Wesfarmers
Annual Report 2012

Wesfarmers

About Wesfarmers

Strength through diversity. From its origins in 1914 as a Western Australian farmers' cooperative, Wesfarmers has grown into one of Australia's largest listed companies. Headquartered in Western Australia, its diverse business operations cover: supermarkets; department stores; home improvement and office supplies; coal mining; insurance; chemicals, energy and fertilisers; and industrial and safety products. Wesfarmers is one of Australia's largest employers and has a shareholder base of approximately 500,000.

Our objective

Wesfarmers remains committed to providing a satisfactory return to shareholders.

Proud history, strong future

Steeped in a foundation of distribution and retailing since its formation, today Wesfarmers is one of Australia's leading retailers and diversified industrial companies.

Securities exchange listing

Wesfarmers is a company limited by shares that is incorporated and domiciled in Australia. Australian Securities Exchange (ASX) listing codes:
– Wesfarmers (WES)
– Wesfarmers Partially Protected Shares (WESN)

Contents

Our people are our most important asset.
We are proud to have them as representatives of the Wesfarmers team. This, combined with the strength of our diverse portfolio of businesses, strong commitment and sustainable practices, ensures that we create long-term value – and provide satisfactory returns for our shareholders.
This is our story.

Highlights summary

All our business divisions achieved improvements in underlying performance and profits exceeded $2 billion for the first time.

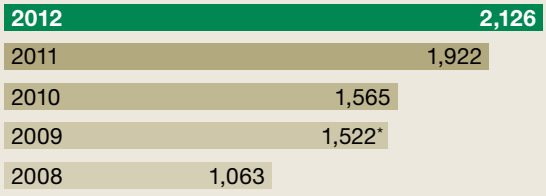
Results summary – year ended 30 June

Key financial data		2012	2011
Revenue	$m	**58,080**	54,875
Earnings before interest and tax	$m	**3,549**	3,232
Net profit after tax	$m	**2,126**	1,922
Dividends	$m	**1,909**	1,735
Total assets	$m	**42,312**	40,814
Net debt	$m	**4,904**	4,343
Shareholders' equity	$m	**25,627**	25,329
Capital expenditure on property, plant and equipment and intangibles	$m	**2,626**	2,062
Depreciation and amortisation	$m	**995**	923
Key share data			
Earnings per share	cents	**184.2**	166.7
Dividends per share	cents	**165.0**	150.0
Net tangible assets per share	$	**4.45**	4.12
Operating cash flow per share	$	**3.15**	2.52
Key ratios			
Return on average shareholders' equity (R12)	%	**8.4**	7.7
Gearing (net debt to equity)	%	**19.1**	17.1
Interest cover (cash basis)	times	**10.8**	9.5

Key financial data

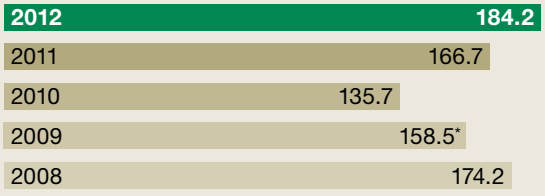
Net profit after tax ($m)

$2,126 million



Earnings per share (cents)

184.2 cents

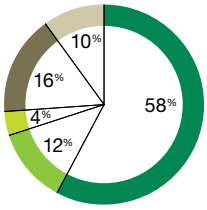


* Restated for change in accounting policy for Stanwell royalty payment.

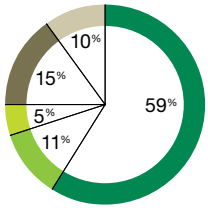
Wealth created by Wesfarmers

- Employees – salaries, wages and other benefits
- Government – tax and royalties
- Lenders – borrowed funds
- Shareholders – dividends on their investment
- Reinvested in the business

2012
$12,280 million



2011
$11,449 million



Financial highlights

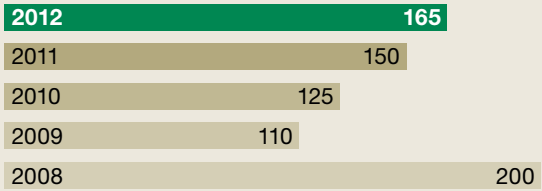
- Operating revenue of $58.1 billion, up 5.8 per cent
- Earnings before interest and tax (EBIT) of $3,549 million, up 9.8 per cent
- Net profit after tax of $2,126 million, up 10.6 per cent
- Earnings per share of $1.84, up 10.5 per cent
- Operating cash flows of $3,641 million, up 24.8 per cent
- Free cash flow of $1,472 million, up 41.4 per cent
- Fully-franked full-year dividend of $1.65 declared, up 10.0 per cent

Operational highlights

- **COLES** achieved strong earnings growth of 16.3 per cent to $1,356 million. Savings generated through improved operating efficiencies supported continued price reinvestment, driving growth in volumes. The continued renewal refurbishment program and the improvement of the store network benefited performance.
- **BUNNINGS** recorded earnings growth of 4.9 per cent to $841 million. This result was underpinned by solid transaction growth from a number of merchandise initiatives, investments in customer service and value, and improvements in the store network.
- **KMART** and **OFFICEWORKS** recorded earnings growth of 32 per cent and 6.3 per cent respectively. Kmart and Officeworks continued to drive higher customer transactions during the year, and Kmart's improvements in product sourcing and stock management supported continued reinvestment in lower prices.
- **TARGET** reported earnings of $244 million, which were in line with last year after excluding a one-off $40 million provision in the current year for future supply chain restructuring. Underlying earnings were maintained through a focus on the profitability of promotions and lower levels of clearance.
- **INSURANCE** earnings were $5 million after increasing reserve estimates for the February 2011 Christchurch earthquake by $108 million. Excluding this event, earnings were ahead of last year due to reduced catastrophe claims expenses in underwriting and growth in broking.
- **RESOURCES** earnings increased by 19.0 per cent to $439 million due to higher export coal prices in the first half and improved sales volumes in the second half following the completion of expansion projects at the Curragh and Bengalla mines.
- **CHEMICALS, ENERGY AND FERTILISERS** reported earnings of $258 million. Earnings were supported by higher pricing and good plant production performances in the chemicals business and increased fertiliser sales.
- **INDUSTRIAL AND SAFETY** delivered a good result, with earnings increasing by 14.5 per cent to $190 million, supported by strong demand from the resources and engineering construction sectors and an enhanced competitive position.

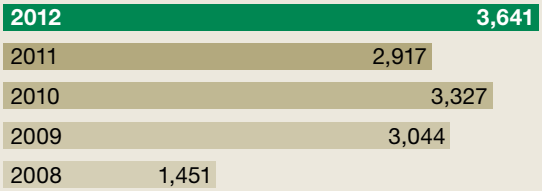
Dividends per share (cents)

165 cents



Operating cash flow ($m)

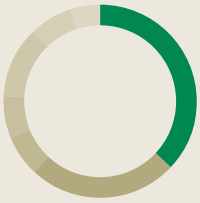
$3,641 million



Retail operations

Coles

Contribution to operating divisional EBIT



37%

Activities

- National full service supermarket retailer operating 749 stores
- Liquor retailer operating three brands through 792 liquor outlets, as well as 92 hotels
- National fuel and convenience operator managing 627 sites
- More than 18 million customer transactions each week
- Employing more than 100,000 team members

Year in brief

- Full-year revenue of $34.1 billion
- EBIT of $1,356 million
- Food and liquor store sales growth of 4.6 per cent, with comparable store sales growth of 3.7 per cent[1]
- 13 consecutive quarters of industry out-performance
- Continued focus on quality, service and value
- 108 new format supermarket stores delivered during the year and 252 since the Coles acquisition
- Easy ordering and easy warehousing complete
- Responsible sourcing initiatives on track
- Loyalty program reinvigorated
- Improved safety performance

1 For the 52 week period 27 June 2011 to 24 June 2012.

Future directions

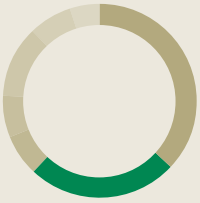
- Enter second wave of transformation
- Further improvements in quality and value
- Investment in store network and multi-channel offer
- Relentless focus on generating savings through efficiency
- Continued cultural transformation

Businesses

coles | coles.com.au | coles express | BI-LO | first choice liquor | LIQUORLAND | VINTAGE CELLARS | spirit

Home Improvement and Office Supplies

Contribution to operating divisional EBIT



25%

Activities

- **Bunnings:** Retailing home improvement and outdoor living products and servicing project builders, commercial tradespeople and the housing industry across Australia and New Zealand
- **Officeworks:** Retailer and supplier of office products and solutions for home, business and education across Australia

Year in brief

Bunnings

- 5.6 per cent increase in revenue
- 4.9 per cent increase in EBIT
- Growth in consumer and commercial sales
- 13 new Bunnings Warehouse stores opened
- One smaller format Bunnings store opened
- Two new trade centres opened

Office Supplies

- 0.7 per cent increase in revenue
- 6.3 per cent increase in EBIT
- Strong online sales growth from 'every channel' strategy
- Six new stores, six full store upgrades
- Good progress on actions to improve the customer offer

Future directions

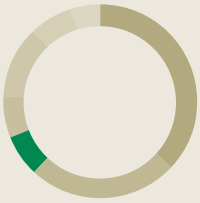
- **Bunnings:** Growth to be achieved through increased service levels, category development, network expansion and reinvestment, an improved light and heavy commercial offer, and through investment of productivity gains in lower prices to drive volume
- **Office Supplies:** Continued growth from improving the customer offer and expanding and renewing the network. Increasing business-to-business sales and more online initiatives remain high priorities. Ongoing investment in the development of the Officeworks team will underpin all strategic initiatives

Businesses

BUNNINGS | BUNNINGS warehouse | BUNNINGS TRADE | Officeworks

Target

Contribution to operating divisional EBIT



7%

Activities

- Mid-tier retailer offering superior value through style, quality, experience
- Customer destination for fashionable clothing, underwear, footwear and accessories for women, children and men, in addition to homewares, entertainment and general merchandise
- Network of 301 stores located throughout regional and metropolitan Australia
- Online store that now offers free delivery to store via click and collect

Year in brief

- Full-year revenue of $3.7 billion
- $284 million EBIT (excluding a $40 million restructuring provision), with EBIT margin of 7.6 per cent
- Comparable store sales decrease of 2.1 per cent[1], with an improved second half performance due to the 2012 mid-year toy sale brought forward to June
- Four year transformation journey started
- Number of items available for sale online increased from 6,000 to 36,000 in six months, with plans to grow to 60,000 in 12 months
- 12 new stores and 26 stores upgraded

1 For the 52 weeks from 26 June 2011 to 23 June 2012.

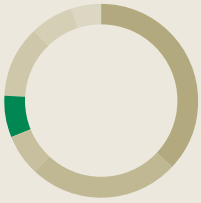
Future directions

- Customer remains the first priority in decision making which will inform the transformation initiatives to build a sustainable growth company
- Continued expansion of online range and functionality to world class
- Investment in systems to support improvement in stock planning, replenishment, supply chain and buying processes
- 10 new stores and four replacement stores to be completed in 2013

Businesses

Kmart

Contribution to operating divisional EBIT



7%

Activities

- Kmart is committed to offering its customers low prices on all products every day, right across its network of 185 stores throughout Australia and New Zealand
- Categories include menswear, womenswear, childrenswear, beauty, footwear, toys and sporting, events and food, entertainment, newsagency and home
- Kmart Tyre & Auto Service is one of Australia's largest retail automotive service, repair and tyre businesses with 260 stores

Year in brief

- Full-year revenue of $4.1 billion
- EBIT of $266 million[1]
- The 'OK' campaign, highlighting Kmart's everyday low prices, was well received by customers
- Comparable store sales[2] for the year were in line with last year's result
- The business is continuing to operate on an everyday low-priced model
- Strong continued growth in volumes and customer transactions
- One new Kmart store opened during the year
- Six Kmart store refurbishments completed
- 238 Kmart Tyre & Auto Service stores re-imaged during the year

1 Excludes $2 million earnings related to Coles Group Asia overseas sourcing operations.

2 For the 52 weeks from 27 June 2011 to 24 June 2012.

Future directions

- Continue to lead on price
- Continue to source more products directly to keep costs down
- Continue to drive prices down for Australian and New Zealand families
- Continue to improve the flow of stock and reduce out of stocks
- Continue to improve product ranges that connect with customers
- Continue to search for new and fresh products that customers want
- Continue to refurbish stores and open new sites

Businesses

Industrial and other businesses

Insurance

Contribution to operating divisional EBIT

<1%

Activities

- Key brands: Lumley, WFI, OAMPS and Crombie Lockwood
- Provision of general insurance products
- Insurance broking, risk management and financial services distribution
- Operations in Australia, New Zealand and the United Kingdom

Year in brief

- 10.1 per cent increase in revenue to $1.9 billion
- EBIT of $5 million, adversely affected by a $108 million increase in claims reserves associated with the Christchurch earthquake
- 18.7 per cent growth in broking income, reflecting solid sales growth in core business and the successful integration of acquired businesses
- Gross earned premium growth of 9.1 per cent achieved
- Strong premium rate increases achieved in Australia and New Zealand
- Targeted reduction in exposures to higher hazard regions and industries
- Strong growth in Coles home and motor insurance
- IT investment, claims optimisation and efficiency initiatives delivering value

Future directions

- Continue improvements in the underlying underwriting performance
- Continue to grow broking platform through acquisitions and sales optimisation
- Continue to grow and expand capabilities in personal lines
- Strive to consistently deliver outstanding client service across all businesses
- Invest in the development of employees

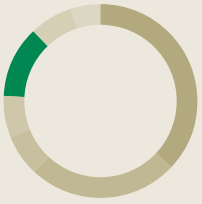
Businesses

Wesfarmers Insurance

wfi Lumley OAMPS crombie lockwood New Zealand's Insurance Brokers

Resources

Contribution to operating divisional EBIT



12%

Activities

- Australian open-cut miner with investments in coal mining:
  - » Curragh, Queensland (100 per cent) – metallurgical coal for export and domestic markets
  - » Bengalla, New South Wales (40 per cent) – export steaming coal for Asian market
- Mine operation and development

Year in brief

- 19.9 per cent increase in revenue to $2.1 billion
- EBIT up 19.0 per cent to $439 million
- Curragh metallurgical coal export sales up 34.1 per cent to 7.2 million tonnes
- Significant second half improvement in Curragh's mine cash costs
- Record fourth quarter production and sales from both mines as current 'Stage One' mine expansions completed
- Feasibility studies into next-stage expansions of export capacity at both Curragh and Bengalla continuing
- Second half decline in export coal prices
- Premier Coal (WA) divested 30 December 2011: profit on sale of $98m (not included in operating results)

Future directions

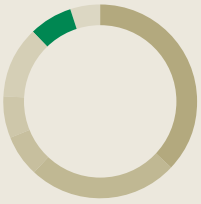
- Focus on future growth – maximise exports
- Feasibility study continuing to expand Curragh further from 8.0-8.5 to 10 million tonnes annual metallurgical export capacity (plus continuation of existing 3.5 million tonnes steaming coal annual production capacity)
- Feasibility study continuing to expand Bengalla to 10.7 million tonnes annual Run of Mine capacity (100 per cent basis)
- Strong business sustainability commitment
- Short-term global economic uncertainty, but longer term strong export market fundamentals and customer demand

Businesses

Wesfarmers Resources CURRAGH BENGALLA

Chemicals, Energy and Fertilisers

Contribution to operating divisional EBIT



7%

Activities

- Manufacture and marketing of chemicals for mining, minerals processing and industrial sectors
- Production, marketing and distribution of liquefied petroleum gas (LPG) and liquefied natural gas (LNG)
- Importation, manufacture and marketing of broadacre and horticultural fertilisers
- Manufacture, marketing and distribution of industrial, medical and specialty gases

Year in brief

- 8.8 per cent increase in revenue to $1.8 billion
- 7.1 per cent increase in EBIT (excluding insurance proceeds from the 2009 Varanus Island gas disruption claims) to $258 million
- Construction underway for $550 million expansion of current ammonium nitrate production capacity
- Sale of enGen, remote power generation business in August 2011, and Bangladesh LPG joint venture in January 2012

Future directions

- Ammonium nitrate expansion on track to be operational in 2014
- Completion of detailed engineering to debottleneck sodium cyanide production
- Seek to grow sales of LPG and manage the impact of increased gas costs and lower LPG content

Future directions (continued)

- Continue development of the LNG business
- Enhance fertiliser earnings through market-focused customer offers
- Continuing strong demand for chemicals; ammonia earnings increasingly dependent on international ammonia pricing following transition to import parity pricing

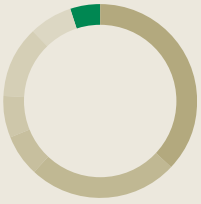
Businesses

Wesfarmers Chemicals, Energy & Fertilisers

CSBP · AGA · Kleenheat Gas · QNP · Air Liquide · Australian Vinyls · EVOL LNG · Modwood

Industrial and Safety

Contribution to operating divisional EBIT



5%

Activities

- Leading provider of industrial and safety products and services in Australia and New Zealand to a wide range of customers
- Strong focus on security of supply to customers of broadest product range
- Cost efficiency to customers through local and global procurement, supply chain and eBusiness solutions

Year in brief

- 8.5 per cent increase in revenue to $1.7 billion
- EBIT increased by 14.5 per cent
- Strongest results in Blackwoods, Protector Alsafe and Bullivants
- Strong contract, projects, services and eBusiness growth
- Increased industry diversification
- Opened a Blackwoods branch in Indonesia
- Restructured Coregas, Total Fasteners and Blackwoods Tasmania
- Improvement in Coregas, increased collaboration with other businesses in the division
- Operational and capital management contributing to improved returns
- Non-cash writedown in the carrying value of Coregas of $181 million (not included in operating results)

Future directions

- Move to a more customer centric organisation
- Grow share of customers' products and services spend
- Invest in developing people and broaden the talent pool
- Continue to improve portfolio performance and efficiency through technology
- Develop new growth platforms, ongoing revenue diversification
- Growth through acquisitions

Businesses

Wesfarmers Industrial and Safety

Blackwoods · Protector Alsafe · Bullivants · Total Fasteners · Coregas · Blackwoods Protector · NZ Safety · Packaging House · Safety Source

Other activities

Activities

Gresham
- 50.0 per cent interest in the investment bank, Gresham Partners, plus interests in Gresham's private equity funds

Wespine
- 50.0 per cent interest in a plantation softwood sawmill at Dardanup, Western Australia

BWP Trust
- 23.5 per cent interest in the property trust which mainly owns Bunnings Warehouses tenanted by Bunnings Group Limited

Year in brief

Gresham
- The Gresham Private Equity Funds investment recorded a loss of $55 million, compared to a loss of $60 million last year, due to non-cash market revaluations

Wespine
- Earnings decreased 28.6 per cent due to decreased sales into the Western Australian market caused by reduced house construction and increased price competition

BWP Trust
- Wesfarmers share of profit from investment in BWP Trust generated earnings of $16 million, compared to $19 million recorded last year

Future directions

Gresham
- Focus on maintaining active participation in the Australian investment banking markets and on improving portfolio returns and identifying investment opportunities

Wespine
- Increased focus on customer service and maintaining a strong Western Australian market position

BWP Trust
- Focus on capital management to improve the efficiency, security and flexibility of funding, and asset management to continue to drive growth and value

Gresham · Wespine Industries Pty Ltd · bwp Trust

Chairman's message

Our objective must be to ensure Wesfarmers is successful in a sustainable way for our shareholders, our employees, our customers and suppliers.

It gives me great pleasure to introduce the 2012 Wesfarmers annual report in a year when our profit exceeded $2 billion for the first time. It is a milestone which reflects the continued strength of our business model and the tremendous expertise and capacity for hard work residing in our employee teams across our eight business divisions.

Ever since Wesfarmers became a listed company, it has been our stated objective to provide a satisfactory return to shareholders. That remains, and will continue to remain, the central focus of our efforts. In 2012, we recorded a six per cent increase in operating revenue to $58 billion, and a 10.6 per cent increase in after tax profit. In a year in which caution and uncertainty marked consumer and investor sentiment in Australia, that is a good performance.

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

Business performance

While there has been a lot of focus on the performance of the former Coles Group businesses since we acquired them in 2007, I am delighted to point out that many of our established Wesfarmers businesses have continued to perform very well and make significant contributions to the Group's results.

Bunnings has continued to deliver outstanding results in generally tighter trading conditions.

Industrial and Safety continued its path of ongoing improvement and increased its profit and return on capital from previous years.

Wesfarmers Chemicals, Energy and Fertilisers had a solid year with Board approval given and construction now underway on the $550 million expansion of the ammonium nitrate facility at Kwinana, Western Australia.

Our Resources division reported a 19 per cent increase in earnings and improved sales volumes in the second half after completion of expansion projects at both Curragh and Bengalla.

Our Insurance businesses had a very difficult year with the February 2011 earthquake in Christchurch, New Zealand, having a major impact on the performance of the Insurance division.

I am especially pleased at the improvement shown in all the former Coles Group businesses and at how these businesses represent further improvement opportunities and a platform for more growth.

Wesfarmers has outperformed the market since the acquisition of Coles as confidence in the turnaround has increased.

Businesses sold

During 2012 we sold three businesses: the Premier Coal mine in Collie, Western Australia; the enGen regional power generation business, also in Western Australia; and the gas distribution business in Bangladesh. We were pleased with the outcomes of the sale processes, believing good prices were obtained for our shareholders. I would like to put on record my thanks and appreciation to the employees at these businesses for the contribution they have made to our company and for the way they conducted themselves while the sales were being progressed.

Sustainability

Our objective must be to ensure Wesfarmers is successful in a sustainable way, not only for the benefit of our half-a-million shareholders, but for our 200,000 employees, millions of customers and thousands of suppliers in the communities in which we operate right across Australia and New Zealand.

Good safety is good business and financial results will not be sustainable if we do not do everything to ensure safety is part of daily work. Our safety performance is improving, but we still have a long way to go on this critical measure of our success as a company. I am delighted that the leadership team has set up a group, led by John Gillam, to benchmark our safety performance across all aspects of the Wesfarmers business against the best in the world.

The team consists of individuals from all the divisions. The project will look at how we compare with best practice around the world but, more importantly, look at how we can take the best learnings from companies within the Group and across the world to improve our own safety performance.

One of the big challenges thrown out to businesses in Australia recently has been the decision by the federal government to put a price on carbon. No business looks forward to additional cost burdens, but I am pleased to tell you about how our company has responded.

The *National Greenhouse and Energy Reporting Act 2007* emissions for Wesfarmers Limited in 2011 were 5.04 million tonnes. Despite the fact that our businesses have grown in the just completed financial year, our greenhouse emissions have declined to approximately 4.67 million tonnes. I believe this is a remarkable accomplishment and is a tribute to the way we have worked in previous years to position ourselves for what we considered to be an inevitable price on carbon in the Australian economy.

The major reasons for the reduction were energy efficiency investments, especially at Coles, and nitrous oxide emission abatement at our Chemicals, Energy and Fertilisers business' nitric acid plants. Incidentally, if Premier Coal, enGen and the gas distribution business in Bangladesh were still within the Group, our 2012 emissions would have been about 4.9 million tonnes, still a decrease from 2011.

Total electricity use around the Group was lower in 2012 than in 2011, despite an increase in our retail floor space and the size of our businesses in general.

The Board

I would like to thank my Board colleagues for their hard work and support throughout the year. Although we had no departures from or new appointments to the Board during the 2012 financial year, we have made provision in our remuneration settings for the potential expansion of the Board's numbers.

While the Board continues to believe our current size is appropriate for Wesfarmers, the proposed increase is intended to provide sufficient 'headroom' to appoint up to two additional members to allow for effective Board succession over the next two to three years.

Investing for the future

We have every reason to be confident about the future and that confidence is reflected in our capital expenditure decisions. Net capital expenditure for 2012 was $2.35 billion, which represents a substantial investment in growth.

Significant capital expenditure projects for the year included continued investment in our retail store networks, completion of production expansions in our coal businesses, and commencement of the ammonium nitrate expansion project in the chemicals business.

On behalf of the Board I would like to thank all of our 200,000 employees for their dedication and hard work that has translated into a good performance for the past financial year. We have an excellent culture within the company and the Board is determined to maintain and sustain this strong culture.

There is no doubt that external factors will continue to challenge our company but, under Richard Goyder's excellent leadership and his strong management team, I believe Wesfarmers is well-placed to meet those challenges and continue to prosper in the interests of our shareholders and the wider communities of Australia and New Zealand.

Finally, my thanks go to you, our shareholders. Wesfarmers exists for your benefit and the Board and entire leadership are grateful for your ongoing support of this great company.

Bob Every AO, Chairman

Managing Director's review

Wesfarmers is well-placed to grow and create value for all our stakeholders due to the strength of our businesses, our balance sheet and the quality of our people.

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

We had turnover of $58 billion for the year. Our profit after tax was $2,126 million, up 10.6 per cent, and our earnings before interest and tax, which is how we measure the divisional performance, was more than $3.5 billion. Our earnings per share were up and our cash flows were very strong.

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

Business divisions

Coles achieved strong earnings growth of 16.3 per cent to $1,356 million, building on the 21.2 per cent earnings growth achieved last year. Savings generated through improved operating efficiencies supported continued price reinvestment during the year, driving growth in volumes and profitability. The continuation of the renewal refurbishment program and the improvement of the store network further benefited performance in the year.

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

Officeworks' earnings increased 6.3 per cent to $85 million. The focus on the strategic agenda of the business continued to drive transaction growth during the year, offsetting heavy deflation and generally challenging trading conditions, particularly in technology-related areas.

Kmart achieved pleasing growth in earnings for the year, up 31.4 per cent to $268 million. Improvements in range, together with better sourcing and stock management, continued to drive business efficiencies and support reinvestment in lower prices that were positively received by customers. Kmart has now achieved 10 consecutive quarters of growth in transactions and units sold.

Target's reported earnings of $244 million include a one-off $40 million provision in the current year for future supply chain restructuring.

Excluding this provision, Target's earnings of $284 million were just above the prior year, despite difficult trading conditions, particularly in consumer electronics. Underlying earnings were maintained through a focus on the profitability of promotions and lower levels of clearance activity due to better inventory management.

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

The **Resources** division's earnings increased 19.0 per cent to $439 million. The major driver of the result was increased revenue due to higher export coal prices in the first half, and improved sales volumes in the second half, following the completion in the fourth quarter of expansion projects at the Curragh and Bengalla mines. Higher revenue was partially offset by extra costs associated with flood recovery efforts, one-off mine expansion preparation costs and higher government royalties.

The **Chemicals, Energy and Fertilisers** division reported earnings of $258 million, representing growth of 7.1 per cent after excluding $42 million of insurance proceeds in the prior year related to the 2009 Varanus Island gas outage. Earnings were supported by higher prices in the chemicals business and increased fertiliser sales, which offset a lower contribution from Kleenheat Gas and the loss of earnings from the enGen business following its divestment in August 2011.

The **Industrial and Safety** division delivered a good result, with earnings increasing by 14.5 per cent to $190 million, supported by strong demand from the resources and engineering construction sectors, and an enhanced competitive position.

Other businesses' earnings were broadly in line with last year with lower interest revenue and a $15 million expense associated with non-trading items largely offset by a reduction in the Group's self-insurance expense. Non-trading items for the year included a $181 million non-cash writedown in the carrying value of Coregas, which was partially offset by gains on asset sales totalling $166 million.

Management change

During the year, Dene Rogers replaced Launa Inman as Managing Director of Target. Dene has extensive retailing experience from North America and has been making encouraging progress with several major initiatives in what has been a difficult retail environment for Target. I would like to sincerely thank Launa Inman for her significant contribution to Target as its Managing Director for seven years, and for her support during the four years of Wesfarmers ownership.

Innovation

One of our key values as a company is boldness. In order to progress and provide better products and services to our customers, and to win the battle against our competitors, we have to be prepared to be bold by innovating and being creative. During the year we launched the Wesfarmers Innovation Awards, an initiative that came from the Leadership Conference two years ago. We had outstanding applicants and winners for these awards. I have had the great privilege of meeting these teams and congratulating them. The depth of innovation underway across the Group is encouraging.

Suppliers

There has been a lot of public comment this year on Wesfarmers' relationship with our suppliers through the Coles business. This is an issue we take very seriously. We know Coles is a big player and that we buy a lot of product from Australian suppliers and producers. We provide an important way of getting to market.

Coles, a once iconic Australian business, was in steep decline prior to our acquisition. When we walked into the business we had a product range that was unwieldy and extensive. We had to get a better range for our customers and increase the efficiency and cost-competitiveness of our supply chain. In that turnaround process, it was inevitable that some suppliers would miss out.

We now purchase $1.6 billion per annum more from Australian primary producers than we did when we took control of the business in 2007. We are committed to outcomes that are beneficial for our shareholders and suppliers.

Looking ahead

Wesfarmers is well-placed to grow and create value for all our stakeholders due to the strength of our businesses, our balance sheet and the quality of our people. We will continue to invest to grow our existing businesses and we have the capacity to further add to the portfolio should suitable opportunities arise. As always, we will be patient and disciplined, and endeavour to make decisions which are in the long-term interests of all our stakeholders, particularly you, our owners.

The leadership team has a very positive working relationship with Bob Every and the Board and we thank them for that.

Richard Goyder Managing Director

Wesfarmers leadership team

The best thing we can do is provide the resources, the support, and the freedom to our outstanding business leaders to set and implement the growth agenda that creates value and rewards our shareholders.

Richard Goyder (1)
Managing Director, Wesfarmers Limited

Richard was appointed Chief Executive Officer and Managing Director of Wesfarmers in 2005. He has held a number of executive positions in Wesfarmers, including Managing Director of Wesfarmers Landmark and Finance Director of Wesfarmers. Before joining Wesfarmers in 1993, Richard held a number of senior positions with Tubemakers of Australia.

Terry Bowen (2)
Finance Director, Wesfarmers Limited

Terry joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark, including Chief Financial Officer from 2001. In 2003 he was appointed as Jetstar Airways' inaugural Chief Financial Officer before rejoining Wesfarmers in 2005 as Managing Director, Wesfarmers Industrial and Safety. Terry became Finance Director, Coles in 2007 before being appointed Finance Director, Wesfarmers Limited in 2009.

