

## PURPOSE

Wesfarmers believes good risk management practice is crucial to effectively managing operations, driving commercial outcomes and delivering shareholder value. Integrated risk management guides effective decision making and enables the organisation to focus on what matters, maximise opportunities and mitigate the likelihood or consequence of adverse outcomes.

The purpose of this Policy is to:

- communicate the risk management principles upon which the Wesfarmers Group (Group) risk management framework is designed;
- confirm the Groups commitment to maintaining a risk aware culture and embedding risk management practices within operations;
- detail roles and responsibilities relating to the identification and management of risk throughout the Group; and
- articulate the Group's minimum requirements in relation to risk management.

This policy has been developed in consideration of ISO 31000:2018 Risk Management – Guidelines and ASX Corporate Governance Principle 7.

## POLICY APPLICATION

This policy applies to all directors and employees of the Group and to all business activities conducted within the Group.

Given the diversified nature of Wesfarmers' operations across a number of business and industry sectors, individual divisions should adopt their own Risk Management Policy which is appropriate for the size, nature and complexity of their activities.

This policy forms a component of the Wesfarmers Corporate Governance Framework and should be read in conjunction with the [Wesfarmers Code of Conduct](#) and Group governance policies.

Risk Management Policies at a divisional/business unit level must be consistent with this policy. In the event of any inconsistency, this policy will apply.

## POLICY

### 1 The Wesfarmers Risk Management Framework

The Wesfarmers Risk Management Framework (Framework) is the structure which supports and guides the processes by which risk is identified, assessed, managed, communicated and reported. The framework also includes the mechanisms by which Wesfarmers articulates its commitment to risk management practices and oversees the effectiveness of those practices including the provision of assurance and continual improvement activities.

Further detail on the elements that comprise the Framework can be found in the Wesfarmers Corporate Governance Statement [here](#).

### 2 Risk Management Principles

The Wesfarmers approach to risk management is aligned with our core values of Integrity, Openness, Accountability and Entrepreneurial Spirit. Our values underpin the risk management principles upon which our Framework is based, and which are fundamental to creating and protecting value in order to deliver a satisfactory return to shareholders:

- (a) Integrated – risk is inherent in all components of Wesfarmers operations and risk management is an integral part of all strategic and operational activities and decisions. Risk appetite is aligned to organisation values and strategic objectives which is operationalised through the framework to guide professional judgement and facilitate effective decision making.
- (b) Structured and comprehensive – Wesfarmers' approach to risk identification and assessment is structured to reflect the risk appetite set by the Board,

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enabling consistent and comparable analysis across differing businesses and risk factors. The Framework is designed to promote accountability and to support and empower appropriate behaviours around risk taking to support the achievement of Wesfarmers' objectives.

- (c) Customised – the Framework has been designed with specific consideration given to Wesfarmers values, objectives, the internal and external operating environment and stakeholder expectations. The Framework reflects Wesfarmers size and complexity as a diversified conglomerate utilising an operating model of divisional autonomy.
- (d) Inclusive – the Framework is built on extensive collaboration and draws on expansive subject matter expertise. The risk management process promotes inclusivity via appropriate and timely involvement of all relevant stakeholders, drawing from various knowledge sets and enabling a broad range of views and perceptions to be considered.
- (e) Dynamic and responsive – risk management is iterative. Risk profiles are reviewed and adjusted as internal and external conditions change, and as new information emerges. External factors and future horizons are scanned on a regular basis to identify and monitor emerging risks.
- (f) Current – risk identification, assessment and focus areas for mitigation consider current and historical information and draw from internal and external sources to ensure that analysis and decisions are based on best available information. Risk and risk management is inherently driven by uncertainty and uncertainty management, limitations regarding information availability and quality are built into the risk assessment process.
- (g) Human and cultural factors – these factors underpin the effectiveness of the Framework and its integration into Group activities and decision making. Human and cultural factors are primary influencing elements in how well risk management principles are adopted and operationalised. Wesfarmers promotes a culture of honesty, transparency, integrity, fairness, constructive challenge and accountability – as reflected in the [Code of Conduct](#) which underpins and complements the intention and operation of the Framework.
- (h) Continual improvement – Wesfarmers recognises that the approach to risk and risk management is ever evolving and maturing in order to continually support business drivers and outcomes. As such, the Framework is subject to continual review and will mature, evolve and adapt accordingly in order to remain an effective, integrated component of the way the Group and its businesses operate.

### 3 Leadership and Commitment

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

Robust, integrated and effective risk management is central to Wesfarmers broader governance framework and is fully supported by the Board and Executive leadership team. The Board and Executive leadership team are committed to:

- Leading the integration of risk management into core business activities, decision making and reporting requirements;
- Making appropriate and adequate resources available to support and drive risk management activities;
- Integrating decision making in relation to risk into delegated authorities, responsibilities and accountabilities;
- Supporting open and transparent communication by the risk and assurance functions via direct reporting channels where applicable;

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- Avoiding conflicts of interests within the risk and assurance functions through independent reporting lines, separate to operational management; and
  - Ongoing review and improvement of the risk function and Framework.

