparent with all our stakeholders. We do this by measuring and publishing our performance for each of our material issues in our sustainability report. Our full sustainability report contains numerous case studies and data available for download. It is prepared in accordance with the Global Reporting Initiatives G4 standard and assured by Ernst & Young. It will be available in October 2016 at **sustainability.wesfarmers.com.au**

BOARD OF DIRECTORS

Michael Chaney AO, age 66

Chairman

BSc, MBA, Hon. LLD W.Aust, FAICD, FATSE

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 56

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 of Gresham Partners Holdings Limited (since July 2002)
- Australian Football League Commissioner (since November 2011)
- Chairman of JDRF Australia (director since March 2016, Chairman since June 2016)
- Chairman of Australian B20 (appointment expired December 2014)

Terry Bowen, age 49

Finance Director

BAcct, FCPA

Term: Director since May 2009.

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.

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

- Director of Gresham Partners Holdings Limited (since April 2009)
- Director of Gresham Partners Group Limited (since April 2009)
- Chairman of the West Australian Opera Company Incorporated (since April 2014)
- President of the National Executive of the Group of 100 Inc (retired December 2013)
- Director of Harry Perkins Institute for Medical Research Incorporated (retired May 2013)

Paul Bassat, age 48

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 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)

James Graham AM, age 68

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)

Tony Howarth AO, age 64

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 Pty Ltd (since March 2011)
- Chairman of International Chamber of Commerce, Australia Limited (retired March 2014)

Wayne Osborn, age 65

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 Pty Ltd (since March 2011)
- Director of Iluka Resources Limited (retired May 2016)
- Chairman of the Australian Institute of Marine Science (retired December 2014)

Diane Smith-Gander, age 58

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):

- 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 Safe Work Australia (since February 2016)
- 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)
- Commissioner of Tourism WA (appointment expired June 2015)
- Director of Co-operative Bulk Handling Limited and CBH Grain Limited (resigned February 2014)
- Deputy Chairman of NBN Co Limited (National Broadband Network) (resigned September 2013)

Vanessa Wallace, age 53

B.Comm (UNSW), MBA (IMD Switzerland), MAICD

Term: Director since July 2010.

Skills and experience: Vanessa is an experienced 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 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. (April 2013 – retired June 2015)
- Director of Booz & Company entities in Australia, New Zealand, Thailand and Indonesia (varied tenure through to February 2013)

Jennifer Westacott, age 56

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)
- Board member of Urban Renewal Authority South Australia (retired July 2013)
- Member of the Prime Minister's Cyber Security Review Panel (concluded April 2016)

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.

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 2016.

A copy of Wesfarmers' full 2016 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 2016 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 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 2016 financial year are set out below.

Key focus areas of the Board during the 2016 financial year included:

- 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
- 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
- Approving an organisational restructure combining the Chemicals, Energy and Fertilisers, Industrial and Safety, and Resources businesses to form a new Industrials division with Rob Scott as Managing Director
- Approving an organisational restructure combining the Target and Kmart businesses to form a new Department Stores division with Guy Russo as Chief Executive Officer
- Approving the acquisition of the United Kingdom retailer Homebase and other growth opportunities to complement the existing portfolio
- Monitoring the implementation of risk management plans to address identified operational, financial and reputational risks for Group businesses
- Reviewing policies to improve the Group's system of corporate governance, including approving amendments to the Securities Trading Policy and revising delegated authorities

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 10 directors, including eight non-executive directors. Detailed biographies are set out on pages 36 to 39 of this 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

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.

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 the 2016 annual report and considers that:

- Seven of the eight non-executive directors are independent.
- The Chairman is independent.
- Ms Vanessa Wallace is independent. Ms Wallace previously held senior roles within Strategy&, which forms part of the PwC network, which is a provider of material professional services to the Group. Within the last three years, Ms Wallace's role was based in Japan and focused on managing the operations of Strategy&, Japan. During that period, Strategy& has not been a material provider of professional services to the Group. The Board is of the opinion that Ms Wallace's past relationship with Strategy& and PwC does not compromise Ms Wallace's exercise of objective or independent judgement in relation to the company's affairs.
- 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 26 on page 127 of the 2016 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 2016 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 2016 Corporate Governance Statement.

Key focus areas of the Nomination Committee during the 2016 financial year included:

- Scheduling of the performance review of the Board and individual directors
- Consideration of feedback from major shareholders during the Chairman's Roadshow conducted prior to the 2015 Annual General Meeting

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 71 to 84 of the 2016 annual report.