Ian McLeod (3)
Managing Director, Coles

Ian joined Wesfarmers as Managing Director, Coles in 2008. He has extensive experience in British and European retailing, including senior executive roles at the United Kingdom retailer Asda, where he played a key role in the recovery and turnaround program during the 1990s. Other senior retail roles included Chief Executive Officer at Halfords Group plc, the UK's leading retailer of car parts, leisure and cycling products and Chief Merchandise Officer with Wal-Mart in Germany.

John Gillam (4)
Managing Director, Home Improvement and Office Supplies

John was appointed Managing Director of the Home Improvement division in 2004 and became the Managing Director of the expanded Home Improvement and Office Supplies division in 2007. John started at Wesfarmers in 1997, was appointed Chief Financial Officer of Bunnings in 1999, Wesfarmers Company Secretary in 2001 and Managing Director of CSBP in 2002.

Dene Rogers (5)
Managing Director, Target

Dene Rogers was appointed Managing Director of Target in November 2011 and prior to this was Chief Executive Officer of Sears Canada, a diversified public company, for five years. Before Sears, Dene was based in Chicago as Executive Vice President and General Manager of Kmart USA, where he oversaw the operations of approximately 1,500 stores and US$18 billion of revenue. Dene has a Master of Business Administration and a Bachelor of Engineering.

Guy Russo (6)
Managing Director, Kmart

Guy was appointed Managing Director of Kmart in 2008. Prior to that, he was Managing Director and Chief Executive Officer of McDonald's Australia between 1999 and 2005, having held all key operational posts since 1974. Guy also served as President, McDonald's Greater China until 2007 and is currently President of the international Half the Sky Foundation for orphaned children in China.

Stewart Butel (7)
Managing Director, Wesfarmers Resources

Stewart joined Wesfarmers in 2000 following Wesfarmers' acquisition of the Curragh mine. In 2002 he was appointed Managing Director of Wesfarmers Premier Coal, and in 2005 he became Director Coal Operations for Wesfarmers Energy. Stewart was appointed Managing Director of Wesfarmers Resources in 2006.

Rob Scott (8)
Managing Director, Wesfarmers Insurance

Rob started with Wesfarmers in 1993 before moving into investment banking, where he had various roles in corporate finance and mergers and acquisitions in Australia and Asia. He rejoined Wesfarmers in business development in 2004 before being appointed Managing Director of Wesfarmers Insurance in 2007. He is the President of the Insurance Council of Australia.

Tom O'Leary (9)
Managing Director, Wesfarmers Chemicals, Energy & Fertilisers

Tom joined Wesfarmers' business development team in 2000 and became General Manager of the team in 2002. He was appointed Executive General Manager, Business Development in 2006 before his appointment as Managing Director, Wesfarmers Energy in 2009. In July 2010, Tom became Managing Director of the newly formed Chemicals, Energy and Fertilisers division. Prior to joining Wesfarmers, Tom worked in finance law and investment banking.

Olivier Chretien (10)
Managing Director, Wesfarmers Industrial and Safety

Olivier joined Wesfarmers in 2006 as General Manager Commercial, Wesfarmers Industrial and Safety, before being appointed Managing Director of the division in 2007. Prior to joining Wesfarmers, Olivier was a management consultant with The Boston Consulting Group in France and Australia. He previously worked in logistics and project management with engineering contractor Jacobs Serete.

Tim Bult (11)
Executive General Manager, Business Development, Wesfarmers Limited

Tim joined Wesfarmers in 1999, working in commercial and business development roles within the Wesfarmers Energy division, before his appointment as General Manager of Wesfarmers Kleenheat Gas in 2005. He became Managing Director of Wesfarmers Energy in 2006. He was appointed Executive General Manager, Business Development in July 2009.

Paul Meadows (12)
Group General Counsel, Wesfarmers Limited

Paul was appointed Group General Counsel of Wesfarmers Limited in March 2010. Paul was admitted to practise as a barrister and solicitor in 1981 and was a partner of Allens Arthur Robinson in Melbourne from 1989 until February 2010. He worked at Linklaters in London in 1986 and 1987. Between 2006 and February 2010, Paul was also a senior adviser to UBS Australia.

Ben Lawrence (13)
Chief Human Resources Officer, Wesfarmers Limited

Prior to joining Wesfarmers in 2008, Ben was the Chief Human Resources Officer for Foster's Group Limited from 2001 and has held a variety of senior roles in the United States, including Chief Human Resources Officer, Beringer Wine Estates; Vice President, International Human Resources, the Clorox Company; and Director Human Resources, FMC Gold Company. Ben is currently a non-executive director of Red Dust, an Indigenous health and wellness non-profit organisation.

Alan Carpenter (14)
Executive General Manager, Corporate Affairs, Wesfarmers Limited

Alan joined Wesfarmers as Executive General Manager, Corporate Affairs in December 2009. Prior to that he was Premier of Western Australia from January 2006 to September 2008 and served 13 years in the Western Australian Parliament. Alan has also worked as a journalist with the Seven Network and the ABC and lectured in Australian politics at the University of Notre Dame, Fremantle.

Finance Director's review

Cash flow from operations increased by 24.8 per cent to $3,641 million and was driven by strong earnings growth and effective working capital management.

Results overview

Net profit after tax for the Group in the 2012 financial year of $2,126 million was 10.6 per cent ahead of last year.

Earnings per share of 184.2 cents were up 10.5 per cent on last year, in line with earnings growth, and average return on equity increased to 8.4 per cent from 7.7 per cent in the previous year.

Cash flow

Cash flows from operations of $3,641 million for the year were 24.8 per cent higher than last year, representing a cash realisation ratio of 117 per cent. Operating cash flows during the year were supported by earnings growth and improved working capital performance, particularly across the Group's retail businesses.

The Group continued to invest strongly in capital expenditure over the year in order to drive future growth. Net capital expenditure of $2,351 million, which included a $245 million contribution from property sales in Coles and Bunnings, was up 27.4 per cent on last year. Significant capital expenditure projects during the year included continued retail network expansion and refurbishment activity, completed production expansions of the Curragh and Bengalla coalmines and the commencement of the ammonium nitrate capacity expansion in the chemicals business.

It is expected that the current phase of strong capital investment will continue in the 2013 financial year through plans to further improve and grow retail store networks and progress the 260,000 tonne ammonium nitrate expansion at Kwinana, Western Australia. Proceeds from the sale of businesses of $402 million, predominantly from the sales of the Premier Coal mine and the enGen business, offset higher net capital expenditure, resulting in a 41.4 per cent increase in free cash flows to $1,472 million. Cash dividends paid increased to $1,789 million from $1,557 million in the previous year.

Balance sheet

The strength of the balance sheet was maintained during the year, as evidenced by improvements in all key liquidity ratios. Total net debt at 30 June 2012 increased to $4,904 million (from $4,343 million 12 months earlier) reflecting the Group's growth in capital investment. Despite this increase, finance costs for the Group declined by 4.0 per cent to $505 million for the year, following successful refinancing initiatives and the progressive expiry of pre-global financial crisis interest swap hedges.

Total property, plant and equipment increased over the year, from $8,302 million to $9,463 million as at 30 June 2012, due to capital investment being well ahead of depreciation and amortisation.

Strong working capital management, particularly in the retail divisions, kept capital employed in this area to a similar level to last year, despite the increased sales activity and retail footprint.

Detailed impairment testing of non-current assets, including goodwill and other intangible assets recognised on business acquisitions, was carried out during the year. External experts were engaged to provide support on model inputs including discount rates and long-term growth rates. Non-cash impairment charges totalling $197 million were made during the year, compared to $27 million in the prior year. The current year's impairment charge was mainly due to a non-cash writedown in the carrying value of Coregas as a result of BlueScope Steel Limited's restructure of its Port Kembla operations. In all other cases, recoverable amounts of non-current assets determined for impairment testing exceeded their carrying values. Future impairment testing of non-current assets remains sensitive to changes in general trading conditions and outlook, as well as discount rates.

Debt management

The Group aims to maintain a strong investment-grade rating through prudent balance sheet management. The Group's credit ratings remained unchanged at A- (stable outlook) for Standard & Poor's and Baa1 (positive outlook) for Moody's.

During the year the Group continued to proactively diversify its funding sources and extend its debt maturity profile. Refinancing activity included two $500 million domestic bondissues, comprising a five year issue in November 2011 and a seven year issue in March 2012.

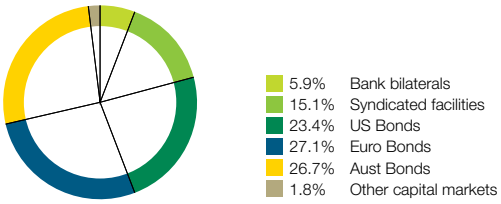
The proceeds of these issuances were utilised to fund maturing bank debt and general business requirements, which resulted in a lengthening of the Group's average tenor to 3.8 years across well diversified sources of debt.

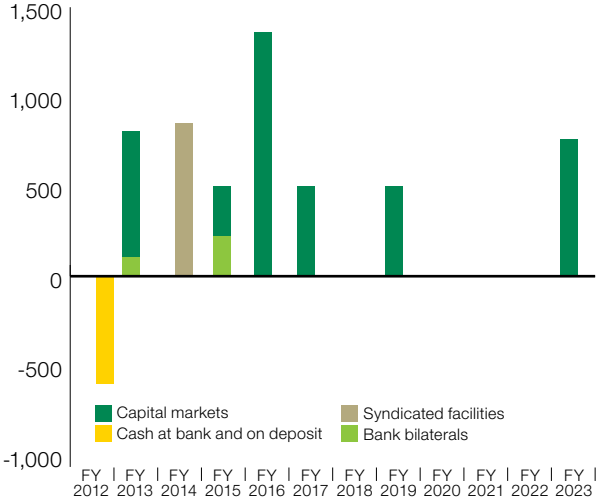
As at 30 June 2012, the Group had available to it $598 million in cash at bank and on deposit and $2,298 million in committed but undrawn bank facilities.

Strong operating performance and debt management initiatives resulted in improvements in the Group's fixed charges cover ratio to 2.8 times, up from 2.7 times a year ago, and the cash interest cover ratio to 10.8 times, up from 9.5 times. Refinancing initiatives contributed to a one percentage point decrease in the weighted average cost of debt to 7.8 per cent compared to 8.8 per cent last year.

In August 2012, the Group raised €650 million in European debt capital markets through its first ten year bond issue, further confirming debt investors' confidence in the Group's businesses and balance sheet.

Average debt tenor of 3.8 years across diversified sources of debt





Note: Amounts shown and average tenor based on the drawn amount at balance date of 30 June 2012, adjusted for 10 year bond issued August 2012.

Equity management

Over the year shares on issue were stable, with 1,157 million shares on issue at 30 June 2012, made up of 1,007 million ordinary shares and 150 million partially-protected ordinary shares.

Dividend policy

Wesfarmers' dividend policy seeks to deliver growing dividends over time, with the declared amount reflective of the Group's current and projected cash position, profit generation and available franking credits. Consistent with this policy, a fully-franked, full-year dividend of 165 cents per share was declared, an increase of 10.0 per cent on last year. The final dividend, to be paid on 28 September 2012, is not provided for in the accounts. Given a preference by many shareholders to receive dividends in the form of shares, the directors decided to continue the operation of the Dividend Investment Plan (the Plan). No discount applies to shares allocated under the Plan and in recognition of the Group's capital structure and strong balance sheet, all shares issued under the Plan will be acquired on-market by a broker and transferred to participants.

Risk management

The Group maintains and adheres to clearly defined policies covering areas such as liquidity risk, market risk (including foreign exchange, interest rate and commodity price risk) and credit risk.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments be undertaken.

The main sources of foreign exchange risk include: the sale of export coal, denominated in US dollars; purchases in foreign currency, mainly retail inventory in US dollars; and current US dollar and Euro denominated debt. Businesses exposed to foreign exchange risk use forward contracts to minimise currency exposure. US dollar and Euro denominated debt and associated interest costs are fully hedged at the time the debt is drawn down. The Group uses interest rate and cross currency interest rate swaps to manage interest rate risk. Interest rate swaps covering $2.2 billion of debt are currently in place for the 2013 financial year. The annual corporate planning process includes an established framework for assessing broad business risk as well as considering appropriate risk mitigation strategies.

Internal control and assurance

The Group maintains an internal audit function with a Group-wide mandate that is fully independent of the business operations to monitor and provide assurance to the Board's Audit Committee and ultimately the Board as to the effectiveness of risk management and internal control systems. The annual internal audit plan is developed within a combined assurance framework and applies a risk-based methodology to ensure that the Group's key risks are appropriately and regularly reviewed.

The internal audit plan is approved by the Board. The internal audit function delivers the approved internal audit plan by engaging a single outsource audit provider. As part of the annual operating cycle, each business is also required to review and report on: legal liabilities; financial controls; information systems; environment, health and safety planning; risk assessment and mitigation; and post implementation reviews on all major capital investment expenditure.

Terry Bowen Finance Director

Retail operations

Our relationship with suppliers is a vital part of making Wesfarmers the company that it is today. This year, Coles partnered with Warrnambool Cheese and Butter to launch a new brand – 'Great Ocean Road' dairy products.

Coles page 18

Home Improvement and Office Supplies page 22

Target page 26

Kmart page 30

Coles

The Coles turnaround produced strong trading results in 2012 by improving quality, service and value. The business achieved its thirteenth quarter of industry out-performance.

Ian McLeod, Coles Managing Director (left), with team member Dishank Shah, Coles Tooronga, Victoria

The business

Coles is a leading food, liquor and convenience retailer, with a presence in every Australian state and territory. The business operates more than 2,200 retail outlets across Coles, BiLo, First Choice Liquor, Liquorland, Vintage Cellars, Coles Express and Spirit Hotels.

The business employs more than 100,000 team members and handles more than 18 million customer transactions a week.

Strategy

Coles seeks to give the people of Australia a shop they trust, delivering quality, service and value.

In 2011/12, Coles continued to invest in new stores, delivered lower prices through its value campaigns, supported the Australian food industry with its 'Australia First' policy and relaunched its customer loyalty program.

Results

The 2012 financial year saw Coles deliver operating revenue of $34.1 billion, up 6.4 per cent on the prior corresponding period. Earnings before interest and tax grew to $1,356 million, up 16.3 per cent on the previous year.

Food and liquor store sales were $26.2 billion, up 4.6 per cent on the previous year and comparable store sales growth was 3.7 per cent. The results were driven by increased customer transactions as a result of delivering quality, service and value.

Coles' investment in more direct relationships with growers during the year led to better and fresher produce for customers, as did further investment in logistics, team member training and store infrastructure.

Programs to improve the future performance of Coles Liquor were introduced, including installing a new integrated management information system, delivering more effective customer promotions and making further changes to the store network.

Coles Express sales (including fuel) rose 11.5 per cent to $7.5 billion, largely driven by strong fuel volumes and a broader fuel offer.

Year in brief

This year was the fourth year of a five-year turnaround plan for Coles, which was focused on 'driving the Coles difference'.

Coles' investment in lower prices during the year saved customers more than $800 million as part of an ongoing strategy to deliver value through programs such as 'Down Down', 'Super Specials' and the new 'My5' – introduced with the relaunch of the 'flybuys' customer loyalty program.

Customers continued to respond well to Coles' campaigns and more than half of Australian households are now using a flybuys card.

As part of its 'Australian First' policy, Coles awarded numerous new contracts to Australian-based businesses during the year, including: a five-year contract with Tamar Valley to produce Coles brand yoghurts; switching from a New Zealand supplier for all Coles brand cheese to Australian-based Bega Cheese Limited, which will see 19,000 tonnes of cheese produced for Coles annually; and launching a new brand – 'Great Ocean Road' cheese and milk – with Warrnambool Cheese and Butter.

The Coles brand also became the first Australian supermarket private label to offer 100 per cent Australian grown frozen vegetables with the support of Simplot Australia.

Coles brand products continued to be recognised for quality, receiving more than 50 awards in industry competitions during the year.

The business made good progress to deliver on all its ethical sourcing commitments. For example, in February 2012, a sustainable seafood message was introduced to all Coles' seafood counters across Australia to make it easier for shoppers to identify a sustainable seafood choice.

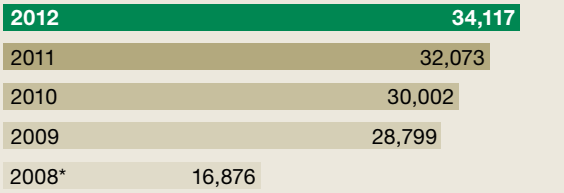
Coles expanded its online presence during the year, launching a version of **coles.com.au** for mobile devices and an online store for the 'Mix' range of clothing and accessories.

Growth strategies

- Renewed investment in value
- Stronger supplier partnerships
- Improved quality and simpler range
- Coles brand and new ranges
- Leveraging supply chain
- Investment in team members
- New and bigger stores and existing store refurbishment
- Multi-channel integration and financial services expansion

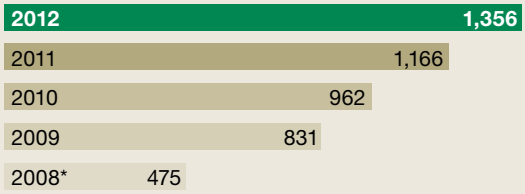
Revenue ($m)

$34,117



EBIT ($m)

$1,356



Key financial indicators

For the year ended 30 June	2008*	2009	2010	2011	**2012**
Revenue ($m)	16,876	28,799	30,002	32,073	**34,117**
Earnings before interest and tax ($m)	475	831	962	1,166	**1,356**
Capital employed (R12) ($m)	14,952	15,163	14,830	14,973	**15,544**
Return on capital employed (%)	nm	5.5	6.5	7.8	**8.7**
Capital expenditure ($m)	351	606	683	840	**1,218**

nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.
* For the ownership period from 23 November 2007 to 30 June 2008.

The trial of Coles 'Click & Collect' service in Victoria, which enables customers to order groceries online and collect these at a supermarket or Coles Express site, has performed well. The service will be extended to other parts of Australia in the coming year.

Coles invested more than $1 billion during the year, mainly in building new and bigger stores and in refurbishing existing stores, including the launch of 19 new supermarkets (two of which were larger format superstores), 35 new liquor stores and 10 new Coles Express sites.

During the year Coles delivered 108 supermarkets in the new store format, including all its supermarkets in the Australian Capital Territory. New format supermarkets now represent one third of the store network.

A focus on controlling waste has generated savings of more than $400 million over the last four years, which has been invested in better store and distribution infrastructure and lower prices for consumers.

Improvements to transport management, Coles' distribution and logistics network and Easy Ordering and Easy Warehousing, have improved stock availability, freshness and lowered the average delivery cost per carton to a Coles store.

Business sustainability

In preparation for the federal government's Clean Energy Future legislative package, Coles took steps to reduce energy consumption, including installing voltage optimisation technology in 182 stores which reduces the energy drawn from the public grid and reduces store power consumption.

Coles also expanded its in-store plastic bag recycling service for customers to include soft plastic food packaging as part of a trial in 114 Victorian supermarkets. Between September 2011 and May 2012, more than 23.5 tonnes of plastic packaging was returned to Coles and saved from landfill. The waste will be turned into outdoor furniture which will be donated to schools and kindergartens.

Investing in team members in order to provide the best customer experience continues to be a focus for Coles. This year 800 team members completed the Retail Leaders program, taking the total to more than 2,500 since it was launched in 2009. The program continues to be the key development program for team members looking to move into store management.

During the year, Coles continued to drive diversity through the launch of its 'First Step' Indigenous employment and engagement programs.

In September 2011, Coles announced a national partnership with not-for-profit food rescue organisation, SecondBite, to donate surplus healthy fresh produce and bread to community food programs all over Australia. As at 30 June 2012, 208 stores provided the equivalent of 852,000 meals to people in need.

Funding from the Department of Education, Employment and Workplace Relations will help provide more than 200 job opportunities in the coming year.

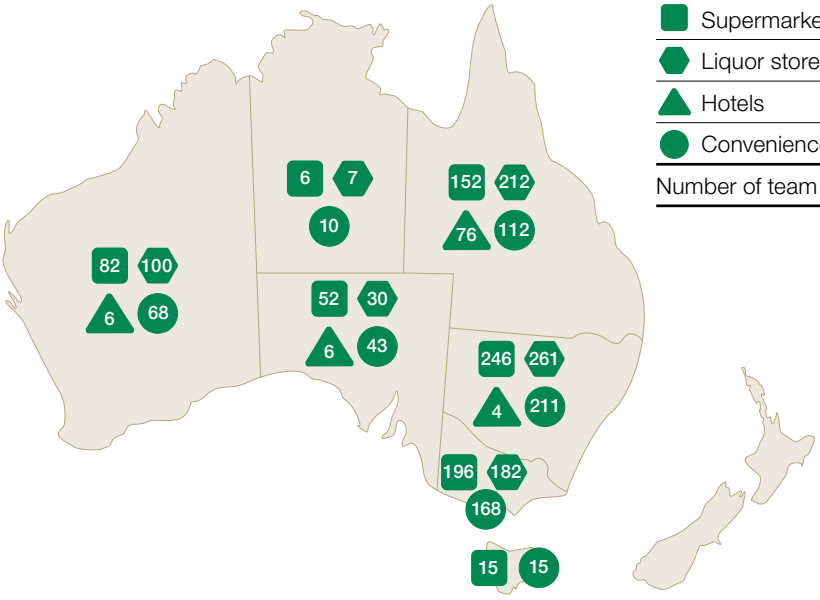
Coles had an improved safety result with a lost time injury frequency rate of 12.99, down 23 per cent on last year. A business integrated injury management system introduced during the year has contributed to faster intervention and a greater focus on returning to work, lower lost time injuries and reduced new claims.

This year, Coles community investment totalled $21.9 million, of which $19 million was cash and in-kind donations to major charity partners and community programs. Close to $10 million in sports equipment was distributed to more than 7,500 schools across Australia in the second year of the Coles 'Sports for Schools' program.

Outlook

In the coming year, the business will continue to 'drive the Coles difference' by creating a culture of continuous improvement; building strong customer trust and loyalty; delivering operational efficiency; innovating and improving its customer proposition; and delivering an improved store network with new and refurbished stores and the introduction of new categories.

Business statistics



Coles

Supermarkets	749
Liquor stores	792
Hotels	92
Convenience stores	627
Number of team members	100,625

Business websites

www.coles.com.au
www.colesonline.com.au
www.1stchoice.com.au
www.liquorland.com.au
www.liquorlanddirect.com.au
www.mixapparel.com.au
www.vintagecellars.com.au

Home Improvement and Office Supplies

Bunnings

Bunnings continues to expand and improve its store network through ongoing investment in existing outlets, innovative merchandising initiatives and new store openings.

John Gillam, Home Improvement and Office Supplies Managing Director (right), with Nicky Triantafillidis, Activities Organiser, South Oakleigh, Victoria

The business

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

Operating from a network of large warehouse stores, smaller format stores, trade centres and frame and truss manufacturing sites, Bunnings caters for consumer and commercial customers.

Strategy

Bunnings provides its customers with the widest range of home improvement and outdoor living products and is committed to delivering the best service and lowest prices every day. It sets out to attract high quality employees and to provide them with a safe and rewarding working environment.

Bunnings continues to expand and improve its store network through ongoing investment in existing outlets, innovative merchandising initiatives and new store openings. Bunnings has developed and continues to expand and enhance a network of trade centres to service major commercial customers.

Results

Operating revenue from Bunnings increased by 5.6 per cent to $7.2 billion for the full year, with trading revenue also increasing by 5.6 per cent. Earnings before interest and tax grew 4.9 per cent to $841 million.

Total store sales growth in Bunnings of 5.9 per cent was achieved during the year, with underlying store-on-store sales increasing by 3.9 per cent. Commercial sales were 6.9 per cent higher than in the comparative period. Sales growth for the full-year was achieved in both consumer and commercial areas, across most key trading regions. Particularly pleasing were the outcomes from merchandising initiatives, including the range reset project and operational work to further strengthen service and services. A strong focus on productivity and cost management supported investments in the customer offer and EBIT growth.

Year in brief

During the year 16 trading locations were opened, including 13 new warehouse stores, one smaller format store and two trade centres. At the end of the period there were 206 warehouses, 58 smaller format stores and 36 trade centres operating across Australia and New Zealand. Investment in bringing current merchandising standards into older parts of the network continued, together with category-specific upgrade work across the whole network.

Business sustainability

Work continued during the year towards long-term carbon footprint reduction initiatives to reduce energy usage and waste, and educating customers and team members on sustainable living choices. Although continued growth in new stores affected the business' total carbon footprint, carbon intensity remained stable at 3.4 CO_2e tonnes per $100,000 of revenue. Water consumption remained a priority, with rainwater tanks and capillary mats continuing to be rolled out in new warehouse stores, and hand watering in selected nurseries. Scheme water use was 869 megalitres, an increase of 19 per cent overall. Notwithstanding the significant expansion in the store network, the intensity of our water use has reduced 31 per cent compared to the intensity of water use five years ago.

Over the year, Bunnings supported more than 42,000 community activities through community group sausage sizzles, hands on do-it-yourself projects and renovations, local fundraising activities, community workshops and other activities. Support included more than 106,000 hours of team member support for activities and projects, product contributions and financial assistance. This involvement helped raise and contribute more than $27 million for local, regional and national charities and community organisations across Australia and New Zealand.

Disappointingly, safety performance did not improve during the year. The rolling 12-month all injuries frequency rate increased from 36.6 to 38.8. Bunnings continues to focus on team member safety by strengthening safety leadership across the business, reducing risks linked to known injury hot spots, improving safety for higher risk activities, and achieving better returns to work outcomes.

Outlook

The business is well-positioned for continued sales growth, through increased service levels, category development, network expansion and reinvestment, an improved light and heavy commercial offer, and the continued investment of productivity gains in lower prices to drive volume.

Bunnings growth strategies

Profitable sales growth: Key growth drivers are providing better customer experiences, enhancing the offer, investing in and expanding the network, further developing a multi-channel commercial offer, and creating value

Better stock flow: Improving the end-to-end supply chain, with higher in-stock performance the priority

Stronger team: Continuing investments in product knowledge, development and safety

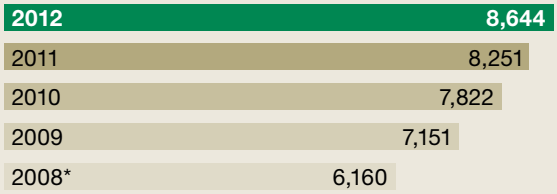
Productivity gains: Focusing on making core processes faster and easier

Community and sustainability involvement: Ongoing commitment to store-based community involvement work, reducing water and energy consumption and wastage, plus improved affordability of sustainability projects for customers

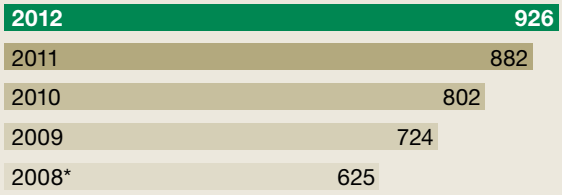
Office Supplies growth strategies

- **Evolve our customer offer:** Expand services and solutions offer; print and copy enhancements and expansion; improve and grow furniture offer; extend price leadership; and continue to deliver widest range
- **Improve our customer service:** Expand business-to-business service; consistent customer service; and specialist knowledge in key categories
- **Team development and engagement:** Continue to focus on improving safety and delivering team programs that support and enhance the business strategy and underlying culture
- **Reduce costs and complexity:** Rebuild an efficient and cost-effective supply chain; reduce shrinkage; and continue to work on removing costs, duplication and complexity
- **Drive sales and profitability:** Lift product range authority; expand and renew the store network; improve the online offer; improve stock management; and look after business customers better

Home Improvement and Office Supplies Revenue ($m) $8,644



Home Improvement and Office Supplies EBIT ($m) $926



Key financial indicators

For the year ended 30 June	2008*	2009	2010	**2011**	**2012**
Revenue ($m)	6,160	7,151	7,822	8,251	**8,644**
Earnings before interest and tax ($m)	625	724	802	882	**926**
Capital employed (R12) – Home Improvement ($m)	1,925	2,185	2,398	2,863	**3,250**
Return on capital employed – Home Improvement (%)	31.2	30.2	30.4	28.0	**25.9**
Capital employed (R12) – Officeworks ($m)	1,080	1,145	1,178	1,195	**1,208**
Return on capital employed – Officeworks (%)	nm	5.7	6.3	6.7	**7.1**
Capital expenditure ($m)	302	378	446	613	**587**

* Officeworks' contribution for the ownership period from 23 November 2007 to 30 June 2008.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

Home Improvement and Office Supplies (continued)

Office Supplies

Officeworks is Australia's leading retailer and supplier of office products and solutions for home, business and education.

The business

Officeworks is Australia's leading retailer and supplier of office products and solutions for home, business and education. Operating through an Australia-wide network of stores, online platforms, customer service centres and business sales force, Officeworks caters for a broad range of customers, from consumers to businesses of all sizes as well as students, teachers and education institutions.

Strategy

Officeworks aims to provide customers with the widest range of products and great service at the lowest price, while providing a safe, rewarding and engaging place of work for all team members. Officeworks continues to grow and develop the business by improving the customer offer, expanding and renewing the store network, and enhancing its online offer and customer service centre operations.

Results

Operating revenue for the office supplies businesses was $1.5 billion for the full-year, which was 0.7 per cent higher than the previous year. Earnings before interest and tax grew 6.3 per cent to $85 million.

Deflationary headwinds and challenging market conditions kept store sales growth flat across the year. Online sales grew strongly, in line with the Officeworks 'every channel' strategy. Transaction and unit sales both online and in-store were well above last year.