#### **4 Roles and Responsibilities**

Wesfarmers has adopted a three lines approach to risk management which promotes accountable decision making and reinforces corporate and divisional managements' responsibility for identifying, understanding and managing the risks within their respective realms of responsibility and ensuring that business operations remain within the appetite set by the Board, or that appropriate action is taken should they fall outside appetite.

Specific roles and responsibilities include:

- (a) Board – The role of the Board is to approve the purpose, values, and strategic direction of the Group, guide and monitor the management of the Group in achieving its strategic plans, review, approve and monitor the Group's risk management systems across its businesses, and to oversee overall good governance practices.

To assist in discharging its responsibilities, the Board has established the Wesfarmers Audit and Risk Committee.

- (b) Wesfarmers Audit and Risk Committee (ARC) – The ARC has been established to assist with discharging the Board's responsibilities in overseeing financial reporting, compliance with legal and regulatory requirements, the setting of the risk appetite of the Group, and overseeing the Group's systems of internal control and its risk management framework. The ARC operates in accordance with its charter.

- (c) Management – Management is responsible for identifying, assessing and mitigating financial and non-financial risks in accordance with the Group's Framework. Management monitors the effectiveness of risk management mechanisms and controls at a divisional level.

Senior management across the Group is responsible for reinforcing and modelling the key behaviours required to maintain a strong risk culture, including encouraging constructive challenge and transparency. Senior management report to the ARC on the adequacy of the risk management systems and processes on a consolidated basis across the Group and report any material issues to the Board.

Divisional managing directors are accountable for risk management outcomes, and day-to-day compliance, in their respective divisions. Divisional Audit and Risk Committees, which meet on a regular basis, support divisional management in meeting their responsibilities and act to strengthen divisional risk management processes.

- (d) Employees – It is the responsibility of all employees to identify, manage and communicate risks associated with their workplace activities.
- (e) Chief Risk Officer (CRO) – The CRO has carriage of the Group's enterprise wide risk management framework. The CROs reporting line is independent of business operations. Specifically, the CRO is responsible for:

- Supporting the Wesfarmers Board, via the ARC, in the development and articulation of the Group's risk appetite, operationalising the appetite and monitoring performance against appetite;
- Supporting divisional ARCs in relation to their approach to setting divisional risk appetite (aligned with the Group) and maturing the approach to risk management and risk reporting respectively;
- Facilitating the development, and monitoring, of the Group risk profile;

- Promoting and facilitating an integrated approach to risk management that is suitable to the Group's size, complexity and operating model;
  - Review, and ongoing maturing, of the Group's Framework;
  - Supporting divisional management with the implementation of the risk management framework and requirements; and
  - Reporting to the ARC on the Group risk profile, emerging risks and other relevant material matters that may arise from time to time.
- (f) Group Assurance – Group Assurance is independent of management and the risk function. Group Assurance operates in accordance with its charter and is responsible for the development and delivery of a risk based internal audit plan. Group Assurance reviews, and reports to the Wesfarmers ARC on, the adequacy of the Group's risk management systems and internal control environment – including the effectiveness of the second line.

## 5 Minimum Risk Management Requirements

Wesfarmers' ongoing commitment to risk management practices is reflected in the following minimum requirements:

- Retention of the Wesfarmers ARC that oversees the performance of the Framework. The Wesfarmers ARC is attended by a minimum of three non-executive directors, of sufficient technical knowledge and skill – the majority of whom are independent – and is chaired by an independent director.
- The Framework is reviewed at least annually for ongoing effectiveness and improvement opportunities. An external, independent review is conducted on a periodic basis.
- The risk appetite, set by the Board, is reviewed at least annually.
- Risk is identified and assessed in accordance with the requirements and guidance provided within the Framework. Decision making and reporting is materiality based and occurs in accordance with the guidance provided by the Framework.
- Where it is identified that the business is operating outside the stated risk appetite, the matter is brought to the attention of the CFO, CEO and ARC for discussion in accordance with the guidance provided by the Framework.
- Group and divisional risk profiling occurs on at least an annual basis, in alignment with the Corporate Plan timetable. Ongoing monitoring and review occurs regularly to ensure resources and attention are focused in areas needed and that material risks receive an appropriate level of oversight.
- Second and third line functions are appropriately resourced, headed by appropriately skilled and experienced professionals and have a direct reporting line independent of operational management.

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### **POLICY AMENDMENT**

This policy cannot be amended without approval of the Wesfarmers Board. It will be reviewed from time to time to ensure that it remains effective and meets best practice standards and the requirements of the Group.

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### **DATED**

December 2020

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