Senior executives comprising members of the Wesfarmers Leadership Team have an annual and long-term incentive or 'at risk' component as part of their total remuneration package. 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 2016 financial year have been undertaken. More details about Wesfarmers' performance and development review process for senior executives is set out in the 2016 Corporate Governance Statement.

Key focus areas of the Remuneration Committee during the 2016 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 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 and recommending to the Board the vesting outcomes of the 2012 Wesfarmers Long Term Incentive Plan shares, based on the achievement of the performance conditions as at 30 June 2016
- 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 2016 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 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 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 2016. The independence declaration forms part of the directors' report and is provided on page 70 of the 2016 annual report.

Risk Management Framework

The Risk Management Framework of Wesfarmers is reviewed by the Board on an annual basis and was approved in May 2016. 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 Framework that clearly sets 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 2016 Corporate Governance Statement.

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.

Wesfarmers prepared and committed to its first Reconciliation Action Plan (RAP) in 2009, which outlines specific measurable actions to be undertaken across the Group, targeting Indigenous employment, business engagement, community partnerships and staff secondments to Indigenous organisations.

Wesfarmers' Gender Diversity Policy outlines four core objectives which are used to measure performance in this area: to foster an inclusive culture; to improve talent management; to enhance recruitment practices; and to ensure pay equity.

Further details on diversity are set out on page 53 of the 2016 annual report and in the 2016 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 2016 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 and linking executive pay to the achievement of the Group's strategy and business objectives and, ultimately, generating satisfactory returns for shareholders.

Senior executive remuneration is set at levels which are competitive with executives in comparable companies and roles, noting that our divisional CEOs[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 71 to 84 of the 2016 annual report, explains how Wesfarmers' performance for the 2016 financial year has driven remuneration outcomes for senior executives. The audited remuneration table can be found on page 78 of the 2016 annual report.

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

2016 Summary

Operational reorganisation

The reorganisation of the Group into four main operating divisions (Coles, Home Improvement, Department Stores and Industrials) and the confirmation of our four divisional leaders, resulted in a material change in the size and scope of the roles and responsibilities of a number of our senior executives.

As part of the reorganisation, the Group has reviewed which of our senior executives have the requisite authority and responsibility within the Group to meet the definition of key management personnel for the purpose of disclosure in this review.

Fixed remuneration

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

The change in roles for a number of our executives prompted a review of the appropriate remuneration for these new roles. This review, which considered the market rates for comparable roles and the activity in the market for key talent over the past year (particularly as major competitors attempted to replace senior executives), led to increases in the fixed remuneration (and consequently the incentive opportunities) of a number of our senior executives. The Board, upon recommendation of the Remuneration Committee, is satisfied that these changes are not only justified, but also warranted in light of the performance and potential of these executives and in the interests of protecting the significant investment made by the Group in developing its key talent.

Annual incentives

The non-cash impairments recorded in Target and in Curragh impacted the annual incentive outcomes for the Group Managing Director and Finance Director. Overall, their annual incentive was below target.

Strong results in the 2016 financial year across most of our retail businesses resulted in above target annual incentive outcomes for the leaders of these divisions. Despite the more difficult conditions faced by our Industrials division, the annual incentive of our Industrials division Managing Director was at target. Following the resignation of Target's Managing Director during the year, the 2016 annual incentive opportunity was forfeited and he did not receive any payment.

As a result of the organisational restructure and in light of divisional performance, the Group Managing Director recommended to the Board, and the Board agreed, that it exercise its discretion to pay an amount equal to 100 per cent of fixed remuneration at target (rather than 60 per cent of fixed remuneration at target) this year, for the Finance Director and divisional CEOs. Awards under the annual incentive plan will be delivered in cash up to 60 per cent of fixed remuneration and deferred into restricted equity for amounts awarded above that. The maximum opportunity continued to be capped at 120 per cent of fixed remuneration for these roles.

REMUNERATION OVERVIEW

Long-term incentives

The 2012 Wesfarmers Long Term Incentive Plan (WLTIP) grant was available to vest this year. Following from testing of the relative total shareholder return (TSR) and relative return on equity (ROE) performance measures, none of the 2012 WLTIP grant vested and therefore all performance rights lapsed.