Year in brief

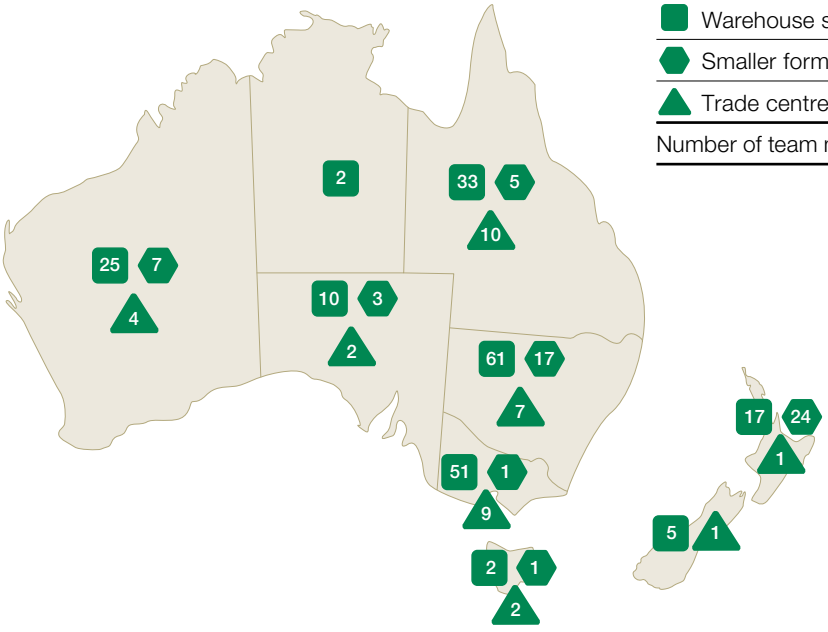
Improving customer service remained at the forefront of the agenda with a range of different initiatives rolled out. New products and services were added to the range and investment in the online offer was received favourably by customers.

Business sustainability

Officeworks remains committed to social responsibility and the continued contribution to the wellbeing of the communities in which we operate. During the year, more than $1 million was raised to support a variety of local and national programs, such as Australia's Biggest Morning Tea, the ANZAC Day and Remembrance Day appeals, and numerous local and national activities. Officeworks continued its support of the Australian Literacy and Numeracy Foundation through the sale of the reusable 'Helping Kids Grow' jute bag.

Officeworks' commitment to the environment was a priority with the introduction of the EcoOK range and a dedicated business supplies directory to help customers make environmentally preferable purchasing decisions.

Business statistics



Bunnings

Warehouse stores	206
Smaller format stores	58
Trade centres	36
Number of team members	32,839

Business websites

www.bunnings.com.au
www.bunnings.co.nz

Since Officeworks' partnerships with 'Cartridges 4 Planet Ark' began in 2004, more than 2.9 million cartridges have been recycled. The business continued to support Mobile Muster resulting in more than 2,900 kilograms of waste being diverted from landfill during the course of the year.

Additionally, a Supplier Code of Conduct and a Responsible Forest Products Procurement Policy was rolled out to ensure ethical sourcing for our paper and timber products.

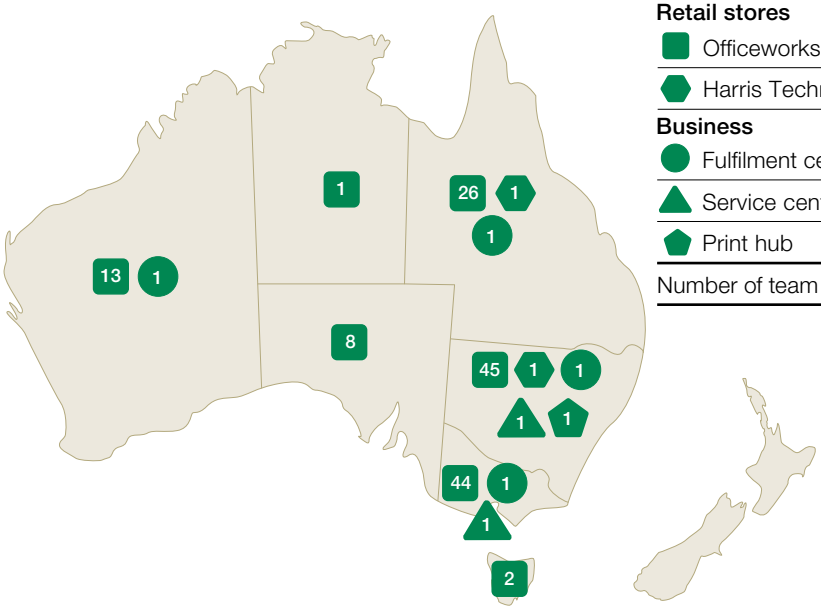
The lost time injury frequency rate for the period reduced from 12.17 to 10.81. The StaySafe program introduced in February 2009 operated in conjunction with the StayHealthy program to ensure that the health and wellbeing of Officeworks team members remained a priority.

Outlook

Officeworks' primary focus remains on driving good business performance through a range of initiatives. Investment to further enhance the customer offer while expanding and renewing the store network will continue, as will work to lower costs and remove operational complexity. Increasing business-to-business sales and investing online will remain high priorities. Underpinning all these strategic initiatives will be ongoing work to develop the Officeworks team.

The challenging outlook for sales and margins is expected to continue given the current economic and competitive landscape.

Business statistics



Officeworks

Retail stores

Officeworks	139
Harris Technology	2

Business

Fulfilment centres	4
Service centres	2
Print hub	1
Number of team members	6,018

Business websites

www.officeworks.com.au
www.ht.com.au

Target

Target's four-year transformation journey began with early success from communicating value to customers and improving the profitability of promotions.

Dene Rogers, Target Managing Director (right), with team member Gabbie King, Chadstone, Victoria

The business

Target is a mid-tier retailer, aimed at offering customers value through style, quality and an enhanced in-store and online experience.

Today, customers can shop at 301 stores nationwide and from the online store at **shop.target.com.au** and choose from 36,000 items. Target has a team of more than 22,000.

Key product ranges include ladieswear, intimate apparel, menswear, childrenswear and nursery, accessories and footwear, homewares, electrical, toys and other general merchandise.

Strategy

Target's vision is to become Australia's leading mid-tier retailer, with the goal that 'everything we do makes our customers feel good'. At the core of this vision is a commitment to offer customers a combination of style, quality and experience that combine to create a true definition of value.

This vision will be brought to life through:

- **Style** – product that represents the latest trends and contemporary fashions that are affordable
- **Quality** – durable, high-quality product that has been 'Target-tested' to ensure it represents superior quality to the deep discounters and comparable quality to high-priced department stores
- **Experience** – the in-store and online environment is a place where customers feel valued and inspired and receive a first class experience
- **Value** – with the right style, superior quality, and a first class in-store and online experience, customers will receive more value from Target than its competitors.

The business is transforming over a four-year period to enable the delivery of this better value definition for customers. The focus of this transformation is strengthening the mid-tier position, investing in online and the store network, increasing direct sourcing of merchandise, re-engineering the supply chain and building organisational capabilities.

Results

Operating revenue for Target decreased by 1.2 per cent to $3.7 billion, with a decline in comparable store sales for the full-year of 2.1 per cent[1]. Reported earnings before interest and tax (EBIT) were $244 million which includes a $40 million restructuring provision. EBIT, excluding the provision, was $284 million reflecting an EBIT margin of 7.6 per cent, up from 7.4 per cent last year.

Target's underlying profit was maintained through an improvement in margin, generated from a focus on the profitability of promotions and clearance activity.

Positive sales results were achieved in children's clothing, homewares, footwear and accessories, with customers responding positively to offerings in these areas.

Sales were also higher in toys and leisure, although this was largely due to the 2012 mid-year toy sale being brought forward into June from July. Trading was particularly challenging in consumer electronics with weak demand and price deflation continuing to affect sales in this category.

Promotional strategies, including the introduction of everyday low pricing on the Target Essentials range and better communication of value, continue to be key areas of focus as the business drives its mid-tier market positioning.

Inventory levels were well-controlled throughout the period and considerably lower, on average, than last year. This, combined with a higher gross margin, resulted in a pleasing improvement in net inventory days.

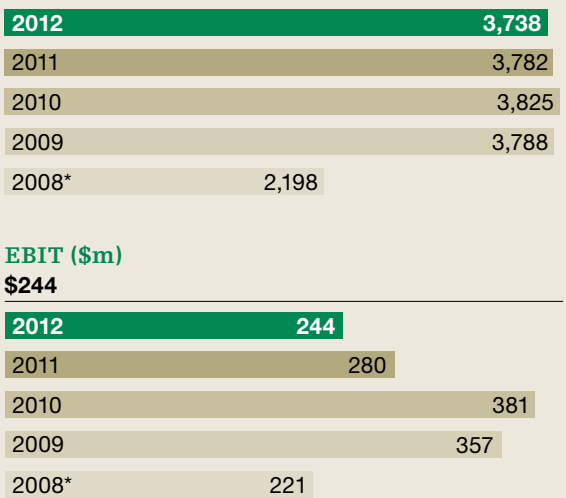
1 For the 52 weeks from 26 June 2011 to 23 June 2012.

Growth strategies

- Strengthen Target's mid-tier offer by redefining value perception from price-only to style, quality and experience, expanding the Target Essentials range and reducing unprofitable sales
- Continue to expand the products available online and improve functionality
- Maximise the benefit of direct sourcing
- Re-engineer the supply chain and supporting processes

Revenue ($m)

$3,738



EBIT ($m)

$244

Key financial indicators

For the year ended 30 June	2008*	2009	2010	2011	**2012**
Revenue ($m)	2,198	3,788	3,825	3,782	**3,738**
Earnings before interest and tax ($m)	221	357	381	280	**244**
Capital employed (R12) ($m)[1]	2,866	2,955	2,778	2,873	**2,911**
Return on capital employed (%)[1]	nm	12.1	13.7	9.7	**8.4**
Capital expenditure ($m)	60	91	91	95	**67**

* For the ownership period from 23 November 2007 to 30 June 2008.
1 The comparative figures have been restated to reflect the goodwill reallocation outlined in the notes to the financial statements.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

Target (continued)

Year in brief

Target commenced a four-year transformation journey to become Australia's leading mid-tier retailer, with a focus on resetting the value proposition to customers from price-only to the right style, superior quality and an enhanced in-store and online experience, at a low price.

Target Essentials launched during the year, consisting of products that customers use every day with Target's superior quality and at an everyday low price. The 'Target Tested' marketing program is intended to support and communicate the superior quality Target aims to offer customers.

Gross margin improvements were achieved following changes to clearance activity and a reduction in selling product below cost.

As well as improving the profitability of promotions, Target introduced events and services to reinforce value with customers, such as bra fitting, the denim jeans fit campaign and children's shoe fitting.

Customer insight capabilities were introduced into the business to put the customer at the heart of all decision making.

During the past year, 12 stores were opened including two replacement stores. At year end there were 179 Target stores, including three Urban by Target stores and one Target Outlet, and 122 Target Country stores.

Target online sales continued to grow after launching the site in the 2011 financial year. The number of items available for sale online increased from 6,000 to 36,000 between January and July 2012. Also, online functionality improved with click and collect launched for the June toy sale.

Business sustainability

Target remains committed to embedding sustainability into the business and creating a culture consistent with becoming a leader in sustainability.

In safety, store teams were engaged through an educational DVD to improve awareness of safe work practices, with Target's lost time injury frequency rate this year 7.99, compared to 6.96 in 2011.

Investment in the development of Target team members continued through the Future Leaders program, women's mentoring events and programs, and increased opportunities for Indigenous employment.

The business is fully committed to ethical sourcing and this year improved reporting processes and data management.

Target is committed to making a positive difference in the community through support of a range of national and local initiatives, such as a toy drop in support of SIDS and Kids Red Nose Day.

Reduction in energy consumption from air conditioning in stores continued with a progressive implementation of variable temperature settings that are linked to outside conditions and controlled fresh air levels. In addition, standards for automated controls for reduced lighting outside of trading hours were implemented and in selected stores power factor correction units were installed to improve energy efficiency.

Outlook

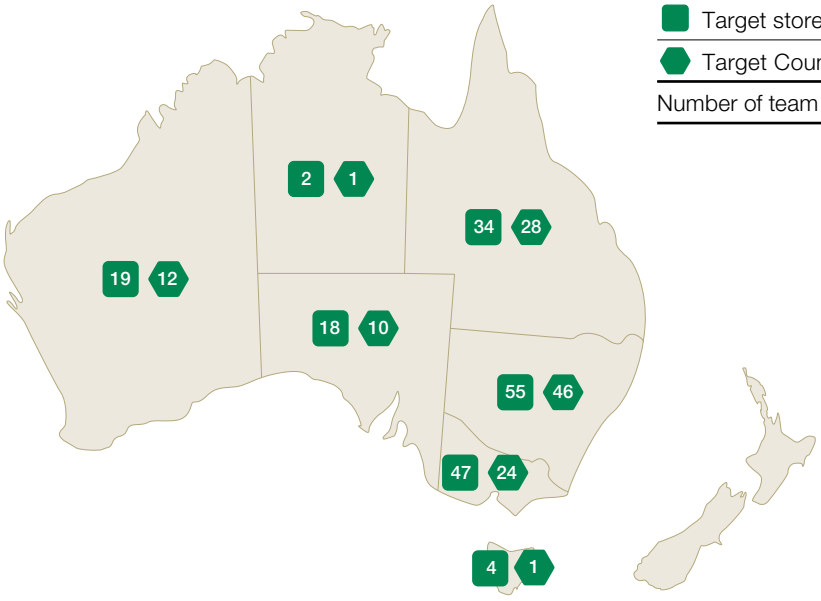
Improving the profitability of promotions and identifying new ways to offer value to customers will continue to be a focus. Target is committed to making the customer the first priority in decision making which will inform the transformation initiatives that will lead to a sustainable growth company.

The online store range and functionality will expand to 60,000 products in 12 months and new channels will be developed to improve reach and engagement with customers.

The business will continue to invest in systems to improve stock planning, supply chain and buying which will ultimately deliver a better in-store experience for customers.

The store network will continue to expand, with 10 new stores and four replacement stores to be completed in 2013.

Business statistics



Target

Target stores	179
Target Country	122
Number of team members	22,606

Business websites

www.target.com.au
shop.target.com.au

Kmart

Kmart achieved strong EBIT growth, with 10 consecutive quarters of growth in customer transactions and units sold.

Guy Russo, Kmart Managing Director (left), with Lauren Bottams, Store Manager, Richmond, Victoria

The business

Kmart is one of Australia's largest retailers with 185 stores throughout Australia and New Zealand, product sourcing offices in Hong Kong, China, Bangladesh and India, and more than 28,000 team members.

The Kmart team is committed to its customers and offers low prices on all products every day, right across its store network.

Kmart Tyre & Auto Service (KTAS) is one of Australia's largest retail automotive service, repair and tyre businesses, with a network of 260 stores. In addition, it is also one of Australia's largest employers of mechanics and apprentice mechanics, with more than 1,400 team members.

Strategy

Kmart continued to move away from high/low pricing, dropping prices to lead on lowest price, with a focus on continuing to adjust its operating model to ensure sales are coming from everyday items.

Customers were invited back to experience the 'new' Kmart, an invitation that received a very positive response. Kmart is now focused on improving the customer experience and the second phase of the strategy will aim to increase customer awareness about the extent of the low priced range.

The Kmart Australia Sourcing quality team is focused on quality and safety in a number of ways, including auditing the safety and technical capabilities of factories, through to sample approvals, laboratory testing and verification of finished products.

Results

Kmart's operating revenue for the year was $4.1 billion with underlying earnings before interest and tax of $266 million[1].

Comparable store sales[2] growth for the year was in line with last year's result.

Quarter four in 2012 represented the tenth consecutive quarter of growth in transactions and units sold, with strong growth achieved across all key categories.

Strong earnings growth of 32 per cent was achieved through improved product sourcing, better stock management and Kmart's everyday core range performing well.

Business sustainability

Kmart continues to improve its safety performance with the business recording a reduction in total recordable injury frequency rate (TRIFR) of 10 per cent, however, it had an increase in lost time injuries. A key highlight for the year has been a 52 per cent reduction in injuries across the supply chain and the Wiri Distribution Centre in New Zealand recording a TRIFR of zero.

During the year the business started a trial of energy saving initiatives at one Kmart store. Initial results are showing a reduction in energy use of more than 20 per cent, with the potential to introduce these initiatives to additional stores. Kmart's total carbon emissions for the year were 313,703 tonnes of CO_2e, up 0.7 per cent on the previous year.

Kmart also became a signatory to the FluroCycle program to divert used fluorescent tubes from landfill. Through this program, the business has diverted more than eight tonnes of used tubes from landfill and in total Kmart and KTAS sites recycled more than 75 per cent of the waste generated.

1 2012 result excludes $2 million earnings relating to Coles Group Asia overseas sourcing operations.

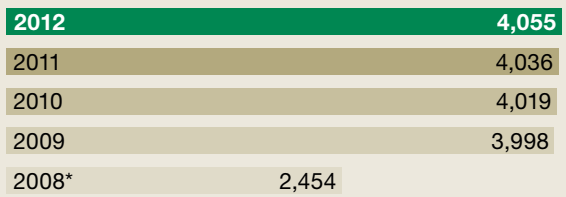
2 For the 52 weeks from 27 June 2011 to 24 June 2012.

Growth strategies

- Kmart is a low price retailer, committed to putting families first by striving to provide low prices on all products every day, right across its stores
- Customers are the number one focus, along with products, price, promotion, people, place (where we operate) and profit

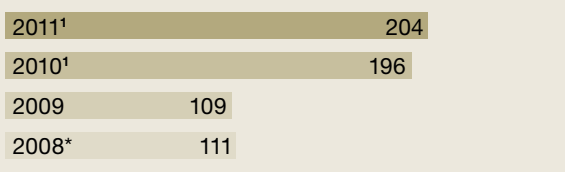
Revenue ($m)

$4,055



EBIT ($m)

$268



Key financial indicators

For the year ended 30 June	2008*	2009	2010	2011	**2012**
Revenue ($m)	2,454	3,998	4,019	4,036	**4,055**
Earnings before interest and tax ($m)[1]	111	109	196	204	**268**
Capital employed (R12) ($m)[2]	1,482	1,524	1,359	1,342	**1,423**
Return on capital employed (%)[2]	nm	7.2	14.4	15.2	**18.8**
Capital expenditure ($m)	41	63	79	101	**136**

* For the ownership period from 23 November 2007 to 30 June 2008.
1 2012 includes $2 million earnings related to Coles Group Asia overseas sourcing operations (2011: $3 million; 2010: $6 million).
2 The comparative figures have been restated to reflect the goodwill reallocation outlined in the notes to the financial statements.
nm = not meaningful given ownership period from 23 November 2007 to 30 June 2008.

Kmart (continued)

The Kmart Wishing Tree Appeal continues to be Australia's largest gift collection appeal and this year Kmart also partnered with Variety, the Children's Charity to support the 'Bikes4Kids' program. The business provided more than $1.42 million in direct support and $10.4 million in indirect support to the community throughout the year.

Outlook

Kmart will continue to lead on price and value, and as the business continues its turnaround, will seek to deliver the lowest prices to Australian and New Zealand families on items used every day.

This coming year there will be an increased focus on continuing to decrease costs and offer high volume, everyday merchandise at low prices without compromising on quality.

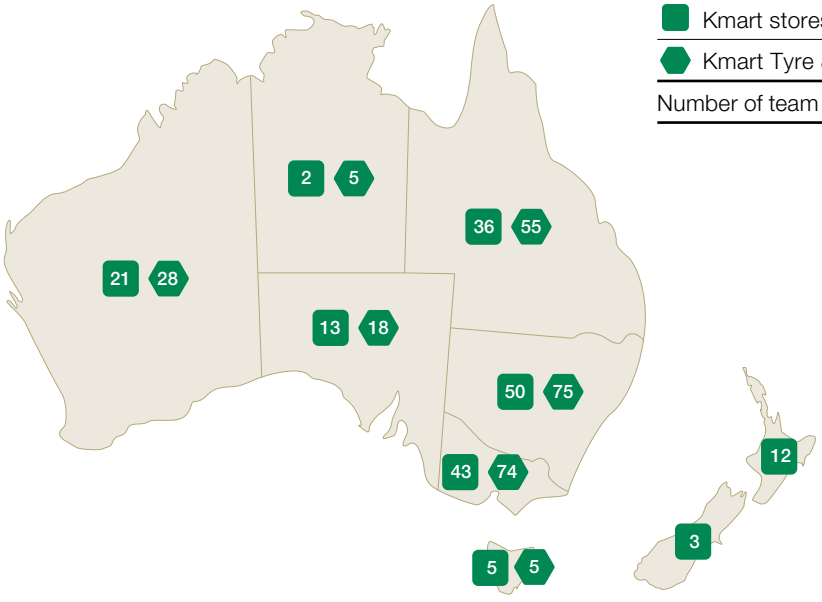
While customers have responded well to the 'new' Kmart, another important focus for the 2013 financial year is continuing to connect them with the Kmart low price and high value message.

Opportunity remains in sourcing at lowest cost, improving stock flow and product availability.

Seven new Kmart stores and seven new Kmart Tyre & Auto Service stores are planned to open in the 2013 financial year.

Participation in Kmart's ethical sourcing program has increased, with 580 factories engaged with the program during year, representing more than 70 per cent of the business' direct importer spend.

Business statistics



Kmart

Kmart stores	185
Kmart Tyre & Auto Service	260
Number of team members	29,680

Business websites

www.kmart.com.au
www.kmart.co.nz
www.ktas.com.au

Industrial and other businesses

Our industrial and insurance operations continue to provide growth opportunities around parts of Australia and New Zealand.

Insurance page 36

Resources page 40

Chemicals, Energy and Fertilisers page 44

Industrial and Safety page 48

Insurance

Wesfarmers Insurance delivered on rate increases, exposure management and made solid progress with efficiency initiatives that have set the business up for the year ahead.

Rob Scott, Insurance Managing Director (right), with Kirrilee Alexander, Strategy Manager, Wesfarmers Insurance, Sydney, New South Wales

The business

Wesfarmers Insurance provides insurance and risk management solutions to corporates, small-to-medium-sized businesses, not-for-profit organisations and individuals across Australia, New Zealand and the United Kingdom. The insurance underwriting operations include WFI, Affinity & Direct, Lumley Australia and Lumley New Zealand. The insurance broking operations include OAMPS Australia, OAMPS UK and Crombie Lockwood in New Zealand.

Strategy

The underwriting operations serve both direct and intermediary distribution channels. WFI distributes its insurance products and services directly to clients through a national network in rural and regional Australia, while the Australian and New Zealand Lumley operations focus on sales through brokers and other intermediaries with specialisation in fleet and commercial motor, property and liability, engineering and marine sectors. Wesfarmers Insurance also provides personal motor and home insurance through retailers and other intermediaries such as Coles, Kmart Tyre & Auto Service and OAMPS in Australia and Westpac in New Zealand.

The broking businesses operate throughout Australia, New Zealand and the United Kingdom and service all aspects of clients' insurance and risk management needs. OAMPS and Crombie Lockwood are recognised as leaders in their respective markets, particularly to small and medium-sized businesses and industry groups.

All activities are underpinned by the requirement to achieve satisfactory returns to shareholders in line with Wesfarmers' objective.

Results

Wesfarmers Insurance operating revenue of $1.9 billion increased by 10.1 per cent on the previous year. Earnings before interest, tax and amortisation (EBITA) declined to $17 million, compared with $30 million for the previous year. Earnings were significantly affected by a $108 million increase in reserves in Lumley New Zealand relating to the February 2011 Christchurch earthquake. Excluding the impact of the February 2011 earthquake, the division reported a significant increase in EBITA to $125 million from $30 million the previous year.

This increase was achieved despite higher reinsurance costs from 1 July 2011, catastrophe claims above allowances and the impact of lower government bond rates on reserves.

Broking operations generated strong growth in revenue and earnings with reported EBITA of $79 million, up 27.4 per cent on the prior year.

Gross earned premium from underwriting increased by 9.1 per cent. Strong premium rate increases were achieved in Australia (8.4 per cent) and New Zealand (10.9 per cent).

Reported combined operating ratio (COR) for underwriting was 111.2 per cent, with an underlying COR (excluding the 2011 Christchurch Earthquake and one-off items) of 96.0 per cent.

Year in brief

The February 2011 Christchurch earthquake has been the largest insured loss in the Southern Hemisphere and has resulted in a significant increase in claims estimates as a result of several factors including:

- an increase in domestic claims cost estimates following the completion of all scopes of work for residential rebuilds and repairs;
- higher reserve estimates for large commercial claims;
- changes in the scope of repairs required within specified land zones as a result of revised building foundation standards; and
- Earthquake Commission approach to reserving and claims settlement.

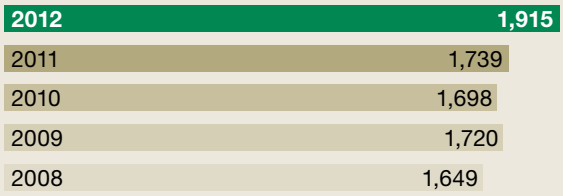
Higher reinsurance costs from 1 July 2011 adversely affected underwriting margins during the period. Despite this, however, underwriting operations in Australia and New Zealand achieved strong premium rate increases. Average rate increases achieved across the Australian portfolio were 8.4 per cent, with higher rates achieved in property and farm related classes. In New Zealand, average rate increases of 10.9 per cent were achieved following significant rate increases in earthquake and property classes.

Growth strategies

- Improve and grow underwriting margin
- Build personal lines and direct capabilities
- Sales growth in broking
- Engaged and productive people
- Leverage scale and capabilities

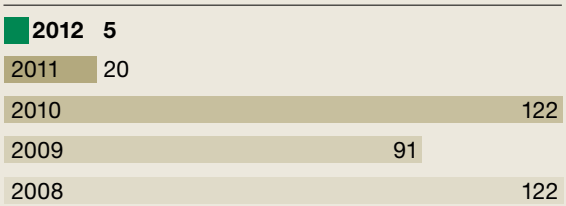
Revenue ($m)

$1,915



EBIT ($m)

$5



Key financial indicators

For the year ended 30 June	2008	2009	2010	**2011**	**2012**
Revenue ($m)	1,649	1,720	1,698	1,739	**1,915**
Earnings before interest and tax ($m)	122	91	122	20	**5**
Earnings before interest and tax and amortisation ($m)	135	103	131	30	**17**
Capital employed (R12) ($m)	1,146	1,337	1,343	1,260	**1,291**
Return on capital employed (%)	11.5	6.8	9.1	1.6	**0.4**
Capital expenditure ($m)	18	26	26	47	**47**

Insurance (continued)

The fall in government bond rates during the period resulted in unrealised losses due to an increase in insurance liabilities. These losses were offset by improvements in the underlying portfolio resulting from achieved rate increases and improved underwriting risk selection.

Modest growth in gross written premium was achieved during the year reflecting an increase in premium rates and strong growth in personal lines, rural and corporate business, offset by a targeted reduction in exposures in higher risk categories and geographies.

Strong customer response to the Coles Insurance offer resulted in more than 100,000 policies written during the period. Motor and home products continue to deliver conversion and retention rates ahead of expectations.

Further investment in information technology and efficiency initiatives in underwriting were undertaken in the period, including the implementation of a new policy administration system in New Zealand, the launch of our Partnered Repairer Network for motor claims and optimisation of claims and underwriting processes in Australia.

Broking delivered strong revenue and earnings growth, benefiting from recent bolt-on acquisitions, new business growth and a general hardening of premium rates in New Zealand and Australia.

Broking earnings were higher than the previous year, with EBITA increasing to $79 million, an increase of 27.4 per cent on the previous year. Four broking bolt-on acquisitions were completed during the year and the integration of the FMR and ACM Ahlers acquisitions in New Zealand is well advanced and these businesses are performing above expectations.

The business focused on several growth strategies and achieved important milestones this year, most notably:

- Launch of the Wesfarmers Insurance Charter, incorporating common values and supported by a performance and leadership framework
- Crombie Lockwood acquisition of the ACM Ahlers broking business in New Zealand
- Strong Coles Insurance growth with more than 100,000 policies written
- Australian motor and homes claims optimisation includes centralised motor lodgements and recoveries and common approach to assessing
- Rollout of Wesfarmers Insurance Partnered Repair Network

The Insurance division contributes to local communities through programs such as OAMPS Australia's National Charity Partnership with Make-A-Wish Australia.

Business sustainability

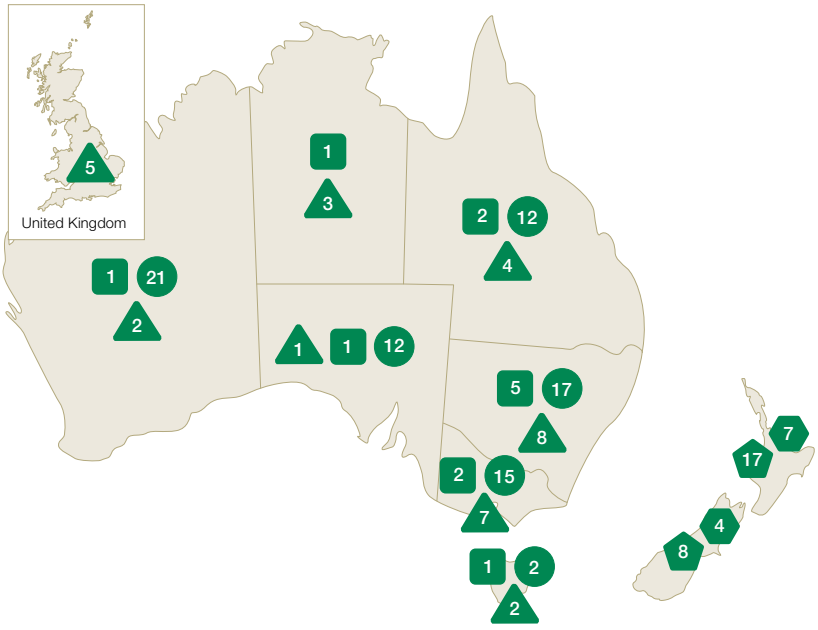
Business sustainability continues to depend on the skills, commitment and behaviour of employees. Maintaining a focus on attracting, retaining and developing the best industry talent and continuing to undertake key initiatives ensures the business keeps improving its organisational potential. An emphasis on the health and safety of employees is a central part of the business' sustainability strategy. A disappointing increase in the lost time injury frequency rate was recorded across the business this year. However, the aim remains to achieve zero workplace incidents.

During the last 12 months the business has continued to invest in leadership and culture, and improve management and governance processes, structures and policies to support growth and help ensure compliance with regulations. Strategy and risk oversight remain core functions of the leadership team. The responsiveness of teams to the record number of claims experienced from the recent natural disasters in Australia and New Zealand was a key focus over the past year. An investment in claims capabilities, underwriting processes and ongoing training and development is fundamental to supporting all customers. The Insurance division worked with the Insurance Council of Australia, and state and federal governments on a range of matters affecting the industry and the future of insurance in Australia.

Outlook

Underwriting earnings are expected to improve following solid premium rate increases, disciplined risk selection and cost efficiency initiatives. The reinsurance program for the next financial year was renewed, with modest increases on the prior year that are expected to be offset by higher premium rates. Broking operations will continue to pursue growth through targeted recruitment, bolt-on acquisitions and improvements in productivity. While further growth in earnings from broking operations is expected, a planned upgrade and new investment in broking systems is likely to adversely impact margin in the 2013 financial year. The division will continue to expand its personal lines business through partnerships with Coles Insurance and OAMPS.

Business statistics



Insurance

Lumley Insurance (Australia)	13
Lumley General New Zealand	11
WFI	79
OAMPS[1]	33
Crombie Lockwood	25
Number of team members	3,882

1 OAMPS New Caledonia location not shown.

Business websites

www.wesfarmersinsurance.com.au
www.wfi.com.au
www.lumley.com.au
www.lumley.co.nz
www.oamps.com.au
www.crombielockwood.co.nz
www.oamps.co.uk

Resources

Stronger first half export coal prices, plus increased production and sales volumes upon completion of mine expansion projects during the second half saw earnings increase 19.0 per cent on the previous year.

Stewart Butel, Resources Managing Director (left), with Chris Hobbs, Process Engineer, Curragh, Queensland

The business

Wesfarmers Resources is a significant Australian open-cut miner, with investments in two world-scale coalmines.

The division's operations comprise the Curragh mine in Queensland's Bowen Basin (metallurgical and steaming coal for export and domestic markets), and a 40 per cent interest in the Bengalla mine in the Hunter Valley of New South Wales (steaming coal for both export and domestic markets).

Strategy

Wesfarmers Resources' vision is to be a high performance resource company delivering shareholder value through initiative, innovation and growth.

The division seeks to achieve this on a sustainable basis through:

- excellence in mining operations and customer relationships
- the safety and development of our people
- making a positive contribution to the communities in which the division operates
- the pursuit of growth in shareholder value through expansion of existing mines
- subject to appropriate opportunities, expansion of the division's portfolio through acquisition of additional mines and/or development of greenfields projects.

Results

Revenue of $2.1 billion for the year was 19.9 per cent above the $1.8 billion recorded in the preceding year. Earnings before interest and tax of $439 million were 19.0 per cent higher than the $369 million earned last year.

Strong export prices in the first half and, in the second half, higher production and sales from both the Curragh and Bengalla mines as mine expansions were completed were major factors in the improved result. Additionally, Curragh's mine cash costs were significantly improved in the second half.

Curragh's Stanwell royalty (paid to the Queensland Government-owned Stanwell Corporation) was $219 million (up 93.8 per cent). Additionally, the division paid ordinary government royalties in Queensland, New South Wales and Western Australia totalling $149 million (up 28.4 per cent) for the year.

Year in brief

Curragh (Qld): Total production of 10.1 million tonnes (7.2 million tonnes of metallurgical coal and 2.9 million tonnes of steaming coal) was up 28.6 per cent on last year, assisted by completion of a Curragh expansion to 8.0-8.5 million tonnes per annum coal export capacity in the final quarter. Coal sales volumes were closely aligned to production volumes and were 27.8 per cent above the sales volumes achieved last year. Earnings were higher than the previous year, reflecting a combination of stronger first half prices, stronger second half volumes and lower second half cash costs.

Bengalla (NSW): (Wesfarmers' 40 per cent share): Production of 2.3 million tonnes was in line with last year. Sales volumes of 2.4 million tonnes were down 2.2 per cent on last year. Earnings were down slightly on the previous year, affected by both lower coal production during commissioning of the Coal Handling and Preparation Plant upgrade and lower prices for export steaming coal.

The Premier Coal mine near Collie, Western Australia, was divested on 30 December 2011 for a profit-on-sale of $98 million, not included in operating results.

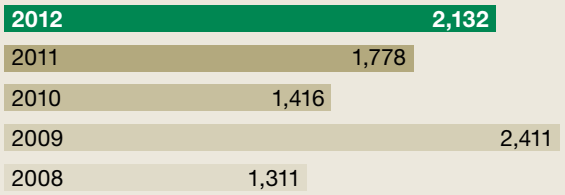
Growth strategies

- **Mine expansions:**
  Curragh: A decision was taken in November 2009 to invest $286 million to expand the Curragh mine to 8.0-8.5 million tonnes annual export capacity, and practical completion was achieved in the fourth quarter of financial year 2012 within budget. A feasibility study with respect to a further expansion of Curragh to 10 million tonnes annual export capacity is continuing

  Bengalla: A decision was taken in November 2010 to invest $56 million (Wesfarmers' 40 per cent share) in an expansion of the Bengalla mine to 9.3 million tonnes (100 per cent basis) annual Run of Mine capacity (7.5 million tonnes annual production). That expansion was also completed within budget during the year. A feasibility study for further expansion of Bengalla to 10.7 million tonnes Run of Mine capacity is underway
- **Business optimisation:** Continuous improvement of operations including safety, sustainable cost control and marketing for global competitiveness
- **Increase export sales:** Maximise metallurgical coal export sales from the Curragh mine through efficiencies and market growth
- **Portfolio growth:** Evaluation of acquisitions and other 'step-out' opportunities – as an established large-scale Australian open-cut miner, this includes coal, other carbon-steel raw materials and energy

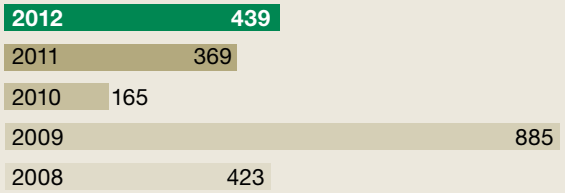
Revenue ($m)

$2,132



EBIT ($m)

$439



Key financial indicators

For the year ended 30 June	2008	2009	2010	**2011**	**2012**
Revenue ($m)	1,311	2,411	1,416	1,778	**2,132**
Earnings before interest and tax ($m)	423	885	165	369	**439**
Capital employed (R12) ($m)	984	1,075	1,146	1,293	**1,488**
Return on capital employed (%)	43.0	82.4	14.4	28.5	**29.5**
Capital expenditure ($m)	146	252	228	372	**392**

Resources divested the Premier Coal business in December 2011. Gains on disposal of this entity is excluded from the divisional results and reported as non-trading items as part of 'other' earnings within the Group's results.

Business sustainability

Throughout the 2012 financial year, action was taken at Wesfarmers Resources locations to improve the efficiency of mining processes, to develop employee capability, to support local communities, to grow the business through expansion plans and to reduce the business' environmental footprint.

At the heart of Wesfarmers Resources sustainability strategy is the safety and wellbeing of employees.

A focus for the year was on consolidating and improving upon the safety performance achieved in the previous year. Importantly, the total recordable injury frequency rate was reduced from 30.80 to 18.75, a decrease of 39.1 per cent. While this year's performance was positive, our aim remains to achieve zero workplace incidents. Lost time injury frequency rate increased marginally from 1.28 to 1.71.

During the year, the division implemented a 'Women in Resources' program and continued to progress an Aboriginal and Torres Strait Islander Employment Strategy. A new community program with a focus on community health was also initiated, water management at Curragh was improved, and the business prepared for the introduction of the Clean Energy Future legislative package.

Curragh continued to support numerous community-based organisations such as cultural and sporting associations, clubs, festivals and schools to help develop strong, vibrant and healthy communities in which it operates.

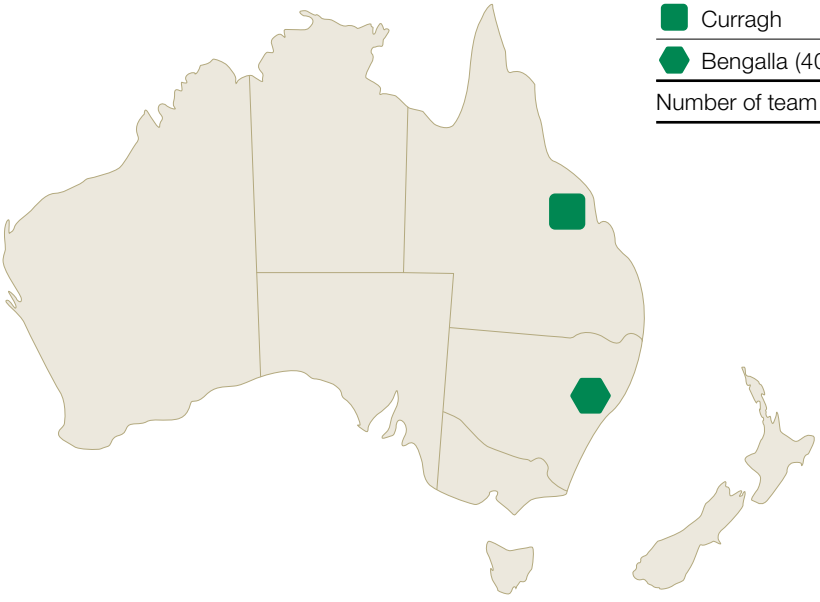
Outlook

Increased production and export sales volumes are expected from both the Curragh and Bengalla mines for the 2013 financial year. Curragh's metallurgical export sales are forecast to be in the range of 8.0-8.5 million tonnes, subject to mine operating performance and infrastructure constraints.

While the September 2012 quarter coal price outcomes were generally pleasing, recent softening in steel production and lower export coal spot prices, together with a high Australian dollar, provide for a less favourable short-term outlook.

Curragh continued its partnership with the University of Queensland to monitor the mine's rehabilitation areas.

Business statistics



Resources

Curragh	
Bengalla (40%)	
Number of team members	658

Business websites

www.wesresources.com.au
www.curragh.com.au

Chemicals, Energy and Fertilisers

The division reported a strong result for the year and commenced construction of its ammonium nitrate expansion in Western Australia.

Tom O'Leary, Chemicals, Energy and Fertilisers Managing Director (right), with Michael Rodriguez, AN3 Engineering Manager, CSBP, Western Australia

The business

The activities of Wesfarmers Chemicals, Energy & Fertilisers include the manufacture and marketing of chemicals for mining, minerals processing and industrial sectors through CSBP, Australian Gold Reagents (75 per cent owned), Queensland Nitrates (50 per cent owned) and Australian Vinyls. The division also produces, markets and distributes liquefied petroleum gas (LPG) and liquefied natural gas (LNG) through its Kleenheat Gas business. The division also imports, manufactures and markets broadacre and horticultural fertilisers through CSBP and manufactures, markets and distributes industrial, medical and specialty gases through Air Liquide WA (40 per cent owned).

Strategy

Develop a portfolio of successful and innovative industrial businesses that deliver satisfactory shareholder returns and continually strengthen our reputation for the management of health, safety and the environment.

Results

Operating revenue of $1.8 billion was 8.8 per cent higher than last year, largely as a result of increased sales in both the chemicals and fertiliser businesses.

Earnings before interest and tax were $258 million, including a one-off positive earnings impact of $9 million from the termination of the HIsmelt industrial gas supply agreement in February 2012. This compared to earnings from the previous year of $283 million, which included $42 million from the finalisation of the Varanus Island gas disruption insurance claims.

During the year, the division divested the enGen business in August 2011 and the Bangladesh LPG joint venture in January 2012, with a corresponding loss of operating earnings. The gains on disposal for these transactions of $43 million and $9 million respectively have been reported as non-trading items as part of 'Other' earnings within the Group's result.

Year in brief

Ammonium nitrate expansion

In December 2011, the Wesfarmers Limited Board approved a $550 million (excluding capitalised interest) expansion of ammonium nitrate production capacity at Kwinana, in Western Australia. The expansion will increase the current production capacity by 260,000 tonnes per annum (tpa) to 780,000 tpa. Earthworks for the expansion are now complete, with civil works and on-site construction of the nitric acid tank underway. Offsite fabrication of piping and structural steel is also progressing well. Delivery of long lead items ordered in June 2011 is on schedule, with the boiler due to be received in Kwinana in October 2012.

Chemicals

Excluding the impact of Varanus Island insurance proceeds, earnings from the chemicals businesses were ahead of last year.

Good production performances and strong product pricing in ammonia, ammonium nitrate and sodium cyanide resulted in a pleasing earnings uplift for these businesses. As anticipated, earnings from the Queensland Nitrates joint venture were below the previous year due to a three-yearly plant shutdown. Australian Vinyls had a challenging year, with higher PVC input costs relative to selling prices and a strong Australian dollar.

Kleenheat Gas

Excluding the impact of Varanus Island insurance proceeds, Kleenheat Gas earnings were significantly below the previous year, following anticipated declines in LPG production economics. LPG production for the year was 150,075 tonnes, 7.2 per cent lower than last year because of further declines in LPG content in the Dampier to Bunbury natural gas pipeline.

LNG business performance improved on the previous corresponding period.

Fertilisers

Fertiliser earnings were higher than last year supported by a strong 10.2 per cent increase in sales volumes following good seasonal conditions.

Air Liquide WA (40 per cent)

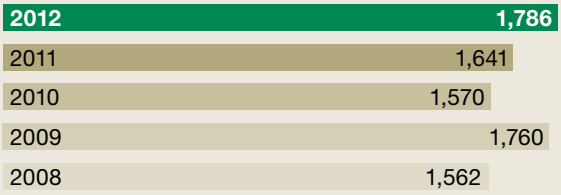
Earnings were ahead of the previous year.

Growth strategies

- Invest in the businesses' capacity to meet the needs of customers
- Execute opportunities for growth in existing and new markets, including progressing the proposed ammonium nitrate expansion
- Foster a culture that recognises that people are central to success
- Focus on sustainable operations for the benefit of our team members, customers and communities in which we operate

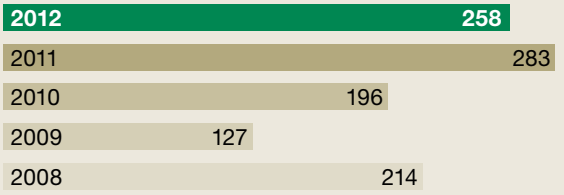
Revenue ($m)

$1,786



EBIT ($m)

$258



Key financial indicators

For the year ended 30 June	2008[1]	2009[1]	2010[2]	2011[3]	**2012[4]**
Revenue ($m)	1,562	1,760	1,570	1,641	**1,786**
Earnings before interest and tax ($m)	214	127	196	283	**258**
Capital employed ($m)	1,728	2,022	1,371	1,298	**1,282**
Return on capital employed (%)	12.4	6.3	14.3	21.8	**20.1**
Capital expenditure ($m)	370	84	49	63	**167[5]**

1 2007 to 2009 combines the results of the Energy (which included Coregas) and the Chemicals and Fertilisers divisions.
2 In July 2010, the Energy, and Chemicals and Fertilisers divisions merged to form WesCEF, and Coregas (formerly part of the Energy division) was transferred to the Industrial and Safety division. The 2010 figures have been restated to reflect WesCEF's post-merger operating structure.
3 2011 includes $42 million Varanus Island insurance proceeds.
4 WesCEF divested the enGen business in August 2011 and the Bangladesh LPG joint venture in January 2012. Gains on disposal of both entities are excluded from the divisional results and reported as non-trading items as part of 'Other' earnings within the Group's result.
5 Excluding capitalised interest.

The division also provided support to a range of community organisations, signed new partnerships with Youth Focus and the Clontarf Foundation, and continued support of the Salvation Army, and the Asthma Foundation WA.

Business sustainability

The division continued its focus on the sustainable operation of its businesses for the benefit of its people, customers and the communities in which it operates. As at 30 June 2012, it employed 1,439 people, excluding contractors but including casuals.

The division remains committed to the safe operation of its facilities in a way that minimises any adverse impact. Notwithstanding continued investment and efforts in this area, the business experienced an increase in total recordable injuries from 55 in 2010/11 to 58 in 2011/12. The total recordable injury frequency rate also increased from 15.8 in 2010/11 to 16.3 this year. The division continues to work to improve workplace safety.

In the 2012 financial year, there were 22 reportable environmental events, an increase of six on last year.

CSBP continued to trial nitrous oxide reduction technology in its nitric acid plants at Kwinana, Western Australia, to help reduce greenhouse gas emissions. Catalysts have been installed in both nitric acid plants and both have achieved an emissions improvement of more than 80 per cent nitrous oxide abatement.

In late 2009, the division announced an investment of almost $5 million in a regenerative thermal oxidiser (RTO) to allow diversification of phosphate rock supply options. Following operational testing and trials of various blends of odorous phosphate rock, the RTO was commissioned this year. Phosphate rock from Western Sahara is not part of the import program for the coming production year.

Outlook

The ammonium nitrate expansion project remains on track to be operational during the first half of the 2014 calendar year.

Detailed engineering is underway for a potential sodium cyanide debottlenecking to deliver up to 20 per cent production expansion, and is expected to be completed in the coming months. Funding approval for approximately $15 million is to be sought in the first half of the 2013 financial year.

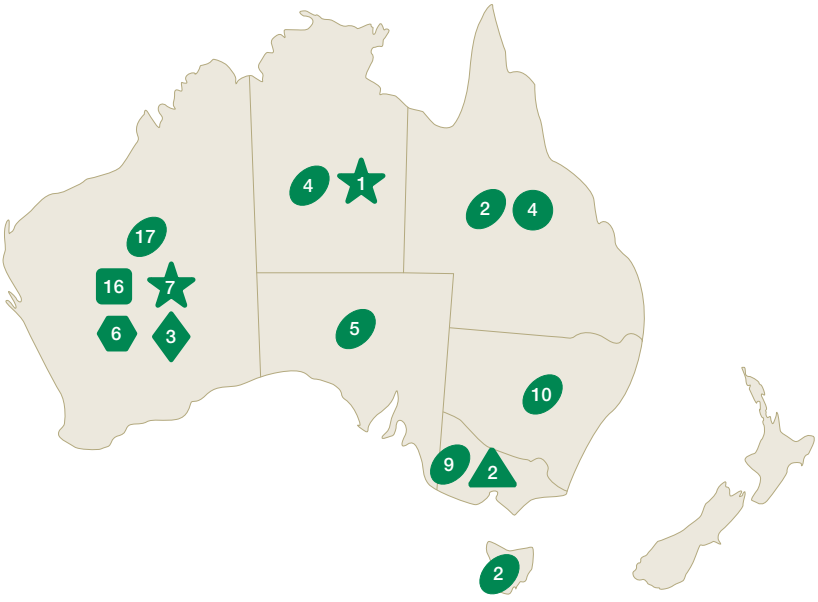
Strong demand for ammonia, ammonium nitrate and sodium cyanide is expected to continue. Ammonia earnings will become increasingly dependent on international ammonia pricing as the business transitions to import parity pricing. Planned shutdowns of one of the two nitric acid/ammonium nitrate plants, the ammonium nitrate prill plant and the sodium cyanide plant during the 2013 financial year will affect earnings in the period.

Continued pressure on margins at Australian Vinyls is expected until the relativity between its raw material costs and PVC pricing returns to more typical levels. A continuation of the strong Australian dollar will place further pressure on margins.

Kleenheat Gas' LPG earnings continue to be dependent on international LPG prices and LPG content in the Dampier to Bunbury natural gas pipeline, with both drivers of performance remaining challenging.

The fertiliser business has experienced solid sales volumes in the initial weeks of the 2013 financial year; however, full-year earnings remain dependent upon a good seasonal break in the second half of the financial year and farmers' terms of trade.

Business statistics



Chemicals, Energy and Fertilisers

CSBP fertilisers	16
CSBP chemicals	6
AGR (75%)	3
Australian Vinyls	2
QNP (50%)	4
ALWA (40%)	8
Kleenheat Gas	49
Number of team members	1,439

Business websites

www.wescef.com.au
www.csbp.com.au
www.av.com.au
www.modwood.com.au
www.airliquidewa.com.au
www.kleenheat.com.au

Industrial and Safety

Strong sales and earnings momentum supported by strong delivery performance and customer service.

Olivier Chretien, Industrial and Safety Managing Director (left), with team member Chantelle Sauer

The business

Wesfarmers Industrial and Safety is the leading provider of industrial and safety products and services in Australia and New Zealand. It services customers across mining, oil and gas, construction and infrastructure, retail, manufacturing, health and government.

The division comprises nine businesses, including Blackwoods, the leading industrial supplier in Australia with an extensive national network and broad product range. Protector Alsafe, Bullivants and Total Fasteners complement Blackwoods with specialist market offers. Coregas provides an industrial, medical and specialty gases offering in Australia. In New Zealand, Blackwoods Protector's generalist offer is complemented by three specialists: NZ Safety; Packaging House; and Safety Source.

The division operates from a network of 217 industrial and safety locations and 135 gas distribution points. The network is supported by large distribution centres, hundreds of external and internal sales resources, as well as eBusiness, websites and telesales channels.

Strategy

The businesses in the division support a diverse range of customer needs by providing security of supply of the broadest range of products, with strong delivery performance and customer service. They deliver cost efficiency through local and global procurement, supply chain and eBusiness solutions, as well as critical value-add services such as Vendor Managed Inventory, testing of lifting and rigging equipment, gas detection and occupational health and safety accredited training.

The division's increased customer-centric focus will further strengthen its relationships with large customers by enhancing sales force effectiveness, broadening product range, expanding network capacity and continuously improving delivery performance. Key priorities for the division include the expansion into higher growth sectors and the diversification of the revenue base, as well as complementing organic growth through value-creating acquisitions.

Lowering the cost of doing business for our customers and our own businesses is a focus for the division as is improving the use of working capital or implementing process enhancements.

The division is committed to safety, sustainability, community support and continued investment in its people.

Results

The division delivered a strong result in the year, reflecting solid market conditions and a strong competitive position. The division benefited from activity in the resources sector, major project activity and continued improvements in business operations. Operating revenue increased by 8.5 per cent to $1.7 billion.

Earnings before interest and tax increased by 14.5 per cent to $190 million. The earnings result was supported by strong sales growth and increasing operational efficiencies helping to offset competitive margin pressures.

The rolling 12 month return on capital of 16.0 per cent improved from 13.1 per cent last year.

During the year, as a result of changes in the operations of BlueScope Steel and an associated review of the Coregas business, a non-cash writedown in the carrying value of Coregas of $181 million was taken. This adjustment has been excluded from the division's earnings result and contributed a 1.3 percentage point improvement to return on capital.

Year in brief

Overall the division continued increasing its share of spend from key customers (especially in the resources and engineering construction sectors), as well as expanding and diversifying its customer base.

Strong sales growth was supported by high service levels and further investments in key account and contract management capabilities.

Sales growth was achieved in most business segments, with strong results delivered by Blackwoods, Protector Alsafe and Bullivants. Good results were also achieved in the New Zealand businesses.

Coregas' results were affected by the renegotiation of the BlueScope Steel agreement. Increasingly Coregas is benefiting from collaboration with other businesses in the division, which should assist future growth.

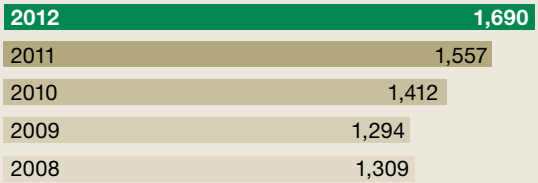
The division upgraded a number of its business websites and continued investing in its eBusiness capability, increasing the proportion of customer transactions through this channel.

Growth strategies

- Growing share of customer spend by focusing on customer needs and expanding range, services and footprint
- Addressing resourcing challenges by investing in people and broadening the talent pool
- Enabling future growth by moving to a more customer-centric organisation
- Continuing to improve portfolio performance and deliver efficiency improvement (including supply chain and technology improvements)
- Developing new growth platforms by targeting new industries, customer segments, geographies, services and business models, including acquisition opportunities

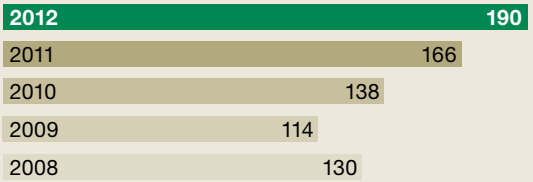
Revenue ($m)

$1,690



EBIT ($m)

$190



Key financial indicators

For the year ended 30 June	2008[1]	2009[1]	2010[2]	2011	**2012**
Revenue ($m)	1,309	1,294	1,412	1,557	**1,690**
Earnings before interest and tax ($m)	130	114	138	166	**190**
Capital employed (R12) ($m)	775	808	1,312	1,272	**1,187**
Return on capital employed (%)	16.8	14.1	10.5	13.1	**16.0**
Capital expenditure ($m)	20	25	29	32	**49**

1 2008 to 2009 excludes the results of Coregas (formerly part of the Energy division).
2 2010 has been restated to reflect the current divisional structure.

The division also enhanced its strong supplier relationships with leading industrial brands which, when combined with its range of value brands and global sourcing capabilities, enabled the businesses to meet customers' needs and to bring new product ranges to the market. Blackwoods and a number of other businesses launched new catalogues this year.

Blackwoods opened its first overseas branch in Indonesia, leveraging the division's international supply chain capability.

Supply chain improvements also resulted from technology investments and ongoing upgrades to the branch networks.

An ongoing focus on operational efficiency delivered cost and capital management improvements, contributing to improved returns.

Business sustainability

Safety continues to be a major focus and a number of safety initiatives have been implemented during the year that are expected to deliver further improvements over coming years.

Progress has been made on energy, packaging and waste management efficiency initiatives, while new sustainable product range solutions for customers have been introduced.

The division's efforts in attracting, retaining and developing quality employees remain a priority and during the year significant new recruitment and training programs have been implemented.

Outlook

The outlook remains positive and the division is well-placed to seize growth opportunities and leverage operational improvements implemented over recent years.

Continued sales growth is expected by enhancing the division's customer-centric focus, increasing share of customers' spend, accelerating services development and further diversifying the customer base. Over the next year, the division will continue to invest in productivity and efficiency improvements, while maintaining expense and capital management disciplines. The division will also develop new growth platforms and continue to target acquisition opportunities to complement organic growth.

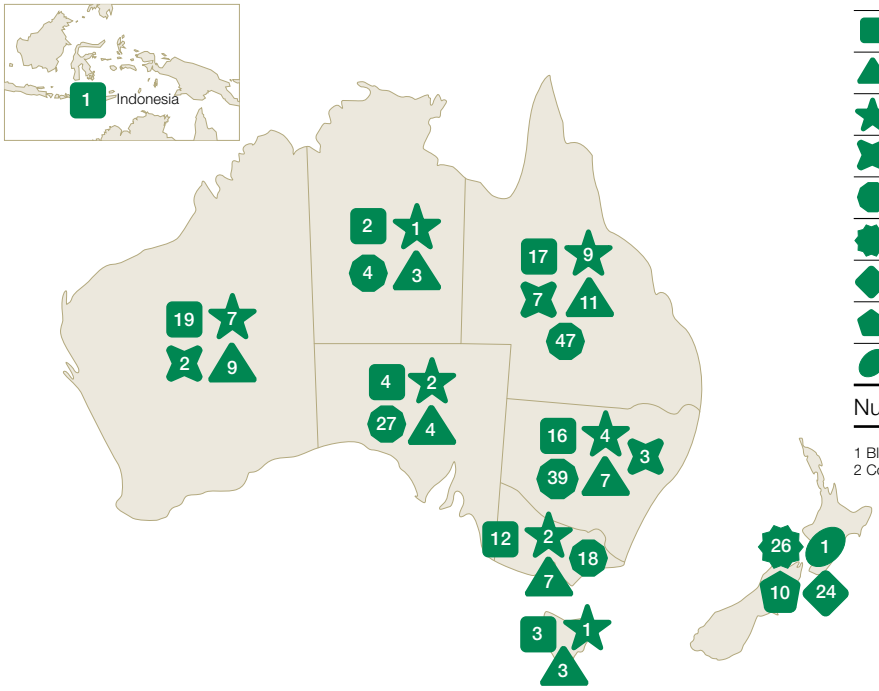
Possible risks for the division over the next 12 months include the uncertainty in the global outlook, a potential slow-down and deferral of major resource projects, competitive margin pressures, as well as ongoing labour access and costs challenges, especially in resource-related areas.

Particular efforts to continue to increase diversity in the workplace were focused on gender diversity and the development of programs in support of the division's Aboriginal strategy. Blackwoods' support of the Fred Hollows Foundation's Indigenous health program continued during the period.

Business websites

www.blackwoods.com.au
www.protectoralsafe.com.au
www.coregas.com
www.bullivants.com
www.totalfasteners.com.au
www.blackwoodsprotector.co.nz
www.nzsafety.co.nz
www.packaginghouse.co.nz
www.safetysource.co.nz

Business statistics



Industrial and Safety

Blackwoods[1]	74
Protector Alsafe	44
Bullivants	26
Total Fasteners	12
Coregas[2]	135
Blackwoods Protector (NZ)	26
NZ Safety	24
Packaging House (NZ)	10
Safety Source (NZ)	1
Number of team members	3,666

1 Blackwoods includes Bakers and Migomag.
2 Coregas includes eight owned branches and 127 distribution points.

Other activities

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

Gresham Partners

Wesfarmers has a 50 per cent shareholding in Gresham Partners Group Limited, the holding company for the Gresham Partners investment banking operations. Gresham is a leading independent investment house focused primarily on the provision of financial advisory services, structured finance, and property and private equity funds management.

In addition, Wesfarmers is a participant in the Gresham Private Equity wholesale investment funds with underlying investments in mining services, retail, logistics and other specialist sectors.

During the 2012 financial year, Wesfarmers' investment in Gresham Private Equity Funds recorded a loss of $55 million due to downward non-cash revaluations following a difficult year for some of the funds' trading businesses and generally lower industry valuation multiples.

Gresham participated in a number of significant corporate advisory transactions during the year, 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 funds with total capital commitments of more than $227 million, continued to support a range of projects primarily in New South Wales, Victoria and Queensland.