Review of remuneration structure

Our current remuneration structures, comprising fixed remuneration, an annual bonus (including a deferred component) and an annual grant of long-term incentive, has been in place for a number of years. As indicated last year, the Remuneration Committee has undertaken a comprehensive review over the past 18 months. This review has been undertaken in the context of our operational restructure into four divisions, the fact that we comprise a number of sizeable, diversified, stand-alone businesses whose performance is affected by different factors and our unwavering commitment to retention and development of our key talent to enable internal succession to the Group's senior roles. Accordingly, we will implement a new remuneration structure for our divisional CEOs for 2017. The new plan, to be called the Key Executive Equity Performance Plan (KEEPP), will provide for individual rewards to be determined annually within an approved range based on divisional performance (including annual EBIT and ROC targets, together with strategic targets), the majority will be granted in equity and the equity will comprise both restricted and performance shares that are required to be held for the long term. Further details of the operation of the plan will be included in next year's remuneration report.

The Group Managing Director and Finance Director will continue to participate in WLTIP for the 2017 financial year. Performance will be measured solely against relative TSR. It was not considered appropriate to use compound annual growth rate in ROE given the asset impairment charges taken against Target and Curragh in the 2016 financial year and the material effect these have had on FY2016 ROE (which would be the starting point from which performance would be measured).

Framework

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

- driving a performance culture; and
- linking executive pay to the achievement of the Group's strategy and business objectives.

The overriding 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.

The executive key management personnel (referred to in this remuneration overview as KMP) includes the executive directors (the Group Managing Director and Finance Director) and those executives who have authority and responsibility for planning, directing and controlling the activities of a major profit-generating division of Wesfarmers. A significant organisational restructure was undertaken during the 2016 financial year, which resulted in a revision to the KMP of the Group.

Our executive remuneration framework comprises fixed annual remuneration, an annual incentive and a long-term incentive. The graphs below show each of the components as a percentage of total target annual remuneration for the 2016 financial year.

Group Managing Director

	%
FAR	34
STI	33
LTI	33

Other senior executives

	%
FAR	42
STI	25
LTI	33

- Fixed annual remuneration (FAR)
- At risk pay – annual incentive (STI)
- At risk pay – long-term incentive (LTI)

REMUNERATION OVERVIEW

Guiding principles

The Remuneration Committee has adopted four guiding principles when considering remuneration plans and policies.

The principles used to guide Wesfarmers' remuneration policy for senior executives are:

– **ownership aligned** – remuneration arrangements generally encourage Wesfarmers' senior executives to behave like long-term 'owners'. There should be a strong link between remuneration earned and the achievement of sustainable performance that leads to satisfactory returns for shareholders;
– **performance focused** – remuneration arrangements should reward strategic, operational and financial performance of the business. A significant proportion of each executive's remuneration is dependent upon Wesfarmers' success and individual performance;
– **consistency and market competitiveness** – a common set of remuneration practices will generally apply to all senior executive roles. Wesfarmers positions remuneration to be competitive, with an opportunity for highly competitive total remuneration for superior performance; and
– **open and fit for purpose** – remuneration arrangements can be innovative to respond to business and operational needs. However, all remuneration arrangements for KMP will be communicated to key stakeholders in an open and transparent manner.

As discussed earlier, the Committee has undertaken a comprehensive review over the past 18 months. It has considered a number of different potential structures and tested each of those to determine whether they conform to our guiding principles and are fit for purpose given our restructure into four operating divisions and our autonomous management model. As a result, a new remuneration structure will be implemented for the 2017 financial year and beyond for the divisional CEOs. This will result in a large portion of their annual remuneration being delivered in the form of Wesfarmers shares that are required to be held for the long term. This share grant will comprise restricted shares and performance shares. Details of this new plan will be included in next year's remuneration report.

REMUNERATION OVERVIEW

Remuneration framework

The diagram below provides a snapshot of our framework in the 2016 financial year and the way in which each element of remuneration has been structured to support our Group business objectives and to align with the generation of shareholder wealth.