Wespine Industries

The 50 per cent-owned Wespine Industries, which operates a plantation softwood sawmill in Dardanup in Western Australia, contributed earnings of $5 million after tax, a 28.6 per cent decrease on last year. Sales volume in the second half were constrained by weak Western Australian house construction activity, combined with continued import competition driven by the strong Australian dollar and a global softwood timber supply surplus. An improved safety performance was achieved during the year with no lost time injuries and a 35 per cent reduction in the number of total recordable injuries. Wespine is targeting a further reduction in total recordable injuries in the coming year.

The local housing market is forecast to improve during the coming year, but with continued import competition and subdued housing construction in overseas markets, is expected to see a continuation of the challenging market conditions.

BWP Trust

Wesfarmers' investment in BWP Trust contributed earnings of $16 million, compared to $19 million recorded 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, 23.5 per cent of the total units issued by the Trust.

During the 2012 financial year, the Trust completed the acquisition of three new Bunnings Warehouses, and construction of two new Bunnings Warehouses on existing development sites. The Trust also sold the Bunnings Warehouse at Hoppers Crossing in Victoria, realising a capital profit of $6.2 million, which was distributed to unit holders via a special distribution.

The Trust's current portfolio consists of a total of 72 properties: 62 established Bunnings Warehouses; four Bunnings Warehouses with other showrooms; one Bunnings distribution centre; one development site for a Bunnings Warehouse; three office/warehouse industrial properties; and one retail/bulky goods showrooms complex.

Sustainability

Sustainability is integral to how we do business, and we continue to strive for innovative and efficient approaches to improve our social, environmental and economic performance.

Coles Online is trialling hybrid vans in Burwood, New South Wales, with a view to a national transport solution that reduces fuel consumption and carbon emissions for home deliveries

Wesfarmers' sustainability priorities

As one of Australia and New Zealand's largest companies, with a diverse portfolio of businesses, Wesfarmers has a significant responsibility to get its sustainability efforts right. This is a responsibility not only towards its employees and shareholders, but also its customers, suppliers, communities and environment. Wesfarmers has long recognised the value of sustainable business practices, and this is the fifteenth year it has reported on a number of key outcomes and performance metrics. This year's report will be available in November.

Wesfarmers has five sustainable business strategies which focus on:

- the importance of people
- carbon emissions reduction and energy management
- community partnerships and investment
- a reduced overall environmental footprint
- a strong economic contribution.

The importance of people

With more than 200,000 employees, Wesfarmers is committed to continually improving the development and retention of its people. Wesfarmers' employees are crucial to the success of the organisation, and there are a number of overarching principles and practices across the Group, in addition to the many programs happening within the businesses.

This included more than 2.2 million hours invested in training and development across the Group in 2011/12.

Wesfarmers' commitment to the safety of its employees, customers and visitors is absolute and the organisation has a number of systems in place to focus on, and drive, safety performance. The Group's lost time injury frequency rate was 10.90 compared to 12.78 in the previous year, and the total recordable injury frequency rate was 42.67 compared to 40.94 in 2011. Safety will continue to be prioritised across all of the businesses.

Diversity

A diverse workforce is of significant social and commercial value and Wesfarmers recognises the importance of being an inclusive employer.

The Wesfarmers Diversity Policy outlines four core objectives which are used to measure performance in this area:

- **Foster an inclusive culture** – Wesfarmers divisions undertake different initiatives and practices based on the needs of their business, such as flexible work practices at senior levels and paid parental leave.

  Specific targets are linked to senior executive key performance objectives under the annual incentive plan.

- **Improve talent management** – at least once a year, the Group Managing Director meets with each division to review: senior leader performance and development; succession plans for critical roles; and the pipeline of high-potential leaders.

  During the 2012 financial year, talent reviews were conducted with all divisions for senior manager level staff and above and included 138 women. This is in addition to detailed talent reviews conducted with employees by individual businesses within the Wesfarmers Group. Throughout the Group, all high-potential leaders benefit from an array of development opportunities such as internal and external development programs, stretch assignments, action learning projects, coaching, mentoring and 360-degree feedback.

- **Enhance recruitment practices** – in 2012, 37 per cent of externally recruited positions and 30 per cent of internal promotions (all manager level and above roles) were filled by women.

- **Ensure pay equity** – a pay audit is conducted annually on a Group basis (which includes a review of gender pay equity). Results are reviewed by the Board and divisional Managing Directors. In addition, a pay equity review of all Wesfarmers divisions was undertaken during the year, in line with previous years, which did not indicate any observable discrepancies in pay across each level, after taking into account performance, experience, location and job nature.

Details of female representation across the Group are set out below:

Percentage of female employees	30 June 2011	**30 June 2012**
Wesfarmers Ltd non-executive directors	25%	**25%**
Senior executive positions (general manager or above)	22%	**21%**
All management and professional roles	26%	**28%**
Total workforce	57%	**57%**

Further details on the Diversity Policy are set out on page 62 of this annual report.

In 2009 Wesfarmers prepared and committed to its first Reconciliation Action Plan (RAP). Wesfarmers' long-term objective is to have a workforce that reflects the representation of Aboriginal people in the broader community. Each division now has its own plan and programs to ensure that Aboriginal people feel welcomed in our businesses as customers, team members and citizens. The 2012 RAP review and 2013 plan will be available in November.

Carbon emissions reduction and energy management

On 1 July 2012 the federal government's Clean Energy Future legislation became law in Australia. Wesfarmers has a clear focus not only on legal compliance but, through strong investment in energy efficiency and emission abatement, is seeking to reduce its emission intensity as its businesses grow, including reducing absolute emissions where possible.

Through investment in new technologies and systems, Wesfarmers' businesses are focused on improving environmental outcomes with a commercial focus.

Many energy efficiency initiatives throughout the Group are starting to become evident in reducing the organisation's base carbon footprint. In 2011/12 direct (Scope 1) and indirect (Scope 2) emissions reduced by two per cent to 4,896,847 tonnes carbon dioxide equivalent compared to last year (excluding the businesses sold during 2011). This reduction was largely the result of energy efficiency initiatives in the businesses, offset to an extent by business growth, and emission abatement activities where feasible.

Wesfarmers submitted its fourth report under the *Energy Efficiency Opportunities Act 2006* (EEO) in December 2011 and our third report under the *National Greenhouse and Energy Reporting Act 2007* in October 2011.

Community partnerships and investment

Wesfarmers has long held the belief that to have a healthy business, you must have strong vibrant communities in which to live and work. One aspect of contributing positively to local communities is through community partnerships and investments.

In addition to each division's programs and initiatives, Wesfarmers has a number of key partnerships across the arts, Indigenous development, medical research and education in Australia and New Zealand.

In 2011/12 our total community contributions, including direct (cash and product) and indirect (facilitating contributions by customers and others) contributions, exceeded $70 million in Australia and New Zealand.

A strong economic contribution

Wesfarmers seeks to maximise its contribution to the economy through long-term growth that increases overall economic activity and its capacity to generate additional direct and indirect employment. In 2011/12, Wesfarmers paid $7,156 million in salaries, wages and other benefits to employees.

Through the taxes it pays, the company plays its part in enabling governments to invest in better development-focused infrastructure, health, education and other valuable community services. In 2011/12, Wesfarmers paid $1,499 million in taxes and royalties to government.

By providing dividends ($1,909 million in 2011/12) and other investment returns to shareholders, Wesfarmers contributes to individual wealth generation and to a more prosperous general community.

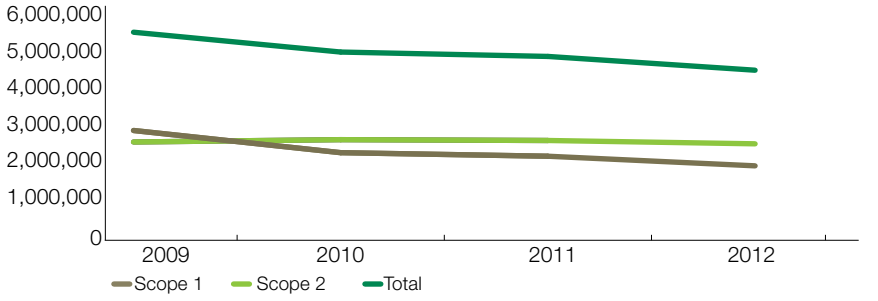
The company's businesses all continued to improve the processes supporting the verification and auditing of suppliers to ensure the responsible sourcing of products and services.

Wesfarmers sustainability report

The Wesfarmers 2012 sustainability report will be published in November, and contains much more detail – and specific data – on all of the above priorities.

Wesfarmers' greenhouse gas emissions (Scope 1 and 2)

as measured under the NGER Act from 2009 to 2012 (tonnes CO_2e)



More information

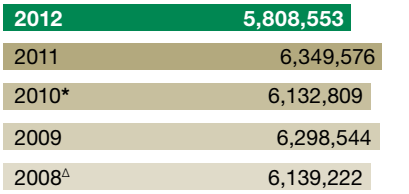
More information regarding Wesfarmers activities can also be found at:

- Carbon Disclosure Project www.cdproject.net
- Dow Jones Sustainability Index www.sustainability-index.com
- Australian Packaging Covenant www.packagingcovenant.org.au
- Energy Efficiency Opportunities Act www.energyefficiencyopportunities.gov.au
- National Greenhouse and Energy Reporting Act in Australia www.climatechange.gov.au/reporting

Sustainability performance

Greenhouse gas emissions (Scope 1, 2 and 3)

(tonnes carbon dioxide equivalent)

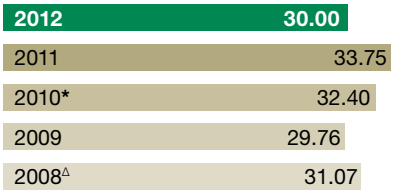


* The reduction in FY10 is primarily due to more accurate measurement of refrigerant gas emissions in Coles, and nitrous oxide emissions in WesCEF.

Δ Includes the former Coles Group except Officeworks.

Energy use

(million gigajoules)

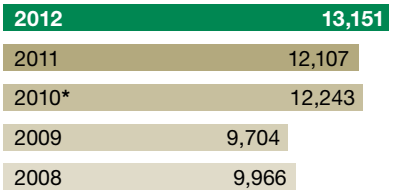


* The increase in FY10 is primarily due to the full-year availability of gas supplies to our Western Australian industrial businesses.

Δ Includes the former Coles Group except Officeworks.

Water use

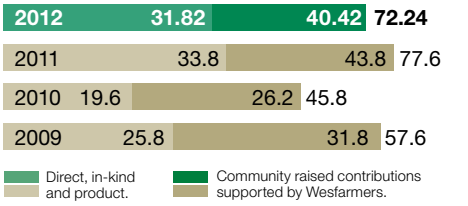
(megalitres)



* Increase due to improved reporting.

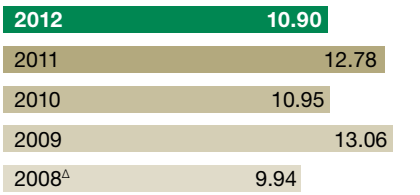
Community contributions

($m)



Lost time injury frequency rate

(LTIFR)



Δ Excludes Coles and Officeworks.

Board of directors










Bob Every AO, age 67 (1)
Chairman

Status and term: Appointed in 2006 as a non-executive director (independent) and appointed Chairman in November 2008. Chairman of the Remuneration and Nomination committees and member of the Audit Committee.

Skills and experience: Bachelor of Science degree and a Doctorate of Philosophy (Metallurgy) from the University of New South Wales. Bob was the Chairman of the New Zealand-based listed company Steel and Tube Holdings Limited and a director of OneSteel Limited. Other executive positions previously held include Managing Director of Tubemakers of Australia Limited, President of BHP Steel, and Managing Director and Chief Executive Officer of OneSteel Limited, a position from which he retired in May 2005. Bob's considerable experience as both an executive officer and a director of major Australian companies has given him a good insight into, and understanding of, the roles and responsibilities of both senior management and directors.

Directorships of listed entities (last three years)
- Chairman of Boral Limited (appointed May 2010, previously Deputy Chairman with initial appointment in September 2007)
- Former Chairman of Iluka Resources Limited (appointed March 2004 – resigned May 2010)

Other directorships/offices (current and recent)
- Chairman Redkite
- Director of O'Connell Street Associates Pty Limited
- Director of OCA Services Pty Limited
- Fellow of The Institution of Engineers, Australia
- Fellow of the Australian Academy of Technological Sciences and Engineering
- Fellow of AICD

Richard Goyder, age 52 (2)
Managing Director

Status and term: Appointed in 2002 as an executive director (non-independent). Attends committee meetings by invitation.

Skills and experience: Bachelor of Commerce degree from the University of Western Australia. Completed the Advanced Management Programme at the Harvard Business School in 1998. Richard joined Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He has held a number of commercial positions in Wesfarmers' Business Development Department including General Manager. In 1999 Richard was Managing Director of Wesfarmers Dalgety Limited, which subsequently became Wesfarmers Landmark Limited, a position he retained until his appointment as Finance Director of Wesfarmers Limited in 2002. He was appointed Deputy Managing Director and Chief Financial Officer of Wesfarmers Limited in 2004 and assumed the role of Managing Director and Chief Executive Officer in July 2005.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- Non-executive Commissioner of the Australian Football League
- Director of the University of Western Australia Business School Advisory Board
- Chairman of Scotch College Council
- Director of the Business Council of Australia
- Advisory Council Member of the Juvenile Diabetes Research Foundation International
- Council Member of the Australian Business and Community Network
- Fellow of AICD

Terry Bowen, age 45 (3)
Finance Director

Status and term: Appointed in 2009 as an executive director (non-independent). Attends committee meetings by invitation.

Skills and experience: Bachelor of Accountancy degree and Fellow of CPA Australia. Terry has held a number of finance positions with Tubemakers of Australia Limited, culminating in his appointment as General Manager Finance. Terry joined Wesfarmers in 1996 and undertook various roles with Wesfarmers Landmark Limited, where he was appointed Chief Financial Officer, until its acquisition by AWB Limited in 2003. He was then appointed the inaugural Chief Financial Officer for Jetstar Airways, prior to rejoining Wesfarmers as Managing Director, Wesfarmers Industrial and Safety in November 2005. Terry became Finance Director, Coles in 2007 and Wesfarmers Finance Director in May 2009 with responsibility for the Group's Finance, Treasury, Risk & Assurance, Investor Relations and Business Development departments. In 2010, Terry also assumed responsibility for the Group's Chemicals, Energy and Fertilisers and Industrial and Safety businesses.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Director of a number of Wesfarmers Group subsidiaries
- Director of Gresham Partners Holdings Ltd
- President of the National Executive of the Group of 100 Inc
- Member of the Curtin Business School Advisory Council at Curtin University
- Director of the Western Australian Institute for Medical Research Incorporated
- Director of the Western Australian Opera Company Incorporated

Colin Carter AM, age 69 (4)

Status and term: Appointed in 2002 as a non-executive director (independent). Member of the Remuneration and Nomination committees.

Skills and experience: Bachelor of Commerce degree from Melbourne University and a Master of Business Administration from Harvard Business School. Colin has had extensive experience advising on corporate strategy and corporate governance and his consultancy career has included major projects in Australia and overseas.

Directorships of listed entities (last three years)
- SEEK Limited (appointed March 2005)
- Lend Lease Corporation Limited (appointed April 2012)

Other directorships/offices (current and recent)
- Director of World Vision Australia
- Director of the Ladder Project
- President of the Geelong Football Club Limited
- Member of the Board of the Cape York Institute for Indigenous Policy and Leadership
- Ambassador to the federal government's Indigenous Employment Initiative
- An adviser to, and former Senior Partner of, the Boston Consulting Group
- Fellow of AICD

James Graham AM, age 64 (5)

Status and term: Appointed in 1998 as a non-executive director (non-independent). Member of the Remuneration and Nomination committees.

Skills and experience: Bachelor of Engineering in Chemical Engineering with Honours from the University of Sydney and a Master of Business Administration from the University of New South Wales. James has had an active involvement in the growth of Wesfarmers since 1976 in his roles as Managing Director of Gresham Partners Limited since 1985 and previously as Managing Director of Rothschild Australia Limited and a director of Hill Samuel Australia Limited.

Directorships of listed entities (last three years)
- Nil

Other directorships/offices (current and recent)
- Managing Director of the Gresham Partners Group
- Chairman of the Advisory Council of the Institute for Neuroscience and Muscle Research
- Director of Wesfarmers General Insurance Limited
- Former Chairman of the Darling Harbour Authority in New South Wales
- Former Chairman of Rabobank Australia Limited and Rabobank New Zealand Limited
- Fellow of the Australian Academy of Technological Sciences and Engineering
- Fellow of the Financial Services Institute of Australasia
- Fellow of AICD

Tony Howarth AO, age 60 (6)

Status and term: Appointed in 2007 as a non-executive director (independent). Chairman of the Audit Committee and member of the Nomination Committee.

Skills and experience: Senior Fellow of the Financial Services Institute of Australia. Tony has more than 30 years experience in the banking and finance industry. He has held several senior management positions during his career, including Managing Director of Challenge Bank Limited and Chief Executive Officer of Hartleys Limited. Tony is also Adjunct Professor (Financial Management) at the University of Western Australia Business School.

Directorships of listed entities (last three years)
- Chairman of Mermaid Marine Australia Limited
- Chairman of Home Building Society Limited (delisted December 2007) (appointed June 2003 and resigned July 2010)
- Deputy Chairman of Bank of Queensland Limited (appointed December 2007 – resigned July 2010)
- AWB Limited (appointed March 2005 – resigned December 2010)

Other directorships/offices (current and recent)
- Chairman of St John of God Health Care Inc
- Senator of the University of Western Australia
- Chairman of the Committee for Perth Limited
- Member of the Rio Tinto WA Future Fund
- Member of the University of Western Australia Business School Advisory Board
- Chairman of the International Chamber of Commerce, Australia Limited
- Director of the Chamber of Commerce and Industry of Western Australia (Inc)
- Director of West Australian Rugby Union Inc
- Director of Alinta Holdings
- Life Fellow of the Financial Services Institute of Australasia
- Fellow of AICD

Charles Macek, age 65 (7)

Status and term: Appointed in 2001 as a non-executive director (independent). Member of the Audit, Nomination and Remuneration committees.

Skills and experience: Bachelor of Economics degree and a Master of Administration from Monash University. Charles is the Chairman of the Sustainable Investment Research Institute Pty Limited, Racing Information Services Australia Pty Limited, and the Vice-Chairman of the IFRS Advisory Council (formerly the Standards Advisory Council of the International Accounting Standards Board). He is also a member of the investment committee of Unisuper Limited and the AICD Corporate Governance Committee. With a strong background in corporate governance and a long career in financial services working at a senior executive level, Charles brings extensive experience in formulating strategy and advising on off-shore and on-shore investment opportunities.

Directorships of listed entities (last three years)
- Centro Retail Australia Limited (appointed December 2011)
- Telstra Corporation Limited (appointed November 2001 – retired November 2009)

Other directorships/offices (current and recent)
- Chairman of Thoroughbred Trainers Service Centre Limited
- Member of the Marsh & McLennan Companies, Inc. Australian Advisory Board
- Director of Earthwatch Institute Australia
- Fellow of CPA
- Fellow of the Institute of Chartered Accountants Australia
- Senior Fellow of the Financial Services Institute of Australasia
- Fellow of AICD

Wayne Osborn, age 61 (8)

Status and term: Appointed in 2010 as a non-executive director (independent). Member of the Remuneration and Nomination committees.

Skills and experience: Diploma of Engineering (Electrical) from the Gordon Institute of Technology, a Master of Business Administration from Deakin University and is a Member of The Institution of Engineers, Australia. Wayne started his career in telecommunications and moved to the iron ore industry in the mid-1970s. He joined Alcoa in 1979 and worked in a variety of roles and locations across the Australian business, including accountability for Alcoa's Asia Pacific operations, prior to being appointed Managing Director in 2001. Wayne was appointed Chairman of the Australian Institute of Marine Science in 2010. He has an interest in whale conservation and wildlife photography and was elected an International Fellow of the New York-based Explorers Club in 2004. His work in support of the arts through the Australian Business Arts Foundation was recognised with the 2007 WA Business Leader Award.

Directorships of listed entities (last three years)
- Leighton Holdings Limited
- Iluka Resources Limited

Other directorships/offices (current and recent)
- Chairman of Thiess Pty Ltd
- Director of Alinta Holdings
- Fellow of the Australian Academy of Technological Sciences and Engineering
- Fellow of AICD

Diane Smith-Gander, age 54 (9)

Status and term: Appointed in 2009 as a non-executive director (independent). Member of the Audit and Nomination committees.

Skills and experience: Bachelor of Economics degree from the University of Western Australia and a Master of Business Administration from the University of Sydney. Diane has more than 11 years experience as a banking executive, which culminated in her appointment as the head of Westpac Banking Corporation's Business and Technology Solutions and Services Division. She was a Partner with McKinsey & Company in the USA, where she led major transformation projects and had exposure to a wide variety of businesses in areas such as financial services, pharmaceuticals and retail.

Directorships of listed entities (last three years)
- Transfield Services Limited (appointed October 2010)

Other directorships/offices (current and recent)
- Deputy Chairman of the NBN Co Limited (National Broadband Network)
- Director of Co-operative Bulk Handling Limited and CBH Grain Limited
- Commissioner of the Western Australian Tourism Commission (appointed July 2012)
- Former Chair of Basketball Australia Limited
- Former Chair of the NBL Commission of Basketball Australia Limited
- Former Chair of the Australian Sports Drug Agency
- Adviser to McKinsey & Company and the Barrington Consulting Group
- Member of the University of Western Australia Business School Advisory Board
- Fellow of Chartered Secretaries Australia
- Fellow of AICD

Vanessa Wallace, age 49 (10)

Status and term: Appointed in 2010 as a non-executive director (independent). Member of the Audit and Nomination committees.

Skills and experience: Bachelor of Commerce degree from the University of New South Wales and a Master of Business Administration from the IMD Switzerland. Vanessa currently leads Booz & Company's financial services practice in Australia, New Zealand and South East Asia and previously led the strategy practice. She has held multiple governance roles at the highest level within Booz's global partnership. She is an experienced management consultant who has been with Booz & Company for more than 20 years. She is actively involved in the firm's customer, channels and markets activities which focus on areas such as customer experience, offer design and channels to market across a number of industries. She has had hands on experience in mergers and acquisitions and post merger integration.

Directorships of listed entities (last three years)
Nil

Other directorships/offices (current and recent)
- Member of Board of Directors Booz & Company (2008 – 2010)
- Director of Booz & Company (Australia) Ltd and a number of group subsidiaries and related companies in Australia, New Zealand, Indonesia and Thailand
- Chairman's Council of the Australian Chamber Orchestra Pty Ltd
- Member of AICD

Corporate governance statement

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.

The Board is a strong advocate of good corporate governance as evidenced by the policies and practices outlined below.

Introduction

This corporate governance statement outlines Wesfarmers' corporate governance policies and practices for the year ended 30 June 2012, and at the date of this report.

The corporate governance framework of Wesfarmers operates according to a series of governance charters and policies which have been adopted by the Board. The Board recognises that corporate governance is not a static concept, and it regularly reviews and updates the Company's governance charters and policies by reference to corporate governance developments and best practice in Australia and overseas.

Compliance with Australian corporate governance standards

In accordance with the disclosure requirements of the ASX Listing Rules, the Board believes that the governance policies and practices adopted by Wesfarmers during the reporting period for the year ended 30 June 2012 follow the recommendations contained in the ASX Corporate Governance Principles and Recommendations ('ASX Principles').

Access to information

Corporate governance documentation, including the charters or policies referred to in this statement, together with a checklist cross-referencing the ASX Principles to the relevant sections of this statement and elsewhere in the annual report, are published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html.

Role and responsibilities of the Board and Management

Functions of the Board

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 overall 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.

The Board has a Charter which clearly sets out the role and responsibilities of the Board, and describes the separate functions of management and responsibilities delegated. The key responsibilities of the Board are set out in the diagram below.

Functions of management

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 executive leadership team (which comprises the direct reports to the Wesfarmers Managing Director, divisional managing directors and the Executive General Manager, Business Development). The Board maintains ultimate responsibility for strategy and control of Wesfarmers and its businesses.

The key responsibilities of the Wesfarmers Managing Director are to:

- manage and administer the day-to-day operations of Wesfarmers and its businesses in accordance with the strategy, business plans and policies approved by the Board;
- develop strategies for Wesfarmers, its businesses and management, and make recommendations to the Board on such strategies;
- develop the Group's annual budget and conduct the Group's activities within the approved annual budget;
- develop strategies for the Company to maintain a strong balance sheet and sound credit rating over time;
- develop and maintain the Group's risk management systems, including internal compliance and control mechanisms;

Board responsibilities

Executive personnel

- Appointing, re-appointing or removing the Wesfarmers Managing Director, approving the remuneration terms and overseeing the performance review of the Wesfarmers Managing Director.
- Approving the overall remuneration policy, including non-executive director remuneration, executive director and senior executive remuneration; and any executive long-term incentive plans, upon recommendation from the Remuneration Committee.
- Monitoring the implementation of the Group's strategic plans by the Wesfarmers Managing Director and senior executives.

Corporate strategy and financial reporting

- Approving the Group's strategy, business plans and policies.
- Approving and monitoring the progress of major capital expenditure, capital management and capital raising initiatives, and acquisitions and divestments.
- Approving the annual report and financial statements (including the directors' report and remuneration report) and any other published reporting, upon recommendation from the Audit Committee.
- Monitoring the Group's performance in delivering its strategic plans.
- Approving and monitoring the systems and policies to ensure the integrity of financial statements and other reporting.
- Overseeing and approving strategies for the Company to maintain a strong balance sheet and sound credit rating over time.

Risk and compliance

- Reviewing, approving and monitoring the Group's risk management systems, including internal compliance and control mechanisms.
- Approving the Group's system of corporate governance, including formation of Board committees and the terms of applicable governing charters, and monitoring their effectiveness.
- Approving the Code of Conduct, Market Disclosure Policy and other Group level policies, and monitoring their effectiveness.
- Appointing, re-appointing or removing the Group's external auditors and approving the auditor's remuneration, upon recommendation from the Audit Committee.

Stakeholder communications

- Overseeing the management of the Group's interactions and communications with shareholders and the broader community.
- Monitoring and overseeing the timeliness and accuracy of information provided to shareholders and financial markets.

- ensure compliance with the Company's continuous disclosure obligations, in accordance with the role and responsibilities delegated under the Market Disclosure Policy;
- assign responsibilities clearly to the executive leadership team, and supervise and report on their performance to the Board;
- recommend to the Board significant operational changes, and major capital expenditure, acquisitions or divestments, which are beyond delegated thresholds;
- report regularly to the Board with timely and quality information, such that the Board is fully informed to discharge its responsibilities effectively; and
- exercise such additional powers as are delegated to the Wesfarmers Managing Director by the Board from time to time.

Structure and composition of the Board

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

The Board is currently comprised of 10 directors, with eight non-executive directors. The Board is of the view that its 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 corporate objectives.

Mr Archie Norman, who has significant retail experience, was appointed in 2009 as an adviser to the Board on retail issues. In this role, Mr Norman attends Board meetings on a regular basis, as well as the Board's annual planning session. Mr Norman has had a major role in helping guide the turnaround of the former Coles Group businesses.

Independence of the Chairman

The Chairman is elected from the independent non-executive directors. The responsibilities of the Chairman are set out in the Board Charter, and include the following:

- maintain effective communication between the Board and management;
- lead the Board;
- ensure the efficient organisation and conduct of the Board's function;
- brief all directors in relation to issues arising at Board meetings;
- chair general meetings of Wesfarmers; and
- exercise such specific and express powers as are delegated to the Chairman by the Board from time to time.

Dr Bob Every is the present serving Chairman and further information about Dr Every is set out on page 55 of this annual report.

Director independence

Directors are expected to bring views and judgement to the Board's 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.

Prior to accepting an invitation to become a director of an external company, each non-executive director is required to notify the Chairman. In considering the new appointment, the Chairman is to consider;

- any policies of the Board on multiple directorships;
- the terms of Wesfarmers' Conflicts of Interest Policy; and
- the time commitment required of the director to properly exercise his or her powers and discharge his or her duties as a director and member of any Board committees.

An independent director is a non-executive director who is not a member of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board regularly reviews the independence of each non-executive director in light of the information which each director is required to disclose in relation to any material contract or other relationship with Wesfarmers in accordance with the *Corporations Act 2001*, the Board Charter and Wesfarmers' Conflicts of Interest Policy. Each non-executive director could be involved with other companies or professional firms which may from time to time have dealings with Wesfarmers. Details of offices held by directors with other organisations are set out on pages 55 and 56 of this annual report and on the Group's website.

The Board's approach to the assessment of independence and the criteria against which it determines the materiality of a relationship is informed by having regard to the ASX Principles, in particular, the relationship factors set out in recommendation 2.1; 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.

Considered from the perspective of the Company, the director, and the person or entity with which the director has a relationship, the test of whether a relationship could, or could reasonably be perceived to, materially interfere with the independent exercise of a director's judgement is based on the nature of the relationship and the circumstances of that director. The Board considers a relationship to materially interfere with, or that could reasonably be perceived to materially interfere with, a director's independent judgement, where it is of substance and consequence and there is a real and sensible possibility that it would affect the director's judgement across all aspects of the director's role.

Structure and composition of the Board

The non-executive directors are:

Director	Year of appointment	Period of office as at September 2012
Bob Every	2006	6 years and 7 months
Colin Carter	2002	9 years and 11 months
James Graham	1998	14 years and 4 months
Tony Howarth	2007	5 years and 2 months
Charles Macek	2001	10 years and 11 months
Wayne Osborn	2010	2 years and 6 months
Diane Smith-Gander	2009	3 years and 1 month
Vanessa Wallace	2010	2 years and 2 months

The executive directors are:

Director	Year of appointment	Period of office as at September 2012
Richard Goyder	2002	10 years and 1 month
Terry Bowen	2009	3 years and 4 months

The skills and experience of the Company's directors are detailed on pages 55 and 56 of this annual report.

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

- seven of the eight non-executive directors are independent; and
- Mr James Graham is deemed not to be independent by virtue of his position as Managing Director of Gresham Partners Limited, which acts as an investment adviser to the Company.

Details of Mr Graham's association with Gresham Partners Limited is set out in note 35 on page 165 of this annual report. The Board has determined that Mr Graham's appointment is in the best interests of Wesfarmers because of the substantial knowledge and expertise he brings to the Board, and any conflicts which may arise are managed in accordance with Wesfarmers' Conflicts of Interest Policy.