Component	Performance measure	At risk weight	Strategic objective/performance link
FIXED ANNUAL REMUNERATION (FAR) Salary and other benefits (including statutory superannuation) +	**Key result areas for the role:** As outlined in the individual's position description		– Remuneration set at competitive levels, to attract, retain and engage key talent. Considerations: – Role and responsibility – Business and individual performance – Internal and external relativities – Contribution, competencies and capabilities
ANNUAL INCENTIVE (STI) Cash for target performance Restricted shares for performance above target Voluntary deferral (of portion of cash award into shares) +	**Group financial measures (for Group executives):** Group Net Profit After Tax (NPAT) and Return on Equity (ROE) **Divisional measures (for divisional executives):** divisional Earnings Before Interest and Tax (EBIT), divisional Return on Capital (ROC) and where appropriate, store sales growth and transaction growth **Non-financial measures (for both):** Including diversity, talent management, safety and agreed key objectives	**Target:** 60% of FAR[1] (100% of FAR Group Managing Director) **Maximum:** 120% of FAR	– Rewards performance at Group level. The financial performance measures were chosen principally because Group profit and ROE should drive dividends and share price growth over time. – Recognises and rewards achievement of divisional goals in the areas of earnings, return on capital employed in the division and business-specific financial targets. – Drives leadership performance and behaviours consistent with achieving the Group's long-term objectives in areas including safety, diversity, 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).
LONG-TERM INCENTIVE (LTI) Performance rights =	**Relative to ASX 50 Index: Total Shareholder Return (TSR)** (50% weighting) and **Wesfarmers' Compound Annual Growth Rate (CAGR) in ROE** (50% weighting) Measured over a four-year performance period	**Group Managing Director:** 100-200% of FAR **Others:** 80-160% of FAR	– Ensures a strong 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. – CAGR in ROE was chosen as a performance hurdle as it is: – Used by Wesfarmers to measure the return on its portfolio of businesses – A key metric to measure Wesfarmers' long-term success as it contains clear links to shareholder value creation. – The Group Managing Director and Finance Director will continue to participate in WLTIP for the 2017 financial year. Performance will be measured solely against relative TSR.
TOTAL REMUNERATION	The remuneration mix is designed to reflect the diversified nature of the Wesfarmers business 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.		

[1] As a result of the organisational restructure and in light of divisional performance, the Group Managing Director recommended to the Board, and the Board agreed, that it exercise its discretion to pay an amount equal to 100 per cent of FAR at target (rather than 60 per cent of FAR at target) this year for the Finance Director and divisional CEOs.

Company performance and remuneration outcomes

Overview of company performance

The Group reported NPAT of $407 million for the 2016 financial year. This result included non-cash impairments of Target and Curragh totalling $1,844 million (post-tax), as well as $102 million (post-tax) of restructuring costs and provisions to reset Target.

Despite a challenging environment, Wesfarmers' other businesses have continued to demonstrate strong performance against key measures and relative to its peers. The table below summarises details of Wesfarmers' performance for key financial measures over the past five financial years.

Financial year ended 30 June	2012	2013	2014	2015	2016
Net profit after tax (NPAT) ($m)	2,126	2,261	2,689	2,440	407
Adjusted NPAT ($m)[1]	2,126	2,261	2,253	2,440	2,353
Total dividends per share (declared) (cents)	165	180	200[2]	200	186
Closing share price ($ as at 30 June)	29.90	39.60	41.84	39.03	40.10
Capital management distribution (paid) (cents)	-	-	50	100	-
Earnings per share (cents)	184.2	195.9	234.6[3]	216.1	36.2
Return on equity (rolling 12) (%)	8.4	8.9	10.5	9.8	1.7

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 in resetting 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 2016 annual report. The plan is designed to reward performance against measures developed for each of the KMP based upon their areas of responsibility and execution of key strategic objectives. For the Group Managing Director and Finance Director, these include measures of Group NPAT and Group ROE.

The following table sets out the performance conditions for the 2016 annual incentive and the weighting between these measures for each of the executive directors and divisional leaders. The strong performance of Home Improvement, Coles, Kmart and Officeworks resulted in at or above target awards for the leaders of the relevant divisions. Specific information relating to the actual incentive awards for the 2016 financial year are shown on page 75 of the 2016 annual report.

REMUNERATION OVERVIEW

	WEIGHTING OF FINANCIAL MEASURES (%)					WEIGHTING OF NON-FINANCIAL MEASURES (%)	
Name	Group NPAT (with ROE gate)	Divisional EBIT	Divisional ROC	Other specific divisional objectives*		Agreed objectives include diversity, talent management and safety	
R J B Goyder	60	-	-	-		40	
T J Bowen	50	-	-	-		50	
						Agreed objectives	Safety
J P Durkan	-	40	20	10	10	10	10
J C Gillam[1]	-	35	35	-		20	10
G A Russo[2]	-	40	20	10		20	10
R G Scott	-	50	15	-		25	10
Former senior executives							
S B Machin[3]		40	20	10	10	10	10
T J P O'Leary		35	35	-		20	10

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

* Other specific divisional objectives include – store sales growth and transaction growth.

1 J C Gillam's annual incentive relates to Bunnings Group and Officeworks.

2 G A Russo's annual incentive relates to Kmart, Target and Department Stores.

3 S B Machin resigned during the year and forfeited his 2016 annual incentive opportunity.

Long-term incentive overview

The long-term incentive is issued as performance rights granted under the WLTIP. Key terms of this scheme are detailed on page 79 of the 2016 annual report.

The 2012 WLTIP was measured against both relative TSR and relative CAGR in ROE over the past four years to 30 June 2016. The threshold vesting levels were not achieved and therefore none of the 2012 WLTIP grant vested into shares and all the performance rights lapsed.

Remuneration governance

Responsibility for setting 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 80 of the 2016 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	2016	2015	2014[1] Restated	2013[2] Restated	2012
SUMMARISED INCOME STATEMENT[3]					
Sales revenue	**65,643**	62,129	59,903	57,466	57,685
Other operating revenue	**338**	318	278	283	395
Operating revenue	**65,981**	62,447	60,181	57,749	58,080
Operating profit before depreciation and amortisation, finance costs and income tax	**2,642**	4,978	3,877	4,486	4,544
Depreciation and amortisation	**(1,296)**	(1,219)	(1,082)	(1,033)	(995)
EBIT	**1,346**	3,759	2,795	3,453	3,549
Finance costs	**(308)**	(315)	(346)	(417)	(505)
Income tax expense	**(631)**	(1,004)	(939)	(908)	(918)
Profit after tax from discontinued operations	**-**	-	1,179	133	n/a
Operating profit after income tax attributable to members of Wesfarmers Limited	**407**	2,440	2,689	2,261	2,126
CAPITAL AND DIVIDENDS					
Ordinary shares on issue (number) 000's as at 30 June	**1,126,131**	1,123,753	1,143,275	1,157,194	1,157,072
Paid up ordinary capital as at 30 June	**21,937**	21,844	22,708	23,290	23,286
Fully-franked dividend per ordinary share declared (cents)	**186**	200	200	180	165
Capital management: capital return and fully-franked dividend components	**-**	100	50	-	-
FINANCIAL PERFORMANCE					
Earnings per share (weighted average) (cents)	**36.2**	216.1	234.6	195.9	184.2
Earnings per share growth	**(83.2%)**	(7.9%)	19.8%	6.4%	10.5%
Return on average ordinary shareholders' equity (R12) (excluding significant items[4])	**9.6%**	9.8%	10.5%	8.9%	8.4%
Fixed charges cover (R12, times) (excluding significant items[4])	**2.7**	3.0	3.2	3.0	2.9
Interest cover (cash basis) (R12, times) (excluding significant items[4])	**16.8**	20.5	15.9	12.2	10.8
FINANCIAL POSITION AS AT 30 JUNE					
Total assets	**40,783**	40,402	39,727	43,155	42,312
Total liabilities	**17,834**	15,621	13,740	17,133	16,685
Net assets	**22,949**	24,781	25,987	26,022	25,627
Net tangible asset backing per ordinary share	**$3.45**	$4.85	$6.14	$4.69	$4.45
Net debt to equity	**31.0%**	25.1%	13.1%	20.2%	19.1%
Total liabilities/total assets	**43.7%**	38.7%	34.6%	39.7%	39.4%
STOCK MARKET CAPITALISATION AS AT 30 JUNE	**45,158**	43,860	47,835	45,936	34,846

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

Level 11, Wesfarmers House
40 The Esplanade, Perth, Western Australia 6000

Telephone: (+61 8) 9327 4211
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

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

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street,
Abbotsford, Victoria 3067

Telephone
Australia: 1300 558 062
International: (+61 3) 9415 4631

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

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

Financial calendar+

Record date for final dividend	30 August 2016
Final dividend paid	5 October 2016
Annual general meeting	10 November 2016
Half-year end	31 December 2016
Half-year profit announcement	February 2017
Record date for interim dividend	February 2017
Interim dividend payable	March 2017
Year end	30 June 2017

+Timing of events is subject to change.

Annual general meeting

The 35th Annual General Meeting of Wesfarmers Limited will be held at the Perth Convention and Exhibition Centre, Mounts Bay Road, Perth, Western Australia on Thursday, 10 November 2016 at 1:00pm (Perth time).

Website

To view the 2016 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

bwp TRUST | GRESHAM | WESPINE

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