Skills, experience and diversity of the Board

The Nomination Committee's delegated responsibilities include:

- periodically assessing the skill set required to discharge the Board's duties, having regard to the strategic direction of the Wesfarmers Group and assessing the skills currently represented on the Board;
- regularly reviewing and making recommendations to the Board regarding the structure, size and composition of the Board (including the mix of skills, knowledge and experience); and the effectiveness of the Board as a whole; and
- developing strategies to address Board diversity.

Board succession planning

Retirement and re-election of directors

The Constitution of Wesfarmers requires one third of the directors, other than the Wesfarmers Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the Board during the year (as a casual vacancy or as an addition to the Board) are required to have their appointment confirmed at the next annual general meeting.

Directors cannot hold office for a period in excess of three years or beyond the third annual general meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

Board support for directors retiring by rotation and seeking re-election is not automatic. The Nomination Committee is responsible for Board succession planning (including the role of Chairman), with the aim of maintaining an appropriate mix of skills, experience, expertise and diversity over time.

The Nomination Committee considers each director who is due for re-election and assesses whether to make a recommendation to the Board for his or her re-appointment, having regard to the results of the director's performance reviews, and the succession plans of the Board. The performance review process for each director is described on page 62.

Wesfarmers also expects directors to voluntarily review their membership of the Board from time to time, taking into account other commitments, length of service, age, qualifications and expertise relevant to the Company's business.

Under the Board Charter, the Chairman must retire from this position at the expiration of 10 years unless the Board decides otherwise. In addition, the appointment is formally reviewed at the end of each three-year period.

Appointment of new directors

As part of the Nomination Committee's oversight of Board succession planning, it is also 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.

Where a candidate is recommended by the Nomination Committee, the Board will assess that candidate against a range of criteria including background, experience, professional qualifications, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director must have their appointment confirmed at the next annual general meeting by the shareholders.

In addition, the Board Charter requires a director to hold, directly or indirectly, a minimum of 1,000 ordinary shares in Wesfarmers within two months of their appointment and at all times during the director's period of office.

Induction of new directors and ongoing director development

New directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including their duties, rights and responsibilities; the time commitment envisaged; expectations regarding involvement with committee work; and their responsibilities with respect to acting in a capacity other than as a director of Wesfarmers.

As part of a comprehensive induction program covering Wesfarmers' financial, strategic, operational and risk management position, the new director meets with the Chairman, the Audit Committee Chairman, the Wesfarmers Managing Director, divisional managing directors and other key executives to gain an insight into the values and culture of Wesfarmers. The program also includes site visits to some of Wesfarmers' key operations.

All directors are expected to maintain the skills required to discharge their obligations to the Company.

On an ongoing basis, directors are provided with papers, presentations and briefings on matters which may affect the business or operations of Wesfarmers. Directors are also encouraged to undertake continuing education and training relevant to the discharge of their obligations as directors of the Company, as arranged by the Nomination Committee or otherwise. Subject to prior approval by the Company Secretary, the reasonable cost of continuing education and training is met by Wesfarmers.

To assist the directors in maintaining an appropriate level of knowledge of the operations of the Company, directors undertake site visits each year to Wesfarmers' businesses.

Board access to information and independent advice

All directors have unrestricted access to employees of Wesfarmers and its businesses and, subject to the law, access to all Company records and information held by Wesfarmers employees and external advisers.

Each director, the Board and the Board committees may obtain independent professional advice at Wesfarmers' expense, as considered reasonable and necessary, subject to prior consultation with the Chairman.

Directors are entitled to reimbursement of all reasonable costs where a request for reimbursement of the cost of such advice is approved by the Chairman. In the case of a request made by the Chairman, approval is required from the Chairman of the Audit Committee.

Conflicts of interest
The directors have a duty not to place themselves in a position which gives rise to a real or substantial possibility of conflict of interest or duty, in relation to any matter which is or is likely to be brought before the Board.

Directors are under an ongoing obligation to disclose to the Board such interests immediately, in addition to the statutory obligation to disclose to the Board any material personal interests in a matter.

The Board has adopted the use of formal standing notice registers, in which each director must have and keep updated a register disclosing the nature and extent of their interests. Where a change in circumstance results in an interest which is declared on the register as giving rise to a material personal interest or other conflict requiring disclosure, each director is required to notify the Board.

The Board has also adopted a Conflicts of Interest Policy, setting out the disclosure obligations of each director with respect to conflicts of interest, and the procedures to be followed where:

- a director has disclosed a conflict of interest in accordance with the policy; or
- the Board has identified a matter which is or is likely to be brought before the Board, which may place a particular director in a position of conflict.

The procedures detail the restrictions which may apply to a director in such circumstances, including the ability to participate in Board discussions, ability to vote on the matter or the degree of access to information and Board papers.

The Conflicts of Interest Policy is published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Related party transactions
With respect to any transaction which involves a Group entity giving a financial benefit to a related party or related entity, Wesfarmers discloses its related party transactions in the notes to its financial statements as required under the relevant Accounting Standards (as set out in note 35 on page 165 of this annual report).

Committees of the Board
The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Gresham Mandate Review Committee as standing committees to assist the Board in the discharge of its responsibilities.

All directors have a standing invitation to attend committee meetings. These committees review matters on behalf of the Board and (subject to the terms of the relevant committee's Charter):

- refer matters to the Board for decision, with a recommendation from the committee (where the committee acts in an advisory capacity); or
- determine matters (where the committee acts with delegated authority), which it then reports to the Board.

Details of the membership, composition and responsibilities of each committee are detailed below and on the following page.

Remuneration
Full details of the remuneration paid to non-executive and executive directors, and senior executives, are set out in the remuneration report on pages 70 to 86 of this annual report.

	Audit Committee	Remuneration Committee	Nomination Committee	Gresham Mandate Review Committee
Members	• Tony Howarth (Chairman) • Bob Every • Charles Macek • Diane Smith-Gander • Vanessa Wallace	• Bob Every (Chairman) • Colin Carter • James Graham • Charles Macek • Wayne Osborn	• Bob Every (Chairman) • Colin Carter • James Graham • Tony Howarth • Charles Macek • Wayne Osborn • Diane Smith-Gander • Vanessa Wallace	Any two of: • Colin Carter • Charles Macek • Diane Smith-Gander
Composition	The Committee must comprise: • only non-executive directors; • at least three members; • a majority of non-executive directors who are able to exercise independent judgement in their role as a member of the Committee, as determined by the Board; • members who are sufficiently financially literate to understand financial statements and general accounting principles, for the purpose of assessing and questioning information presented in Committee meetings; and • at least one member who has relevant financial qualifications and experience.	The Committee must comprise: • only non-executive directors; and • at least three members.	The Committee must comprise all non-executive directors.	The Committee must comprise such members as the Board determines from time to time.

	Audit Committee	Remuneration Committee	Nomination Committee	Gresham Mandate Review Committee
Responsibilities include:	• reviewing all financial statements and other financial disclosures of the Group requiring Board approval, and discussing these with the external auditors and management, prior to their submission and recommendation to the Board; • reviewing any material changes in accounting or reporting requirements, and assessing subsequent effects on the Company's financial statements and the Group's policies and practices; • reviewing with management the terms of external audit engagement in order to make recommendations to the Board concerning the appointment, re-appointment and removal of external auditors; • reviewing and assessing non-audit and assurance-related services to be provided by external auditors, with particular consideration to the potential of those services to impair external auditors' judgement or independence in respect of the Group; • reviewing and assessing the effectiveness of the internal controls, policies, programs, guidelines and procedures which form the Group's risk management framework and reporting systems, assessing the effectiveness of the risk management framework and reporting systems, and controlling their financial impact; • assessing the effectiveness of the Group's Compliance Program in ensuring compliance with relevant regulatory, industry and legal requirements.	• reviewing and making recommendations to the Board on: – the remuneration of non-executive directors (including fees, travel and other benefits) – the level of remuneration of executive directors and direct reports to the Wesfarmers Managing Director (including equity grants and plan participation) – new executive incentive plans and amendments to existing plans • determining, on the recommendation of the Wesfarmers Managing Director, the level of remuneration of other executives; • ensuring remuneration packages across the Group are equitable and making recommendations to the Board as appropriate, including remuneration by gender; • assisting the Chairman of the Board in the annual performance review of the Wesfarmers Managing Director; • approving new employee incentive plans and amendments to existing plans; • overseeing preparation of the annual remuneration report and recommending the report to the Board for approval.	• reviewing and making recommendations in relation to Board composition, competencies and diversity; • developing and reviewing Board succession plans, director induction programs and continuing development; • ensuring that there is a robust and effective process for evaluating the performance of the Board, the committees of the Board and individual directors; • reviewing and making recommendations in relation to Board appointments, re-elections and terminations; • reviewing or making recommendations to the Board on matters which the Committee considers necessary, or are requested by the Board.	• considering and approving the mandate agreement terms and all fees payable to Gresham Partners Limited group of companies where they are to be appointed advisers to the Company; • reporting on the approved mandate terms and fees to the Board.
Attendance	Details of meeting attendance for members of each committee are set out in the directors' report on page 66 of this annual report.			

Performance evaluation

Evaluation of the performance of senior executives

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 measures of performance used in the incentive plans have been chosen to ensure that there is a strong link between remuneration earned and the achievement of sustainable performance, which leads to satisfactory returns for shareholders.

Annual incentives are based on the achievement of annual performance conditions, which are set at the start of the plan year and are heavily weighted to return and earnings-based measures, and also include non-financial measures which seek to achieve corporate objectives in areas such as safety, diversity, succession planning and talent management. The Wesfarmers Long Term Incentive Plan for the 2012 financial year is a share award with a four-year forward-looking performance hurdle, based on growth of return on equity and relative total shareholder return. Shareholder approval will be sought at the annual general meeting for long-term incentive allocations to executive directors. The Remuneration Report, which details Wesfarmers' policy on the remuneration of senior executives, is set out on pages 70 to 86 of the report.

For the annual incentive plan, awards are determined after the preparation of the financial statements at the end of the financial year (in respect of the financial measures) and after a review of performance against non-financial measures has been carried out by the Wesfarmers Managing Director (and in the case of the Wesfarmers Managing Director, by the Chairman, the results of which are reported to the Board). The Board confirms final awards based on overall personal and financial performance after the reviews have been completed in August each year.

For the long-term incentive, the Board tests the performance conditions following finalisation of the annual accounts at the end of the four-year performance period. As part of the performance development review process, the potential future development of an executive is discussed on an annual basis, along with any training required to enhance the prospects of the development objectives being achieved and progression within Wesfarmers. Annual performance reviews for the 2012 financial year have been undertaken in accordance with the process described above.

Evaluation of the Board and its committees

The Nomination Committee is responsible for scheduling formal performance reviews of the Board and its committees at least every two years. This includes the Audit and Remuneration Committees. The Board then undertakes an evaluation process to review its performance.

A Board performance review was conducted in July 2011, and the Board committees performance review was conducted in December 2010. Both were facilitated by an external consultant.

With respect to the Nomination Committee, the Board is responsible for periodically assessing its effectiveness, with a view to ensuring that its performance accords with best practice.

Evaluation of non-executive directors

The Nomination Committee is responsible for scheduling performance reviews of each non-executive director. This incorporates a review of the time commitment required by each non-executive director and whether these time commitments are being met. In relation to any re-appointment of a non-executive director, the performance of the non-executive director during their term of office will be reviewed.

Annual performance reviews for the 2012 financial year for each non-executive director are scheduled to take place in December 2012. The performance review process comprises:

- completion by each director of a survey prepared and distributed by an external consultant;
- a Board meeting to discuss areas for improvement and action items identified, following the receipt by each non-executive director of a report with feedback on the Board's performance based on the survey results; and
- an individual feedback session conducted by the Chairman with each non-executive director, covering his or her performance based on the survey results. A non-executive director is nominated by the Board to conduct a similar feedback session with the Chairman.

Governance policies

Code of Conduct

Wesfarmers has adopted a Code of Conduct for all employees (including directors). This code details policies, procedures and guidelines aimed at ensuring that the highest ethical standards, corporate behaviour and accountability are maintained across Wesfarmers.

The managing directors and chief financial officers of each division are required to report annually to the Audit Committee on their division's compliance with the code.

A copy of the Code of Conduct is published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Whistleblower protection

The Whistleblower Policy of Wesfarmers has been adopted to promote and support a culture of honest and ethical behaviour, corporate compliance and good corporate governance.

This policy encourages employees, contractors and suppliers to raise any concerns and report instances of unethical, illegal, fraudulent or undesirable conduct either internally with management within his or her division (as applicable) or with a Protected Disclosure Officer, or externally via a telephone helpline managed by an independent third party. Wesfarmers is committed to absolute confidentiality and fairness in all matters raised and will support and protect those who report violations in good faith. The Audit Committee is responsible for overseeing compliance with this policy.

A copy of the Whistleblower Policy is published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Anti-bribery Policy

Wesfarmers is committed to operating in a manner consistent with the laws of the jurisdictions in which its businesses operate, including those relating to anti-bribery and corruption. Since our annual report last year, we have updated our Anti-bribery Policy, which strictly prohibits our employees from engaging in activity that constitutes bribery or corruption.

The policy also includes processes for implementing appropriate controls to ensure that the actions of third parties who are engaged to act for or on behalf of Wesfarmers will not adversely affect the Group.

Wesfarmers has in place an extensive training program on its Anti-bribery Policy. The terms of the policy are also required to be communicated to suppliers, contractors and business partners, both at the outset of a business relationship, and as appropriate during the course of their work for the Group.

A copy of the Anti-bribery Policy is published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Diversity Policy

Wesfarmers recognises the social and commercial value of diversity and 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 area of potential difference.

While Wesfarmers is committed to fostering all types of diversity, gender diversity has and continues to be a priority for the Group. As set out in the Wesfarmers Diversity Policy, the Group's approach to gender diversity is based on four core objectives: foster an inclusive culture; improve talent management; enhance recruitment practices; and ensure pay equity.

The Board has approved measurable objectives at a Group level for achieving gender diversity set in accordance with these core objectives. Noting the diverse nature of Wesfarmers portfolio of businesses, each division has developed specific gender diversity plans in line with the Group Policy which are tailored to take account of the specific circumstances of the particular division. The Board reviews progress against the measurable objectives twice per year.

The measurable objectives for 2012 at a Group level and the progress against achieving these objectives are outlined on page 53 in the sustainability section of this annual report.

As part of Wesfarmers' commitment to diversity, the Company strives to make its businesses a place where Aboriginal and Torres Strait Islander people feel welcome and valued, as employees, customers and citizens. To do this, Wesfarmers has a Reconciliation Action Plan which outlines specific measurable actions to be undertaken across the Wesfarmers Group, targeting employment and community engagement.

As a large employer, Wesfarmers can provide Aboriginal and Torres Strait Islander people with greater opportunities to participate in the country's economic prosperity, through sustainable employment and support through community partnership programs.

The Wesfarmers Reconciliation Action Plan acts as an 'umbrella' document to the Aboriginal strategies developed in each of the Company's business divisions. More details about the Wesfarmers Reconciliation Action Plan can be found on the community and sustainability section of the Company's website at www.wesfarmers.com.au/community-a-sustainability/community.html

Share Trading Policy

The Share Trading Policy of Wesfarmers states that all employees and directors of the Group are expressly prohibited from trading in Wesfarmers' securities, or securities in other entities in which Wesfarmers has an interest, if they are in possession of 'inside information'.

Directors and senior executives are generally prohibited from trading in the Company's securities during 'black out' periods (which are the periods from the close of books to one day following the announcement of the full-year or half-year results). Trading during these periods may only be permitted with prior approval of the Chairman in exceptional circumstances (such as severe financial hardship), subject at all times to the general prohibition on insider trading.

Outside of these periods, a director or senior executive who intends to buy or sell shares must:

- advise the Company Secretary of their intention to trade; and
- confirm that they do not hold unpublished inside information.

Directors, senior executives and their closely related parties are prohibited from entering into arrangements that have the effect of limiting exposure to risk in relation to an element of their remuneration. In addition, they must advise the Company Secretary if they intend to enter into, or have entered into, a margin lending or other security arrangement affecting the Company's securities.

A copy of the Share Trading Policy is published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Market Disclosure Policy

Wesfarmers understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the securities market and has adopted a comprehensive Market Disclosure Policy.

Each Wesfarmers employee is required to report any information concerning Wesfarmers which is price sensitive, even where in doubt, to the appropriate person identified in Wesfarmers' reporting system.

Wesfarmers has an education program to ensure that those in management and other potential risk areas for continuous disclosure understand Wesfarmers' disclosure obligations and what information may be price sensitive.

The Company Secretary, as the nominated disclosure officer, has responsibility for overseeing and coordinating the disclosure of information by the Company to the ASX, the Group's continuous disclosure education program, and administration of the policy.

A disclosure sub-committee has been formed, comprising of the Wesfarmers Managing Director, Finance Director and Group General Counsel, which oversees the disclosure officer's administration of the policy. In addition, the Audit Committee reviews a report prepared by the disclosure officer on the operation of the Group's market disclosure practices, and provides this report with any comments or recommendations to the Board.

A copy of the Market Disclosure Policy is published on the governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Shareholder Communications Policy

The Board has developed a strategy for engaging and communicating with shareholders, key aspects of which are set out below.

The Communications Policy of Wesfarmers promotes the communication of information to shareholders through the distribution of an annual report and announcements through the ASX and the media regarding changes in its businesses, and the Chairman's address at the annual general meeting.

The Company produces an annual shareholder review, an easy to read summary of the annual report. A number of shareholders have elected to receive the review in place of the annual report, or have elected to receive electronic communications in respect of their shareholdings.

The Company encourages and welcomes shareholder participation at general meetings, with the annual general meeting being the major forum for shareholders to ask questions about the performance of the Company and provide valuable feedback.

Wesfarmers conducts live webcasts of Company general meetings as well as major institutional investor and analyst briefings, which are available on the Company's website. The Company provides shareholders with the opportunity to receive email alerts of significant announcements and advises of the availability of reports on the Company's website.

A copy of the Communications Policy is published on the governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Integrity in financial reporting

Role of the Audit Committee

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

The membership and responsibilities of the Audit Committee are set out on pages 60 and 61 of this annual report.

The Audit Committee maintains direct, unfettered access to external auditors, Group Assurance (internal audit) and management.

The Wesfarmers Managing Director, Finance Director, the Group General Counsel, the Executive General Manager Group Accounting, Assurance and Risk, the General Manager Group Assurance and Risk, the Company Secretary, the external auditor (Ernst & Young), and any other persons considered appropriate, attend meetings of the Audit Committee by invitation.

The Audit Committee Charter is published on the governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Role of the external auditor

Appointment and rotation of auditor

The Company's external auditor is Ernst & Young. The effectiveness, performance and independence of the external auditor is reviewed annually by the Audit Committee.

The lead audit partner is required to rotate after a maximum of five years. Mr Greg Meyerowitz is the lead audit partner for Ernst & Young, and was appointed on 3 June 2009.

If it becomes necessary to replace the external auditor for performance or independence reasons, the Audit Committee will formalise a procedure and policy for the selection and appointment of a new auditor.

Independence declaration

Ernst & Young has provided the required independence declaration to the Board for the financial year ended 30 June 2012.

The independence declaration forms part of the directors' report and is provided on page 69 of this annual report.

Restrictions on the performance of non-audit and assurance-related services
The Board has considered the nature of the non-audit and assurance-related services provided by the external auditor during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of fees paid (or payable) to Ernst & Young for non-audit and assurance-related services provided to the Wesfarmers Group in the year ended 30 June 2012 are set out in the directors' report on page 68 of this annual report.

Attendance of external auditors at annual general meetings
The lead audit partner of Ernst & Young attends the Company's annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Risk management
Risk is an accepted part of doing business and Wesfarmers is committed to the identification, monitoring and management of material business risks associated with its business activities across the Group to create long-term shareholder value.

Risk Management Policy
The Risk Management Policy of Wesfarmers was approved by the Board. The policy details the overarching risk management controls that are embedded in the Group's risk management framework and reporting systems, including:

- guidelines and limits for approval of all expenditure, including capital expenditure and investments;
- a Group compliance program supported by approved guidelines and standards covering safety, the environment, legal liability, risk identification, quantification and reporting, and financial reporting controls;
- a comprehensive risk financing program, including risk transfer to external insurers and reinsurers;
- policies and procedures for the management of financial risk and treasury operations;
- annual budgeting and monthly reporting systems for all businesses;
- appropriate due diligence procedures for acquisitions and divestments; and
- crisis management systems for all key businesses in the Group.

A copy of the Risk Management Policy is published on the corporate governance section of the Company's website at www.wesfarmers.com.au/about-us/corporate-governance.html

Risk management oversight and responsibility
The division of the key risk management functions is set out below.

Board
- Reviewing, approving and monitoring the Group's risk management systems, including internal compliance and control mechanisms.
- Approving and monitoring the systems and policies to ensure integrity of budgets, financial statements and other reporting.

Wesfarmers Managing Director and Finance Director
- Providing a declaration to the Board regarding the financial statements.
- Assessing and providing assurance to the Board that the Group's risk management and internal control systems are operating effectively in all material respects.

Audit Committee
- Reviewing and assessing the Group's processes which ensure the integrity of financial statements and reporting, and associated compliance with legal and regulatory requirements, including accounting standards.
- Reviewing the qualifications, independence, performance and remuneration of, and relationship with, the Group's external auditors.
- Overseeing the internal controls, assurance, policies and procedures which the Group uses to identify and manage business risks.
- Overseeing the policies and procedures for ensuring the Group's compliance with relevant regulatory and legal requirements.

Management
- Implementing and maintaining risk management and internal control systems.
- Preparing divisional Risk Compliance Reports (approved by each divisional board).
- Preparing a consolidated Group Risk Compliance Report setting out key risks and the controls and processes implemented to mitigate these risks (approved by the Wesfarmers executive leadership team).
- Reporting to the Board on the adequacy of the systems and processes in place to manage material business risks.

Group Assurance and Risk
- Monitoring the effectiveness of risk management systems through a single outsourced audit provider.
- Preparing internal audit reports and reporting to the Audit Committee on the adequacy of risk management and the internal control environment. In addition, the General Manager Group Assurance and Risk mantains direct and unfettered access to the Audit Committee.
- Facilitating the annual risk compliance reporting and preparing the Group Risk Compliance report for review by the Audit Committee.

Risk certification

Financial risk
The Wesfarmers Managing Director and the Finance Director provide a written statement to the Board in accordance with section 295A of the *Corporations Act 2001*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Wesfarmers Managing Director and the Finance Director that the declaration was founded on a sound system of risk management and internal control and that the system was operating effectively in all material aspects in relation to financial reporting risks.

This statement was also signed by the Executive General Manager Group Accounting, Assurance and Risk.

Non-financial risk
Management within each division is required to have in place effective risk management policies, programs and internal control systems to manage the material business risks of the division in accordance with Wesfarmers' risk management framework.

Divisional management is ultimately responsible for the relevant division's internal control and risk management systems.

Management has reported to the Audit Committee on the effectiveness of the internal control and risk management systems throughout the year, and management of its material business risk.

In addition, the Insurance division's Australian licensed insurers are subject to the Australian Prudential Regulatory Authority reporting obligations. These reporting obligations, including a requirement to lodge Risk Management Strategies and Insurance Liability Valuation Reports, have been complied with.

The information appearing on pages 2 to 64 forms part of the directors' report for the financial year ended 30 June 2012 and is to be read in conjunction with the following information:

Results and dividends

YEAR ENDED 30 JUNE	2012 $m	2011 $m
Profit		
Profit attributable to members of the parent entity	**2,126**	1,922
Dividends		
The following dividends have been paid by the Company or declared by the directors since the commencement of the financial year ended 30 June 2012:		
(a) out of the profits for the year ended 30 June 2011 on the fully-paid ordinary shares and partially protected shares:		
(i) fully-franked final dividend of 85 cents per share paid on 30 September 2011 (as disclosed in last year's directors' report)	**983**	810
(b) out of the profits for the year ended 30 June 2012 and retained earnings on the fully-paid ordinary shares and partially protected shares:		
(i) fully-franked interim dividend of 70 cents (2011: 65 cents) per share paid on 30 March 2012	**810**	752
(ii) fully-franked final dividend of 95 cents (2011: 85 cents) per share to be paid on 28 September 2012	**1,099**	983

Principal activities

The principal activities of entities within the consolidated entity during the year were:

– retailing operations including supermarkets, general merchandise and specialty department stores;
– fuel, liquor and convenience outlets;
– retailing of home improvement and outdoor living products and supply of building materials;
– retailing of office and technology products;
– coal mining and production;
– gas processing and distribution;
– insurance;
– industrial and safety product distribution;
– chemicals and fertilisers manufacture; and
– investments.

There have been no significant changes in the nature of these activities during the year.

Directors

The directors in office at the date of this report are:

– R L Every (Chairman)
– R J B Goyder (Group Managing Director)
– T J Bowen (Finance Director)
– C B Carter
– J P Graham
– A J Howarth
– C Macek
– W G Osborn
– D L Smith-Gander
– V M Wallace

All directors served on the Board for the period from 1 July 2011 to 30 June 2012.

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report appear on pages 55 and 56 of this annual report.

Directors' shareholdings

Securities in the Company or in a related body corporate in which directors had a relevant interest as at the date of this report are:

Wesfarmers Limited	BWP Trust (units)	Wesfarmers Limited (shares)
T J Bowen	20,000	452,648
C B Carter	–	29,031
R L Every	–	28,373
R J B Goyder*	–	1,123,396
J P Graham	13,013	807,317
A J Howarth	–	13,781
C Macek	–	20,571
W G Osborn	–	4,000
D L Smith-Gander	–	12,410
V M Wallace	–	4,805

* R J B Goyder also holds 100,000 performance rights. The performance rights were issued pursuant to the Group Managing Director Long Term Incentive Plan (Rights Plan). Each performance right is a right to acquire a fully-paid ordinary share subject to satisfaction of a performance condition which is based on return on equity. For further details, please see the remuneration report on pages 70 to 86 of this annual report.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2012 and the number of meetings attended by each director:

	Board		Audit Committee		Remuneration Committee		Nomination Committee		Gresham Mandate Review Committee	
	(A) [1]	(B) [2]	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Current directors										
T J Bowen	8	8								
C B Carter	8	8			8	7	3	2	1	1
R L Every	8	8	7	7	8	8	3	3		
R J B Goyder	8	8								
J P Graham	8	8			8	8	3	3		
A J Howarth	8	8	7	7			3	3		
C Macek	8	8	7	7	8	8	3	3	1	1
W G Osborn	8	7			8	8	3	3		
D L Smith-Gander	8	8	7	7			3	3	1	1
V M Wallace	8	8	7	7			3	3		

Notes:

1 (A) = number of meetings eligible to attend.

2 (B) = number of meetings attended.

Insurance and indemnification of directors and officers

During or since the end of the financial year, the Company has paid premiums in respect of a contract insuring all directors and officers of Wesfarmers Limited and its related entities against certain liabilities incurred in that capacity. Disclosure of the nature of the liability covered by the insurance and premiums paid is subject to confidentiality requirements under the contract of insurance.

In accordance with the Company's Constitution, the Company has entered into Deeds of Indemnity, Insurance and Access with each of the directors of the Company. These Deeds:

indemnify a director to the full extent permitted by law against any liability incurred by the director:

- as an officer of the Company or of a related body corporate; and
- to a person other than the Company or a related body corporate, unless the liability arises out of conduct on the part of the director which involves a lack of good faith;

- provide for insurance against certain liabilities incurred as a director; and
- provide a director with continuing access, while in office and for a specific period after the director ceases to be a director, to certain Company documents which relate to the director's period in office.

In addition, the Company's Constitution provides for the indemnity of officers of the Company or its related bodies corporate from liability incurred by a person in that capacity.

No indemnity payment has been made under any of the documents referred to above during or since the end of the financial year.

Indemnification of auditors

The Company's auditor is Ernst & Young.

The Company has agreed with Ernst & Young, as part of its terms of engagement, to indemnify Ernst & Young against certain liabilities to third parties arising from the audit engagement. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young.

During the financial year:

- the Company has not paid any premium in respect to any insurance for Ernst & Young or a body corporate related to Ernst & Young; and
- there were no officers of the Company who were former partners or directors of Ernst & Young, whilst Ernst & Young conducted audits of the Company.

Directors' and other officers' remuneration

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and Company performance are contained in the remuneration report on pages 70 to 86 of this annual report.

Options

No options over unissued shares in the Company were in existence at the beginning of the financial year or granted during, or since the end of the financial year.

Company Secretary

Linda Kenyon was appointed as Company Secretary of Wesfarmers Limited in April 2002.

Linda holds Bachelor of Laws and Bachelor of Jurisprudence degrees from the University of Western Australia and is a Fellow of Chartered Secretaries Australia. She joined Wesfarmers in 1987 as legal counsel and held that position until 2000 when she was appointed Manager of Bunnings Property Management Limited, the responsible entity for the listed BWP Trust. Linda is also Company Secretary of a number of Wesfarmers Group subsidiaries.

Review of results and operations

The operations of the consolidated entity during the financial year and the results of those operations are reviewed on pages 2 to 52 of this annual report and in the accompanying financial statements. This review includes information on the financial position of the consolidated entity and its business strategies and prospects for future financial years. In the opinion of the directors, disclosure of further material relating to those matters is likely to result in unreasonable prejudice to the interests of the Company and the consolidated entity. That material has therefore been omitted from the review.

Significant changes in the state of affairs

Particulars of the significant changes in the state of affairs of the consolidated entity during the financial year are as follows:

- revenue up from $54,875 million to $58,080 million
- profit for the year up from $1,922 million to $2,126 million
- dividends per share up from $1.50 to $1.65
- total assets up from $40,814 million to $42,312 million
- shareholders' equity up from $25,329 million to $25,627 million
- net borrowings up from $4,343 million to $4,904 million
- net cash flows from operating activities up from $2,917 million to $3,641 million

Significant events after the balance date

The following significant events have arisen since the end of the financial year:

Dividend

On 16 August 2012, a fully-franked final dividend of 95 cents per share resulting in a dividend payment of $1,099 million was declared for payment on 28 September 2012.

Borrowings

On 25 July 2012, Wesfarmers announced the issue of €650 million of unsecured fixed rate medium term notes maturing in August 2022. The notes were priced at 110 basis points over the EURO ten-year mid swap rate and have been fully swapped back in Australian dollars, resulting in a total fixed interest cost of 5.85 per cent per annum. On the same day Wesfarmers repaid $400 million seven-year bonds that were issued by Coles on 25 July 2005.

Likely developments and expected results

Likely developments in, and expected results of, the operations of the consolidated entity in subsequent years are referred to elsewhere in this report, particularly on pages 10 to 52 of this annual report. In the opinion of the directors, disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the Company and the consolidated entity. That material has therefore been omitted from the directors' report.

Non-audit services

Ernst & Young provided non-audit services to the consolidated entity during the year ended 30 June 2012 and received, or is due to receive, the following amounts for the provision of these services:

	$'000
Tax compliance	883
Assurance related	781
Other	615
TOTAL	2,279

The total non-audit services fees of $2,279,000 represents 24.3 per cent of the total fees paid or payable to Ernst & Young and related practices for the year ended 30 June 2012.

The Audit Committee has, following the passing of a resolution of the committee, provided the Board with written advice in relation to the provision of non-audit services by Ernst & Young.

The Board has considered the Audit Committee's advice, and the non-audit services provided by Ernst & Young, and is satisfied that the provision of these services during the year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the *Corporations Act 2001* for the following reasons:

- the non-audit services provided do not involve reviewing or auditing the auditor's own work or acting in a management or decision-making capacity for the Company;
- all non-audit services were subject to the corporate governance procedures and policies adopted by the Company and have been reviewed by the Audit Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- there is no reason to question the veracity of the auditor's independence declaration (a copy of which has been reproduced on page 69).

The directors received the following declaration from Ernst & Young:

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Wesfarmers Limited

In relation to our audit of the financial report of Wesfarmers Limited for the year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz
Partner
18 September 2012

Liability limited by a scheme approved under Professional Standards Legislation

Environmental regulation and performance

The activities of the consolidated entity are subject to environmental regulation by various authorities throughout Australia and New Zealand.

Licences granted to the consolidated entity regulate the management of air and water quality and quantity, the storage and carriage of hazardous materials, the disposal of wastes and other environmental matters associated with the consolidated entity's operations.

During the year there have been no known material breaches of the consolidated entity's licence conditions.

Proceedings on behalf of the Company

No proceedings have been brought on behalf of the Company, nor have any applications been made in respect of the Company under section 237 of the *Corporations Act 2001*.

Corporate governance

In recognising the need for high standards of corporate behaviour and accountability, the directors of Wesfarmers Limited support and have followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Company's corporate governance statement is on pages 57 to 64 of this annual report.

Corporate information

Wesfarmers Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company's registered office and principal place of business is 11th Floor, Wesfarmers House, 40 The Esplanade, Perth, Western Australia.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

Contents

Introduction: 2012 Overview

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. This report explains how Wesfarmers' performance for the 2012 financial year has driven remuneration outcomes for senior executives.

Key changes

A summary of the key changes to remuneration-related matters approved for the 2012 financial year is set out below:

Executive directors and senior executives

Senior executive fixed annual remuneration increased effective 1 October 2011, based on business and individual performance and aligned to market remuneration levels. The average senior executive (i.e. Wesfarmers leadership team) fixed remuneration increase was 5.4 per cent. The Board has determined that no increase will be made to the fixed remuneration for the Group Managing Director for the 2013 financial year.

As set out in the 2011 Remuneration Report, having considered current market practice and shareholder views, the Board approved various changes to the November 2011 Wesfarmers Long Term Incentive Plan (WLTIP) allocation including:

- introducing relative Total Shareholder Return (TSR) as a second performance metric;
- extending the performance period from three to four years; and
- increasing the level of performance required for full vesting in relation to both performance hurdles to the 75th percentile of the comparator group.

The Board continued to review the WLTIP during 2012. To better align the WLTIP with prevailing market practice, the Board has approved further changes to the 2012 WLTIP, including that executives will receive an allocation of performance rights (rather than performance shares, as in prior years). As performance rights are a right to be allocated a share in the future, executives are not entitled to dividend or voting rights during the performance period.

Shareholder approval will be sought at the 2012 Annual General Meeting (AGM) for 2012 WLTIP allocations proposed to be made to the Group Managing Director and the Finance Director.

Non-executive directors

A thorough review of the level of fees paid to Wesfarmers non-executive directors was undertaken during the year. This included a broad ranging review of the number of hours spent by each non-executive director on Wesfarmers' matters over the year (including preparation for and attendance at Board and Board Committee meetings, site visits, strategy sessions and other Company events), as well as an assessment of the reasonableness of the compensation provided in return for the time commitment required to oversee the business of the Wesfarmers Group, including benchmarking against comparable size companies and the hourly rates paid to professional consultants.

Following this review, non-executive director fees were increased effective 1 January 2012. Main Board fees increased by 4.0 per cent and the Audit Committee chair fee increased; however, Audit Committee and Remuneration Committee member fees were not increased. The Board has determined that no increase will be made to non-executive director fees prior to 1 July 2013.

Shareholder approval will be sought at the 2012 AGM to increase the maximum aggregate amount of remuneration that may be paid to the non-executive directors by $300,000 to $3,300,000 per annum (inclusive of superannuation). The current fee pool was approved by shareholders at the 2007 AGM. While the Board continues to believe the current size of the Board is appropriate for Wesfarmers, the proposed increase is intended to provide sufficient 'headroom' to appoint up to two additional members for a limited duration to allow for effective Board succession.

Other changes

In line with the 1 July 2011 changes made to the *Corporations Act 2001*, the Board has implemented procedures and protocols regarding the engagement of external remuneration consultants.

Key management personnel

The remuneration report sets out remuneration information for key management personnel, which encompasses the non-executive directors, the executive directors (comprising the Group Managing Director and the Finance Director) and those executives who have authority and responsibility for planning, directing and controlling the activities of a major revenue-generating division of Wesfarmers.

Executive directors		Non-executive directors	
R J B Goyder	Group Managing Director	R L Every	Chairman (non-executive)
T J Bowen	Finance Director	C B Carter	Director (non-executive)
Senior executives		J P Graham	Director (non-executive)
S A Butel	Managing Director, Resources division	A J Howarth	Director (non-executive)
J C Gillam	Managing Director, Home Improvement and Office Supplies division	C Macek	Director (non-executive)
I J W McLeod	Managing Director, Coles division	W G Osborn	Director (non-executive)
D L Rogers	Managing Director, Target division – appointed 17 October 2011	D L Smith-Gander	Director (non-executive)
G A Russo	Managing Director, Kmart division	V M Wallace	Director (non-executive)
Former senior executive			
L K Inman	Managing Director, Target division – resigned 30 March 2012		

Overview of remuneration components

Remuneration component		Participants			
		Group Managing Director	Finance Director / senior executives	Managing Director, Coles division	Non-executive directors
Fixed	Fixed Annual Remuneration	Page 77	Page 77	Page 77	
	Fees				Page 85
Annual incentive		Page 77	Page 77	Page 77	
Long-term incentive		WLTIP – page 79	WLTIP – page 79	CLTIP – page 82	
Post-employment arrangements	Superannuation	Page 74	Page 74	Page 74	Page 86

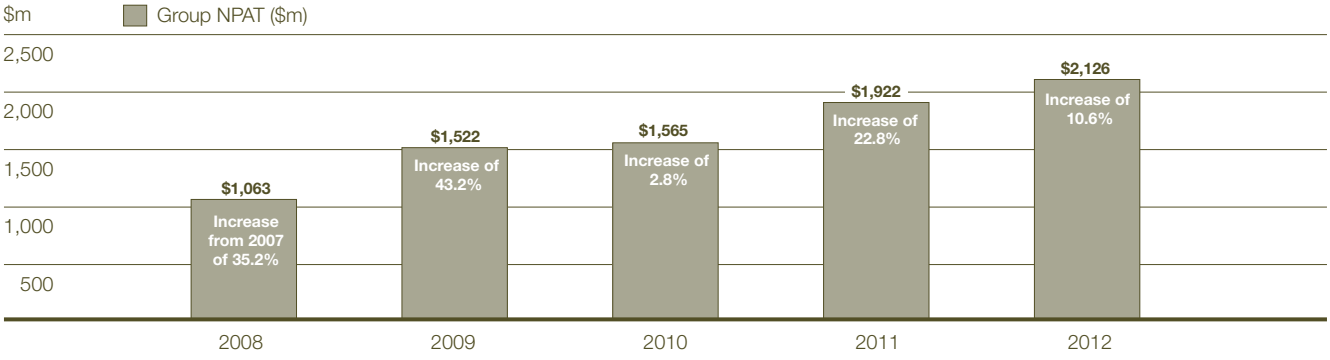
Link to 2012 financial performance

Annual incentive plan

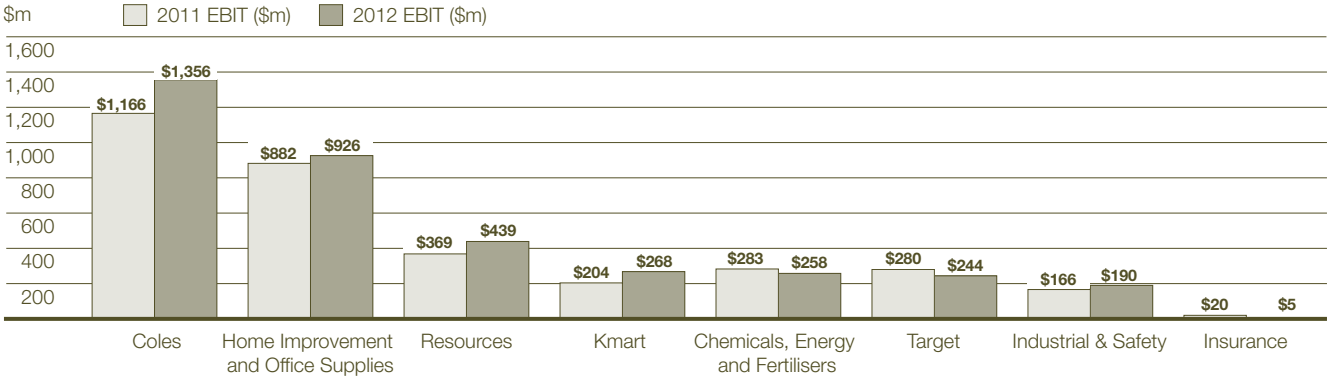
The Wesfarmers Group performance for the 2012 financial year has been positive and the threshold performance level was achieved. The graph on the following page shows Wesfarmers' net profit after tax (NPAT) for the 2012 financial year and the previous four financial years, which is an important indicator of performance and a key measure in the annual incentive plan.

In addition, the majority of divisions achieved earnings improvements from 2011 to the 2012 financial year, as shown in the earnings before interest and tax (EBIT) graph on page 72, and a number of divisions saw improvements in return on capital (ROC) while others maintained a strong double digit ROC (graph on page 72). ROC is calculated by dividing the rolling 12 months of EBIT by the rolling 12 months of capital employed. The financial performance for the Coles, Kmart, Chemicals, Energy and Fertilisers and Industrial and Safety divisions met or exceeded the annual financial targets set by the Board for 2012, resulting in the annual incentive plan (which is linked to divisional performance) delivering at or above target awards for the executive directors and for senior executives in those divisions. For the divisions that exceeded threshold performance levels or did not meet the annual financial targets, this was reflected in the annual incentives for senior executives in those divisions. Further detail on the annual incentive plan and actual performance for the 2012 financial year can be found on page 77 of this annual report.

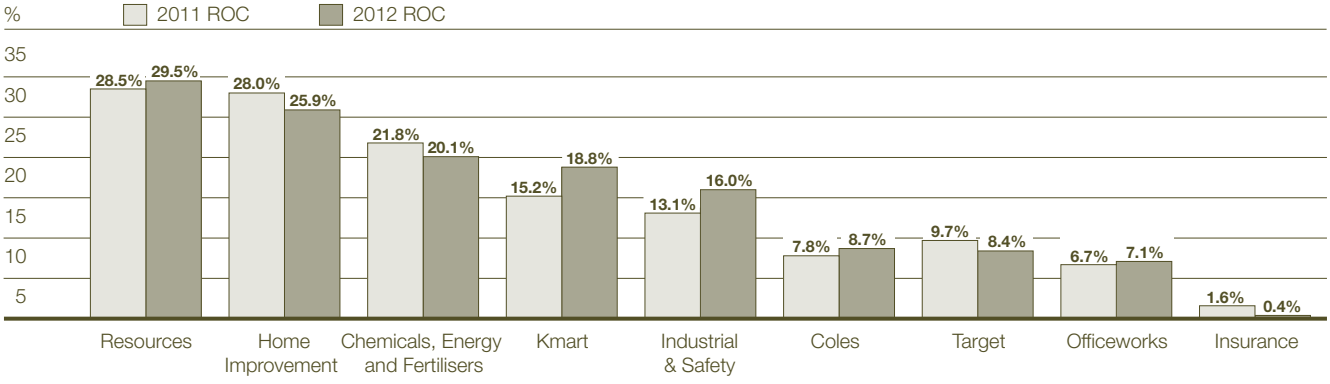
Group net profit after tax



Earnings before interest and tax



Return on capital



Wesfarmers Long Term Incentive Plan

A number of senior executives received an allocation of shares during the year under the 2011 WLTIP, which is subject to Wesfarmers achieving strong growth in return on equity (ROE) and relative total shareholder return.

In accordance with the shareholder approval received at the 2011 AGM, the Group Managing Director (Group MD) received an allocation of 206,480 shares under the 2011 WLTIP award. These shares are subject to a four-year forward-looking performance period and judged against two relative performance hurdles, with the Group MD having no entitlement to dividends during the vesting period. The Group MD's total reported remuneration for the 2012 financial year was $8,010,045, which includes an accounting expense of approximately $2.3 million in relation to his participation in the WLTIP and the deferred share component of the annual incentive program. Further detail is shown in the table on page 74.

During the 2012 financial year, shares vested under the 2008 WLTIP for participating senior executives, with Wesfarmers' compound average growth rate (CAGR) in ROE over the three-year performance period to 30 June 2011 at the 71st percentile of the S&P/ASX 50 Index. The number of shares that vested is shown in the table on page 81.

Coles Long Term Incentive Plan

As previously disclosed, the Managing Director, Coles division, participates in the Coles Long Term Incentive Plan (CLTIP), which is a special-purpose plan designed to incentivise and reward the Managing Director for implementing turnaround strategies that generate significant returns to Wesfarmers and its shareholders. After the fourth year of the Coles turnaround, the Coles division continues to show encouraging earnings growth and is meeting Wesfarmers' expectations in line with its ambitious five-year plan.

For the 2012 financial year, Coles delivered a 16.4 per cent increase in divisional EBIT and a 11.5 per cent increase in ROC, compared to the 2011 financial year. Accordingly, $7.4 million has been contributed to the award pool under the CLTIP for the Managing Director Coles division, with an associated accounting accrual of $10.9 million (being the amount expensed and included in the remuneration disclosures this year). Further detail is shown in the table on page 74.

Overview of Company performance

The table below summarises details of Wesfarmers' earnings (shown in the form of NPAT and earnings per share) and the consequences of that performance on shareholder value for the financial year and the previous four financial years in the form of dividends, changes in share price, any returns of capital and return on equity.

Financial year ended 30 June	2008	2009	2010	2011	2012
Net profit after tax (NPAT) ($m)	1,063 [1]	1,522 [2]	1,565	1,922	2,126
Dividends per share (cents)	200	110	125	150	165
Closing share price ($ as at 30 June)	37.30	22.76	28.67	31.90	30.12 [3]
Earnings per share (cents)	174.2 [4]	158.5 [2]	135.7	166.7	184.2
Return on equity (rolling 12) (%)	8.6	7.3 [2]	6.4	7.7	8.4

1 Restated due to finalisation of acquisition accounting for the Coles group.
2 Restated due to a change in accounting policy for coal rebates payable and rights to mine.
3 Weighted average closing share price as at 30 June 2012 (WES $29.90, WESN $31.56).
4 Restated due to the entitlement offers.

Section 1: Executive remuneration outcomes for 2012

The remuneration table on page 74 sets out the remuneration information for the executive directors and senior executives who are considered to be the key management personnel (KMP) of the Group.

Executive director and senior executive remuneration for 2012

	Short-term benefits				Post-employment benefits		Share-based payments[1]		Termination benefits	Total	Percentage performance related[2]
	Cash salary[3] $	Short-term incentive $	Non-monetary benefits[4] $	Other[4] $	Super-annuation $	Other benefits[5] $	Value of short-term incentive (STI) – STI shares and other $	Value of long-term incentive (LTI) – LTI equity and cash settled LTI $	Termination payments $	$	%
Executive directors											
R J B Goyder (Group Managing Director)											
2012	**3,284,899**	**2,103,600**	**171,490**	**10,347**	**48,199**	**58,433**	**1,184,790**	**1,148,287**	**–**	**8,010,045**	**55.4%**
2011	3,170,173	2,003,400	149,360	9,592	48,357	55,650	1,499,208	–	–	6,935,740	50.5%
T J Bowen (Finance Director)											
2012	**1,651,801**	**1,020,000**	**55,083**	**10,347**	**23,199**	**103,333**	**366,899**	**1,178,183**	**–**	**4,408,845**	**58.2%**
2011	1,551,643	960,000	11,537	9,592	23,357	101,666	487,061	943,999	–	4,088,855	58.5%
Senior executives											
S A Butel (Managing Director, Resources division)											
2012	**895,217**	**264,000**	**49,565**	**10,347**	**48,199**	**42,917**	**202,400**	**556,218**	**–**	**2,068,863**	**49.4%**
2011	800,059	547,575	49,477	9,592	48,357	222,333	644,000	505,765	–	2,827,158	60.0%
J C Gillam (Managing Director, Home Improvement and Office Supplies division)											
2012	**1,349,301**	**840,000**	**1,731**	**10,347**	**23,199**	**105,833**	**200,093**	**1,183,533**	**–**	**3,714,037**	**59.9%**
2011	1,224,143	774,000	2,349	55,703	23,357	149,000	414,460	1,105,837	–	3,748,849	61.2%
I J W McLeod (Managing Director, Coles division)											
2012	**1,912,454**	**1,667,233**	**167,323**	**110,347**	**15,775**	**33,333**	**–**	**10,900,000**	**–**	**14,806,465**	**84.9%**
2011	1,932,333	2,305,840	150,392	109,592	15,200	33,333	–	11,080,000	–	15,626,690	85.7%
D L Rogers (Managing Director, Target division – appointed 17 October 2011)											
2012	**808,045**	**720,000**	**33,278**	**51,064**	**11,831**	**20,000**	**67,532**	**506,362**	**–**	**2,218,112**	**58.3%**
2011	–	–	–	–	–	–	–	–	–	–	–
G A Russo (Managing Director, Kmart division)											
2012	**1,126,801**	**720,000**	**1,731**	**10,347**	**48,199**	**95,000**	**946,522**	**1,011,083**	**–**	**3,959,683**	**67.6%**
2011	1,049,935	298,609	3,423	9,592	48,357	18,333	1,016,873	1,192,033	–	3,637,155	68.9%
Former senior executive											
L K Inman (Managing Director, Target division – resigned 30 March 2012)											
2012	**933,246**	**–**	**13,454**	**7,767**	**22,631**	**–**	**765,417**	**282,920**	**–**	**2,025,435**	**51.8%**
2011	1,216,032	276,705	24,578	9,592	41,772	51,500	1,361,667	1,187,028	–	4,168,874	67.8%
TOTAL											
2012	**11,961,764**	**7,334,833**	**493,655**	**220,913**	**241,232**	**458,849**	**3,733,653**	**16,766,586**	**–**	**41,211,485**	**–**
2011	10,944,318	7,166,129	391,116	213,255	248,757	631,815	5,423,269	16,014,662	–	41,033,321	–

1 Share-based payments: Refer to page 77 for detailed disclosures under the annual incentive plan and pages 79 to 83 for the various long-term incentive plans.

The amounts included for the 'Value of short-term incentive shares' includes the portion of the 2012 annual incentive that was deferred into shares and is recognised for accounting purposes over the performance and forfeiture periods, which together are referred to as the 'service period'. Refer to page 79 for additional information. For accounting purposes, the 2010 and 2011 short-term incentive shares continue to be expensed in the 2012 financial year as these shares are subject to performance and forfeiture conditions. Further details of the 2010 and 2011 short-term incentives are provided on page 161 of the 2010 annual report and page 83 of the 2011 annual report.

The amount for I J W McLeod relates to the cash settled award made for the period under the CLTIP, refer to page 83 for additional information.

The amounts for S A Butel, L K Inman and G A Russo include shares under the retention incentive plan, now closed, which are subject to future service periods. The allocation of restricted shares for unvested entitlements are recognised for accounting purposes over the remaining service period. Refer to page 84 of the 2011 annual report and page 160 of the 2010 annual report for additional information.

The amounts included for the 'Value of long-term incentive equity' for the 2011 WLTIP are detailed on page 81. For accounting purposes, the 2008 WLTIP and 2010 WLTIP continue to be expensed in the 2012 financial year as these shares are subject to performance and forfeiture conditions, together referred to as the service period. Further details of the 2008 WLTIP allocations are provided on page 172 of the 2009 annual report, and 2010 WLTIP allocations are provided on page 83 of the 2011 annual report.

2 Percentage performance related is the sum of the short-term incentive and share-based payments divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year, as compared to the target percentage of remuneration at risk shown on page 76.

3 The amount of the individual components of fixed remuneration may vary depending on the elections made by executives.

4 Short-term benefits, non-monetary benefits, include the cost to the Company of providing parking, vehicle, visitor health insurance, life insurance and travel.

Short-term benefits, other, includes the cost of director and officer insurance and housing allowance.

5 Post-employment benefits, other benefits, include the retention incentive accrual (equal to nine months FAR) from last year to this year, which is payable upon termination of employment for T J Bowen, S A Butel, J C Gillam and G A Russo. Refer to page 84 of the 2012 annual report and page 160 of the 2010 annual report for additional information.

Section 2: Executive remuneration policy and framework

Responsibility for setting remuneration

The Remuneration Committee is delegated responsibility by the Board for reviewing and making recommendations on remuneration policies for the Group, including, in particular, the policies governing the remuneration of senior executives. 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

In performing its role, the Board and Remuneration Committee directly commission and receive information, advice and recommendations from independent external advisers. In 2011, the Board reviewed the process for engaging and seeking advice from external advisers and adopted a protocol setting out the process for receiving remuneration recommendations in relation to KMP which, among other things, is designed to ensure that the recommendations made are free from undue influence by management. One of the key outcomes of this review was that the Chairman of the Remuneration Committee appoints and engages directly with remuneration consultants in relation to KMP remuneration matters.

During the 2012 financial year, the Remuneration Committee employed the services of PricewaterhouseCoopers (PwC) under the Board-approved protocol to review and provide recommendations on non-executive director fees, the aggregate fee limit and the appropriateness of the Group MD and executive remuneration proposals. Under the terms of the engagement, PwC provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid $62,000 for these services.

In addition to providing remuneration recommendations, PwC provided advice on other aspects of the remuneration of the Group's employees, and various non-audit services (including advice in relation to taxation, accounting, operations, technology and people matters across all Wesfarmers divisions), and was paid a total of approximately $12.57 million for services to the Wesfarmers Group for the 2012 financial year.

For each of the remuneration recommendations referred to above, the Board is satisfied that the recommendations were made free from any undue influence. In addition to the internal protocols referred to above that have been adhered to, in each case, PwC provided a formal declaration confirming that the recommendation was made free from 'undue influence' by the members of the KMP to whom the recommendation related.

The Committee has engaged jws consulting to provide independent governance and legal advice in relation to senior executive remuneration matters.

Remuneration policy and principles

As set out in detail in the 2011 Report, the Remuneration Committee has adopted four core guiding principles that are used as a reference when considering remuneration plans and policies that apply to senior executives.

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.

These guiding principles also reaffirm the Board's commitment to communicating KMP remuneration arrangements to key stakeholders in an open and transparent manner.

– **ownership aligned** – remuneration arrangements generally encourage Wesfarmers' senior executives to behave like long-term 'owners' through performance-based equity plans to increase shareholdings. The mix of remuneration components and the measures used in the performance incentive plans were chosen to ensure there is a strong link between remuneration earned and the achievement of sustainable performance that leads to satisfactory returns for shareholders;

- **performance focused** – generally remuneration arrangements 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 core common set of remuneration practices will generally apply to all senior executive roles. However, differential management will be applied by the Remuneration Committee to meet specific needs. Wesfarmers positions fixed remuneration and incentives to be competitive with executives in comparable companies, 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.

Components and mix of executive remuneration

The executive remuneration framework consists of the following components:

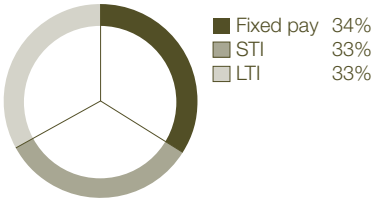
Base salary	At risk components	
Fixed Annual Remuneration (FAR)	Short-term incentives (STI)	Long-term incentives (LTI)
	The Board considers that a significant portion of executives' remuneration should be 'at risk' in order to provide a strong alignment with the interests of shareholders. Incentives are set at levels competitive with the market.	

In setting FAR:
– reference is made to the median of salaries for executives in ASX 25 companies
– consideration is given to business and individual performance as well as the ability to retain key talent
– additional sector or industry-specific data is taken into consideration in benchmarking the senior executives where appropriate
	– based on the achievement of annual performance conditions
	– performance conditions:
	  – heavily weighted to return and earnings-based measures
	  – include non-financial performance measures set to drive leadership performance and behaviours consistent with achieving the Group's long-term objectives in areas including safety, diversity and succession planning and talent management
	– vested incentive comprises both:
	  – a cash component – paid following the end of the performance year
	  – a restricted share component – subject to forfeiture in the 12 months following allocation and restricted for a minimum of three years
		– based on achievement of performance conditions over a four-year period
		– move from performance shares to performance rights for the 2012 WLTIP allocation
		– performance conditions comprise growth in ROE and relative TSR, in order to ensure a strong link with the creation of shareholder value
		– to encourage longer-term share ownership and further align executives' interests with those of shareholders, executives can elect to have a trading restriction placed on shares received on vesting of the rights for a further one or three years
		– one-off specific plan operated for select Coles executives, the performance conditions for which are linked to the turnaround of the Coles division

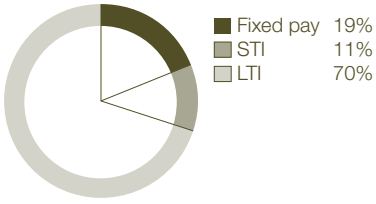
Within this framework, the Board considers it essential to have remuneration arrangements that reflect the diversified nature of the Wesfarmers business and are structured to reward executives for performance at a Group level and, for divisional executives, also at a divisional level.

Wesfarmers' mix of fixed and at risk components for each of the executives disclosed in the remuneration report, as a percentage of total target annual remuneration for the 2012 financial year, is as follows:

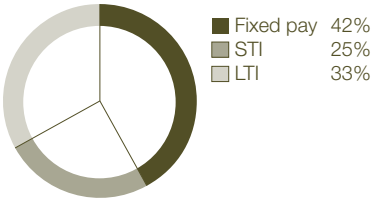
Group MD



Managing Director Coles



Other senior executives



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

Senior executive share ownership

The Board considers it an important foundation of the Wesfarmers executive remuneration framework that the senior executive team hold a significant number of Wesfarmers' shares to encourage executives to behave like long-term 'owners'. All senior executive KMP hold at least one year's salary in Wesfarmers shares, with the majority holding significantly more.

Wesfarmers' Share Trading Policy prohibits executive directors and senior executives from entering into transactions or arrangements that protect against the risk of any fluctuation in the value of shares obtained under an employee share plan for as long as the shares remain subject to a restriction on disposal under the plan. Strict compliance with the Share Trading Policy is a condition of employment. Breaches of the policy are subject to disciplinary action, which may include termination of employment. The policy requires Wesfarmers directors and senior executives to advise the Company Secretary if they intend to enter, or have entered into, a margin-lending or other security arrangement affecting the Company's securities. The Company Secretary, in consultation with the Chairman, determines if such arrangements are material and require disclosure to the market. The policy is available on the Corporate Governance section of the Company's website at www.wesfarmers.com.au

Section 3: Executive remuneration components

Fixed Annual Remuneration

Fixed Annual Remuneration (FAR) consists of base salary and statutory superannuation contributions.

Executive directors and senior executives may also elect to have a combination of benefits provided out of their FAR, including additional superannuation and the provision of a motor vehicle. The value of any non-cash benefits provided to them includes the costs of any fringe benefits tax payable by Wesfarmers as a result of providing the benefit.

Remuneration levels for executives are reviewed annually, with the Board and Remuneration Committee seeking independent advice from external consultants as part of this process. Senior executive fixed annual remuneration increased effective 1 October 2011, based on business and individual performance and aligned to market remuneration levels. The average senior executive (i.e. Wesfarmers leadership team) 2011 fixed remuneration increase was 5.4 per cent. The Board has determined that no increase will be made to the fixed remuneration for the Group MD for the 2013 financial year.

Annual incentive plan

Summary of plan

What is the annual incentive and who participates?	The annual incentive provides, upon satisfaction of applicable performance conditions, a cash award up to 60 per cent of FAR, with any amount awarded above that provided in the form of restricted (deferred) shares. All senior executives are eligible to receive an annual incentive.	
What is the amount the executive can earn?	**Level of performance**	**Percentage of FAR received**
	Below threshold or below expectations (i.e. ≤ 92.5% or 95% of target, depending on the division)	0%
	Between threshold and target	Up to 60% (up to 100% for the Group MD)
	Target or meets expectations	60% (100% for the Group MD)
	Above target or well above expectations (i.e. ≥ 105% or 110% of target, depending on the division)	Up to 120%
What were the performance conditions for the 2012 financial year?	The performance conditions for the annual incentive are a mix between financial and non-financial measures. The specific performance conditions for the 2012 financial year, and achievement against these measures, is shown in the table on page 78.	
Why were the performance conditions chosen?	The financial performance measures were chosen principally because of their impact on ROE, which is a contributor to achievement of satisfactory returns to shareholders of the Wesfarmers Group. The non-financial performance measures have been set to drive leadership performance and behaviours consistent with achieving the Group's long-term objectives in areas including safety, diversity and succession planning and talent management. In addition, due to the significant turnaround effort required, the Group MD has a separate performance measure that is dependent on the improvement in annual performance of the Coles division.	

When are the performance conditions tested?	Incentive awards are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the Group MD (and in the case of the Group MD, by the Board) at the end of the financial year. The Board confirms final awards based on overall personal and Group performance. In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions. Annual incentive cash payments and deferred restricted share awards are generally made in early September, after the reviews are completed.
What are the key terms of the restricted shares?	The Board believes the deferral of part of the short-term incentive links the value of part of the annual incentive to sustainable longer-term performance. The shares are subject to forfeiture if the executive resigns within one year of the share allocation. The shares are subject to a three-year trading restriction while the executive remains an employee of Wesfarmers and the executive can elect for an additional restriction of up to seven years.

Summary of actual performance – 2012 financial year

The Wesfarmers Group performance for the 2012 financial year has been positive and the threshold performance level was achieved. In addition, the majority of divisions achieved earnings improvements from 2011 to the 2012 financial year, and a number of divisions saw improvements in ROC while others maintained a strong double digit ROC. The financial performance for the Coles, Kmart, Chemicals, Energy and Fertilisers and Industrial and Safety divisions met or exceeded the annual financial targets set by the Board for 2012, resulting in the annual incentive plan delivering at or above target awards for the executive directors and for senior executives in those divisions. For the divisions that exceeded threshold performance levels or did not meet the annual financial targets, this was reflected in the annual incentives for senior executives in those divisions.

The table below sets out the performance conditions for the 2012 annual incentive, and the weighting between these measures for each of the executive directors and senior executives. Also indicated in the table is whether the 'threshold' or 'target' performance level for each of the financial measure was met or exceeded, as shown by the following key:

= 'Threshold' performance level not met

= 'Threshold' performance level met or exceeded

= 'Target' performance level met or exceeded

	Weighting of financial measures				Weighting of non-financial measures	
Name[1]	Group NPAT, ROE	Divisional EBIT	Divisional ROC	Divisional sales, cash flow, store growth	Agreed objectives include diversity, talent management and safety	Link to Group or divisional performance outcomes
R J B Goyder[2]	30%	30% on Coles turnaround			40%	Group – pages 2 to 3
T J Bowen	50%	N/A	N/A	N/A	50%	Group – pages 2 to 3
S A Butel	N/A	35%	35%	N/A	30%	Resources – page 40
J C Gillam	N/A	35%	35%	N/A	30%	Home Improvement and Office Supplies – page 22
I J W McLeod	N/A	40%	N/A	40%	20%	Coles – page 18
D L Rogers[3]	N/A	5%	5%	5%	85%	Target – page 26
G A Russo	N/A	40%	10%	20%	30%	Kmart – page 30

1 L K Inman did not participate in the annual incentive plan for the 2012 financial year.

2 The Group MD requested, and the Board agreed, that he forego the Group NPAT component of his 2012 annual incentive award in light of the asset impairment charge recognised in relation to the Group's Coregas investment (an investment made earlier in his tenure as Group MD). This adverse treatment was not applied to the Finance Director, T J Bowen, who was not in a role with responsibility for the Coregas investment at the time of the original investment.

3 As D L Rogers joined the Company on 17 October 2011 after the 2012 financial year budget had been set, the 2012 financial year targets were heavily weighted towards agreed objectives for the business. The weightings for financial and non-financial performance conditions are expected to be aligned with other divisional managing directors in the 2013 financial year.

Summary of annual incentive awards – 2012 financial year

Specific information relating to the actual annual incentive awards for the 2012 financial year, including the breakdown between cash and mandatory deferred restricted shares (where applicable), is set out in the table below. As indicated on page 78, the shares allocated are subject to a three-year trading restriction while the executive remains an employee of Wesfarmers and subject to forfeiture if the executive resigns employment within one year of the share allocation.

Name	Total annual incentive award [1]	Percentage of maximum award [2]	Amount of award in cash	Number of restricted shares [3]	Amount of award in shares [4]	Allocation share price
R J B Goyder	$2,784,374	66.2%	$2,103,600	19,833	$680,774	$34.32
T J Bowen	$1,409,316	69.1%	$1,020,000	11,342	$389,316	$34.32
S A Butel	$264,000	22.0%	$264,000	–	–	–
J C Gillam	$860,324	51.2%	$840,000	592	$20,324	$34.32
I J W McLeod [5]	$1,667,233	69.5%	$1,667,233	–	–	–
D L Rogers	$866,350	85.3%	$720,000	4,263	$146,350	$34.32
G A Russo	$1,029,460	71.5%	$720,000	9,015	$309,460	$34.32

1 Annual incentive awards for the 2012 financial year were paid in cash to a maximum of 60 per cent of FAR, with the balance deferred into shares. Detail of the portion of the total annual incentive paid in cash is set out in the table on page 74 (under the column titled 'short-term benefits, short-term incentive').

2 The maximum annual incentive payment a KMP can earn for the 2012 financial year is 120 per cent of FAR. Any amount not earned/awarded is not paid to the executive (and is forfeited). The annual incentive payment for senior executives for target performance is 60 per cent of FAR, and 100 per cent of FAR for the Group MD.

3 The number of shares is determined based upon the allocation share price on 29 August 2012. For R J B Goyder and T J Bowen, the number of rights to shares is shown. These shares are expected to be allocated within six months of the Board approval. For accounting purposes, the service period for the 2012 annual incentive plan commenced on 1 July 2011 and the grant date is September 2011.

4 46.1 per cent of the value is shown in the table on page 74 (under the column titled 'share-based payments, value of short-term incentive shares') as the 2012 annual incentive mandatory deferral into shares commenced vesting from 1 July 2011 and is subject to forfeiture if the executive resigns prior to 29 August 2013, as described above.

5 I J W McLeod as a temporary resident initially employed on a fixed term contract is not mandatorily required to defer a portion of the 2012 annual incentive into shares. For the 2014 financial year, Mr McLeod will be required to defer any annual incentive above 60 per cent of FAR into shares.

Long-term incentive plans

Summary of plans

Plan	Participants	Performance period	Discussion
Wesfarmers Long Term Incentive Plan (WLTIP)	Group MD Senior executives	4 years (2011–2015)	Page 79
Coles Long Term Incentive Plan (CLTIP)	Managing Director, Coles division Select Coles senior executives	5 years (2008–2013)	Page 82

Wesfarmers Long Term Incentive Plan (WLTIP)

Changes for 2012 WLTIP allocations (for rights allocated during the 2013 financial year)

Further to changes made in recent years, the Board continued to review the WLTIP during 2012.

To better align the WLTIP with prevailing market practice, the Board has determined that for the 2012 WLTIP, executives will receive an allocation of performance rights. As performance rights represent a right to be allocated a share in the future, executives are not entitled to dividends or voting rights during the performance period.

In general, if the relative TSR and CAGR in ROE performance conditions are met, executives will be allocated Wesfarmers shares at the end of the four-year performance period. In order to encourage longer-term share ownership and further align executives' interests with those of shareholders, executives can also elect to have a trading restriction placed on the Wesfarmers shares received on vesting of the rights for a further one or three years.

Shareholder approval will again be sought at the 2012 AGM for 2012 WLTIP allocations of performance rights to be made to the executive directors.

Summary of 2011 WLTIP (for shares allocated during the 2012 financial year)

What is the WLTIP and who participates?	The WLTIP is designed to link long-term executive reward with ongoing creation of shareholder value, with the allocation of equity awards that are subject to satisfaction of long-term performance conditions. For the 2011 WLTIP, participants were allocated share awards. All senior executives (including the Group MD), other than the Coles division executives, participate in the WLTIP.
How is the WLTIP allocation determined?	The number of awards granted commences at 80 per cent of FAR (for 'Target' performance), although the Group MD may recommend a greater allocation up to 160 per cent of FAR to reward exceptional performance. The WLTIP for the Group MD is determined by the Board and set within the range of 100 to 200 per cent of FAR. The number of shares allocated is determined based upon the share price at the date of allocation.
What is the performance period?	The share awards are subject to a four-year forward-looking performance period, being 1 July 2011 to 30 June 2015.
What are the performance conditions?	The 2011 WLTIP is subject to two performance hurdles: – 75 per cent of the shares will be tested based on Wesfarmers' Compound Average Growth Rate (CAGR) in Return on Equity (ROE); and – 25 per cent of the shares will be tested based on Wesfarmers' Total Shareholder Return (TSR), relative to the CAGR in ROE and TSR of the ASX50 Index over the four-year performance period. The following vesting schedule applies to both performance hurdles:

Percentile ranking	Percentage of awards vesting
Below the 50th percentile	0% vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	An additional 2% of awards vest for each percentile increase
Equal to the 75th percentile or above	100% vesting

Why were these performance conditions chosen and when are they tested?	The Board considers that CAGR in ROE is an appropriate performance hurdle on the basis that it: – is used by Wesfarmers to measure the return on its portfolio of businesses; – is a key metric to measure Wesfarmers' long-term success as it contains clear links to shareholder value creation; and – is an internal measure that an executive can influence and avoids the unintended consequences of share market volatility. The Board also approved the addition of a relative TSR hurdle for the 2011 WLTIP. The use of a TSR hurdle: – ensures alignment between comparative shareholder return and reward for the executive; and – provides a relative, external market performance measure having regard to Wesfarmers' comparative companies. The Board tests the performance conditions following finalisation of the annual accounts at the end of the performance period.
What happens in the event of a change of control?	The Board has discretion to determine the treatment of awards under the WLTIP in the event of a change of control.
What happens if the executive ceases employment during the performance period?	Shares allocated to executives under the 2011 WLTIP are subject to a four-year forfeiture condition where the executive resigns or is terminated for cause or poor performance prior to 30 June 2015. In addition, the shares remain restricted until November 2015 while the executive remains employed by Wesfarmers. The shares are held in trust for this period. At the end of the restriction period (and subject to shares not being forfeited) the executive is free to sell or transfer the shares. If an executive ceases employment during the performance period by reason of redundancy, ill health, death or other circumstances approved by the Board, the executive will generally be entitled to a pro-rata number of shares based on achievement of the ROE and TSR hurdles over the performance period up to ceasing employment.
What WLTIP shares have vested in the 2012 financial year?	The 2008 WLTIP has a three-year performance period to 30 June 2011, which required Wesfarmers' CAGR in ROE over the relevant performance period to exceed the 50th percentile of the CAGR in ROE of the S&P/ASX 50 Index before any shares vest. The performance condition was met in full with Wesfarmers' CAGR in ROE at the 71st percentile. The number of shares that vested under the 2008 WLTIP is shown in the table on page 81.

Summary of awards under WLTIP

The table below sets out details of shares allocated to senior executives under the 2011 WLTIP allocation (i.e. during the 2012 financial year) and the shares that vested during 2012 (i.e. under the 2008 WLTIP).

Name	Unvested at 1 July 2011[1]	Allocated during year[2]	Valuation at allocation[3]	Vested during year[4]	Forfeited during year	Unvested at 30 June 2012[5]
R J B Goyder[3]	–	206,480	$4,593,148	–	–	206,480
T J Bowen	176,676	118,730	$3,240,731	176,676	–	118,730
S A Butel	20,718	47,739	$1,303,034	–	–	68,457
J C Gillam	191,269	95,726	$2,612,837	176,676	–	110,319
D L Rogers	–	74,206	$2,025,448	–	–	74,206
G A Russo	147,887	68,022	$1,856,656	121,464	–	94,445
Former executives						
L K Inman[6]	116,311	–	N/A	110,635	5,676	–

1 Held at 1 July 2011 reflects the WLTIP allocations subject to performance conditions at that time (i.e. under the 2008 WLTIP multi-year and 2010 WLTIP allocations).

2 The 2011 WLTIP shares were allocated to participants on 23 November 2011, and the number of shares awarded is determined based upon the share price of $32.34 at the date of allocation. For accounting purposes, the service period for the 2011 WLTIP commenced on 1 July 2011 and the grant date is 19 August 2011. The 2011 WLTIP grant is subject to a four-year performance period and forfeiture if the executive resigns prior to 30 June 2015.

3 For accounting purposes, the fair value at grant date is shown above, in accordance with AASB 2: Share Based Payments. The shares subject to market conditions (TSR hurdle) have been independently valued using Monte Carlo simulation (using the Black-Scholes framework). The shares subject to non-market conditions (CAGR in ROE hurdle) have been valued using the Black-Scholes option pricing model. The value per share for the TSR performance hurdle and ROE hurdle is $20.41 and $29.59 respectively. The value per share for R J B Goyder was $15.36 and $24.54 respectively on the basis that there was no entitlement to the dividend stream during the vesting period.

4 Vested during the year reflects the shares that were granted under the 2008 WLTIP multi-year award, as described above, and vested based on meeting the three-year ROE hurdle to 30 June 2011. The share price at the date of vesting on 21 November 2011 was $32.12.

5 Unvested at 30 June 2012 reflects the WLTIP allocations subject to performance conditions at that time (i.e. the 2010 and 2011 WLTIP award allocations).

6 In accordance with the terms of the WLTIP, L K Inman was entitled to a number of the 2010 WLTIP shares earned at the end of the period based on testing of the performance condition to 31 December 2011. Ms Inman did not participate in the 2011 WLTIP.

Summary of dividends paid on WLTIP shares

The table below sets out details of dividends paid on unvested shares allocated under the WLTIP to participating senior executives during the 2012 financial year. Unvested shares are those shares that remain subject to performance conditions during the 2012 financial year. The total of the 2011 final dividend (paid 30 September 2011 of 85 cents) and the 2012 interim dividend (paid 30 March 2012 of 70 cents) paid during the 2012 financial year on these shares is set out below. The future dividend entitlement on WLTIP awards was taken into account by the Board when determining the amount of the LTI awards and the competitiveness of the executive's total remuneration against comparator roles in the ASX25 companies. The accounting expense in relation to WLTIP awards is shown in the table on page 74. An external remuneration adviser provided the Board with relevant market data and advice was sought on the reasonableness of LTI awards, to ensure LTI awards were within the stated policy range and total remuneration market position. WLTIP participants will not receive dividends on WLTIP allocations made in the form of performance rights for 2012 and later years.

Name	Total value of dividend payments[1]
R J B Goyder	$0[2]
T J Bowen	$233,286
S A Butel	$65,530
J C Gillam	$239,802
D L Rogers	$51,944
G A Russo	$191,815

1 Total value of dividend payments reflects the shares that were subject to performance conditions during the 2012 financial year and are considered 'unvested' shares i.e. 2008 WLTIP multi-year and 2010 and 2011 WLTIP share award allocations. The 2008 WLTIP multi-year award vested based on meeting the three year ROE hurdle to 30 June 2011. The 2010 and 2011 WLTIP are subject to performance and forfeiture conditions to 30 June 2013 and 30 June 2015 respectively.

2 None of Mr Goyder's long-term incentive arrangements (i.e. 2011 WLTIP share award allocation and 2008 Group MD Rights Plan) carry the entitlement to dividends.

Coles Long Term Incentive Plan (CLTIP)

Summary of 2012 performance

At the end of the fourth year of the special purpose CLTIP, the Coles division continues to perform well against Wesfarmers' ambitious five-year plan for the business.

Coles divisional EBIT of $1,356.4 million for the 2012 financial year met the business plan target set under the CLTIP, with performance highlights including:

- Coles division EBIT growth of 16.4 per cent against the 2011 financial year;
- Coles division revenue (excluding fuel sales) growing to $27,201.8 million (approximately $1.2 billion higher than the 2011 financial year);
- Coles division ROC increasing to 8.7 per cent (up from 7.8 per cent in the 2011 financial year); and
- Coles division exceeding key health of business factors including new store formats, customer and employee satisfaction score improvements and on-shelf availability of fresh and grocery products.

Summary of CLTIP

Who participates?	The Managing Director Coles division and a select number of key executives within the Coles division.
What is the performance period?	This plan operates from 1 July 2008 to 30 June 2013 for the initial participants, which is aligned to Wesfarmers' five-year period for the Coles turnaround. Annual performance awards are made over this period based on performance and are accumulated in an award pool for each participant that is progressively paid out from 2011 through 2013, subject to ongoing service with the Coles division.
When do awards become payable?	At the end of the 2012 financial year, 60 per cent of the aggregate award pool will be paid out of the accumulated annual awards that have been contributed to the pool. The balance of the accrued award is payable on 30 June 2013.
How is the annual award pool contribution determined?	In each year of the plan, an award opportunity is determined by reference to the Coles division's EBIT performance for the year against the annual targets approved by the Board. Contributions to the award pool only commence once EBIT performance for a year reaches a threshold level approved by the Board (which is set at an average of 94 per cent of the business plan EBIT target in each year). The size of the contribution to the award pool increases as the Coles division's EBIT increases. In order to encourage exceptional performance, there is no upper limit on the size of the award pool.
What are the performance conditions?	The actual entitlement of each participant out of the pool is determined by performance against the following performance conditions applicable to each year of the plan: **Financial (80 per cent)** – Annual growth in Coles revenue (excluding fuel sales) against targets – Return on capital invested by Wesfarmers against targets **Non-financial (20 per cent)** – Health of Coles business in areas such as customer and employee satisfaction, on-shelf availability, delivery of new stores and ongoing succession planning As we near the end of the five-year turnaround period, an additional performance condition relating to key management succession planning applies to the 2012 and 2013 financial years.
Why were these performance conditions chosen?	The performance conditions have been selected as, in addition to growing EBIT, they are important indicators of a long-term structural turnaround in the Coles business. In particular, these conditions were chosen as: – sustainable profit growth from Coles and a satisfactory rate of return on capital invested in Coles are key drivers for Wesfarmers' financial performance; and – maximising revenue growth and achieving sustained improvement in the non-financial 'health of business' conditions in the competitive retail markets in which Coles operates is a key indicator of the market attractiveness and quality of management of Coles' offerings, which in turn is a key contributor to future profitability. The Board retains discretion to review and, where appropriate, amend the applicable annual performance conditions to take account of changed circumstances.
When is performance determined?	Performance against each of the targets is determined annually by the Board at the time of finalising the financial statements.

Are awards payable in cash or shares?	At least 50 per cent of the award made available to participants each year is payable in cash and a participant may elect earlier in the year to take up to 50 per cent of any award in relation to the 2012 financial year in the form of Wesfarmers shares. These shares would be restricted and remain subject to forfeiture in specified circumstances until 30 June 2013. Mr McLeod did not elect to take any part of his 2012 CLTIP award in the form of shares. As at the date of this report, the number of Wesfarmers shares held by Mr McLeod in his own right is 65,276.
What happens in the event of a change of control?	The Board may determine that the restrictions applicable to accrued awards under CLTIP do not apply in the event of a change of control.
What happens if the executive ceases employment during the performance period?	If Wesfarmers terminates a participant's employment (other than for cause) all accrued awards vest at that time. If a participant resigns between 30 June 2012 and 30 June 2013, 40 per cent of any awards accrued over the first four years of the plan (not paid out) will be forfeited.

Overview of performance over the last four years

Over the four years of the operation of the CLTIP, the Coles management team has:

- increased Coles divisional revenue (excluding fuel sales) by $4,165 million to $27,201.8 million (an increase of 18.1 per cent);
- increased EBIT from $830.6 million to $1,356.4 million (an increase of 63.3 per cent);
- invested $3,240.6 million in launching new stores, refurbishing older stores and other capital requirements and, notwithstanding this significant investment, increased ROC from 5.5 per cent to 8.7 per cent;

for the benefit of Wesfarmers and its shareholders.

Summary of awards under CLTIP

What amount was contributed to the award pool in relation to 2012 for Mr McLeod?	The 2012 contribution to the award pool in respect of Mr McLeod was $7.4 million for achievement above the business plan for Coles. The contribution to the award pool in respect of Mr McLeod for the first four years has been $32.6 million.
What amount was payable to Mr McLeod in the 2012 financial year?	Mr McLeod became entitled on 1 July 2012 to a payment of $9.48 million, being 60 per cent of the $32.6 million cumulative cash award pool as at 30 June 2012, less the first interim payment, which was made last financial year.
What amount is shown as remuneration for Mr McLeod in relation to the 2012 financial year?	Recognising that performance awards under the CLTIP are made annually and the payment of awards is subject to an ongoing service condition, an amount of the award pool is accrued in each year of the CLTIP. The accounting accrual for the 2012 financial year in relation to Mr McLeod's potential awards earned over the first four years of the CLTIP (as shown in the table on page 74) was $10.9 million. The accounting accrual reflects the amortisation of contributions to the award pool as required under accounting standards over the period of the CLTIP, which, as indicated above, remains subject to an ongoing service condition.
What amount remains available to Mr McLeod in the final year of the CLTIP?	Assuming the current Board approved business plan for Coles is achieved in 2013, the amount that could be allocated to the award pool for Mr McLeod in the final year of the CLTIP is approximately $8.2 million.

Section 4: Service agreements

The remuneration and other terms of employment for the executive directors and senior executives are covered in formal employment contracts.

All service agreements are for unlimited duration. As announced to the market on 29 May 2012, Mr McLeod's previous fixed term employment contract (which was due to expire on 30 June 2013) has been converted to an open ended contract. Further detail is provided in the table below.

Name	Notice periods / Termination payment
R J B Goyder	12 months notice (or payment in lieu) May be terminated immediately for serious misconduct
I J W McLeod	The notice period under the existing contract is the unexpired balance of that contract From 1 January 2013, the notice period will be six months by either party (or payment in lieu) May be terminated immediately for serious misconduct
T J Bowen [1]	Three months notice by either party (or payment in lieu) May be terminated immediately for serious misconduct
S A Butel, J C Gillam, G A Russo [1]	Three months notice by either party and six months notice in the case of redundancy (or payment in lieu) May be terminated immediately for serious misconduct
D L Rogers	Three months notice by either party (or payment in lieu) May be terminated immediately for serious misconduct In the event of termination by the Company, the executive will be entitled to receive a severance payment equal to nine months FAR

1 A portion of the retention incentive previously earned for satisfying the applicable service condition under the legacy retention incentive plan, equal to nine months FAR, is payable to these executives at the time of termination of employment (except in the case of termination for serious misconduct).

Section 5: Legacy plans

Group Managing Director Rights Plan – 2008 grant

As disclosed in previous reports, the Group MD Rights Plan was a one-off special purpose Plan pursuant to which performance rights were granted to the Group MD. The ROE based vesting condition applicable to the Plan was not met this year and, if the condition is not met on 30 June 2013, no rights will vest. Following an assessment of the probability of the performance condition being met, no expense was recognised in the 2012 financial year.

Details of the performance rights granted on 30 September 2008 are set out in the table below:

Executive director	Held at 1 July 2011	Vested during the year	Forfeited during the year	Held at 30 June 2012
R J B Goyder	100,000	–	–	100,000

Retention incentive plan

As part of the arrangements to close-out the legacy retention incentive plan in 2010, those participants who had not completed five years of service with the Group were allocated restricted shares in relation to the part of the five years not completed as at 30 June 2010. These shares vest on an annual basis under these arrangements, but continue to be restricted and subject to forfeiture where the participant resigns, is summarily dismissed or breaches a material provision of their service agreement prior to the forfeiture date indicated in the table below.

Details of the shares held by senior executives under the retention incentive plan are set out in the table below:

Name	Unvested at 1 July 2011	Vested during the year [1]	Forfeited during the year	Forfeiture date	Unvested at 30 June 2012	Subject to trading restriction at 30 June 2012
S A Butel [2]	11,365	11,365	–	N/A	–	–
G A Russo [3]	54,356	18,118	–	1 October 2013	36,238	62,282
L K Inman [4]	41,178	41,178	–	N/A	–	–

1 The shares are recognised for accounting purposes over the remaining service period, and shown in the table on page 74 (under the column titled 'share-based payments, value of STI shares and other').

2 S A Butel's retention incentive plan shares fully vested on 11 September 2011, and are free from further restrictions.

3 During the year, 18,118 of G A Russo's retention incentive plan shares vested, but remain restricted until the end of his first five years of service with the Group, being 1 October 2013. As at 30 June 2012, a total of 26,044 retention incentive plan shares have vested, but remain restricted until 1 October 2013.

4 L K Inman ceased employment on 30 March 2012 and all shares vested on cessation. All conditions applicable to the shares have been satisfied and the restrictions attaching to the shares were lifted upon cessation.

Section 6: Non-executive director remuneration

Overview of remuneration policy and arrangements

Policy objectives	Wesfarmers policy regarding fees for non-executive directors is intended to: – **be market competitive** – aim to set fees at a level competitive with non-executive directors in comparator companies; and – **safeguard independence** – to not include any performance-related element, to preserve the independence of non-executive directors.
Aggregate fees approved by shareholders	The current aggregate fee pool for non-executive directors of $3,000,000 was approved by shareholders at the 2007 AGM. Board and committee fees, as well as statutory contributions made on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations, are included in this aggregate fee pool. Shareholder approval will be sought at the 2012 AGM to increase the maximum aggregate amount of remuneration that may be paid to the non-executive directors by $300,000 to $3,300,000 per annum (inclusive of superannuation). While the Board continues to believe the current size of the Board is appropriate for Wesfarmers, the proposed increase is intended to provide sufficient 'headroom' to appoint up to two additional members for a limited duration to allow for effective Board succession.
Regular reviews of remuneration	The Board periodically reviews the level of fees paid to non-executive directors and seeks independent advice in that regard. A thorough review was undertaken during the year with the assistance of PwC which, in addition to considering relative benchmarks against comparable size companies, also examined broader factors such as the time commitment required from directors to oversee the business of the Wesfarmers Group, overall Company performance and the hourly rates paid to professional consultants in order to test reasonableness of the non-executive director fees. Following this review, and having regard to the recommendations made by PwC, non-executive director fees were increased effective 1 January 2012. Main Board fees increased by four per cent and the Audit Committee chair fee increased; however, Audit Committee and Remuneration Committee member fees were not increased. The Board has determined that no increase will be made to non-executive director fees prior to 1 July 2013.
Share acquisition plan	Recognising the difficulties for directors purchasing shares in Wesfarmers, non-executive directors have the facility to acquire shares out of their fees under the Wesfarmers Employee Share Acquisition Plan (WESAP). Participation in the plan is voluntary and enables non-executive directors to use their after-tax fees to acquire Wesfarmers shares. Shares are purchased on behalf of the directors on a monthly basis (except during blackout periods) and are subject to a 12 month trading restriction, during which time the shares are held by the plan trustee. The shares are acquired on-market at the prevailing market price. For the 2012 financial year, a total of 3,320 shares were allocated under the WESAP to Ms Wallace (with a total value of $99,984) at share prices ranging between $28.46 and $32.72. The number of Wesfarmers Limited shares held by non-executive directors as at the date of this report is shown on page 66.

Non-executive director fees

The table below provides details of Board and committee fees (inclusive of superannuation) for the 2012 and 2011 financial years and current committee membership. The fee levels shown in the table below took effect from 1 January of the relevant financial year. Members of the Nomination Committee do not receive any additional fees.

Main Board	2012 $	2011 $
Chairman – R L Every	**592,800**	570,000
Members – all non-executive directors	**197,600**	190,000
Audit Committee		
Chairman – A J Howarth	**80,000**	60,000
Members – R L Every, C Macek, D L Smith-Gander, V M Wallace	**40,000**	40,000
Remuneration Committee		
Chairman – R L Every	**50,000**	50,000
Members – C B Carter, J P Graham, C Macek, W G Osborn	**25,000**	25,000

Non-executive director remuneration for 2012

The fees paid or payable to the non-executive directors in relation to the 2012 financial year are set out below:

Non-executive director		Fees and allowances $	Short-term benefits[1] $	Superannuation[2] $	Total $
C B Carter	**2012**	**203,025**	**10,347**	**15,775**	**229,147**
	2011	184,800	9,592	15,200	209,592
R L Every	**2012**	**655,625**	**10,347**	**15,775**	**681,747**
	2011	614,800	9,592	15,200	639,592
J P Graham[3]	**2012**	**326,860**	**10,347**	**–**	**337,207**
	2011	297,800	9,592	–	307,392
A J Howarth	**2012**	**225,622**	**10,347**	**38,178**	**274,147**
	2011	195,360	9,592	39,640	244,592
C Macek	**2012**	**229,485**	**10,347**	**29,315**	**269,147**
	2011	216,033	9,592	18,740	244,365
W G Osborn	**2012**	**203,025**	**10,347**	**15,775**	**229,147**
	2011	184,800	9,592	15,200	209,592
D L Smith-Gander	**2012**	**218,025**	**10,347**	**15,775**	**244,147**
	2011	199,800	9,592	15,200	224,592
V M Wallace	**2012**	**218,025**	**10,347**	**15,775**	**244,147**
	2011	197,700	9,592	15,027	222,319
Former non-executive director					
D C White[4]	2011	64,507	3,469	7,463	75,439
TOTAL	**2012**	**2,279,692**	**82,776**	**146,368**	**2,508,836**
	2011	2,155,600	80,205	141,670	2,377,475

1 The benefit included in this column is an apportionment of the premium paid on a policy for director and officer insurance.

2 Superannuation contributions are made on behalf of the non-executive directors in accordance with Wesfarmers' statutory superannuation obligations. Also included is any part of a non-executive director's fees that have been sacrificed into superannuation.

3 J P Graham's fees are paid to Gresham Partners Limited for participation on the boards of Wesfarmers Limited, Wesfarmers Insurance Pty Ltd and Wesfarmers General Insurance Limited.

4 D C White resigned as a director on 9 November 2010, therefore 2011 remuneration data is shown for comparative purposes only.

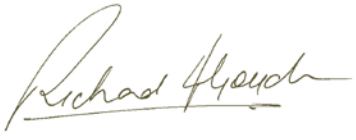
Section 7: Other information

Independent audit of remuneration report

The remuneration report has been audited by Ernst & Young. Please see page 173 of this annual report for Ernst & Young's report on the remuneration report.

This directors' report, including the remuneration report, is signed in accordance with a resolution of the directors of Wesfarmers Limited.

R L Every
Chairman



R J B Goyder
Managing Director
Perth, 18 September 2012