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Record of interview:

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Wesfarmers Limited indicated in its 2008 Full Year Results Analyst Briefing on 21 August 2008 that further clarification would be provided in response to some questions raised. Can you explain further your working capital usage during the financial year and the impact on your operating cash flow?

Richard Goyder, Managing Director
As we indicated in our results presentation, there was $661 million of net working capital outflows during the year.

The majority of the movement is explained by timing associated with creditor payments in our retail businesses, particularly Coles. In the period from our acquisition of Coles on 23 November 2007, we made eight major monthly creditor runs in just over seven months of ownership. The December major creditor run fell after the half year period end. This, along with the fact that inventories were high at the date of acquisition and sold down through Christmas trading, resulted in an inflow from working capital recognised in the first half of the financial year and an outflow in the second half.

There was also higher inventory in our Resources division at year end, in preparation for a planned plant shutdown in July 2008, and our Chemicals & Fertiliser division as it needed to import ammonia towards the end of June 2008 as a result of the Varanus gas incident. Receivables were also higher in Resources as a result of significantly higher coal prices at year end compared to the previous year.

In addition, there was a small amount of inventory built up in some of our discretionary retail businesses as a result of stocking up for July toy sales and due to slower trading in June. Pleasingly, these stocks cleared well in July and stock levels are now in line with management expectations.

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How would you summarise the performance of Coles over the period of ownership?

Richard Goyder
It's difficult to compare the performance of Coles under Wesfarmers ownership to that under previous ownership for a number of reasons. In summary, due to the work carried out during our ownership period, we believe the results indicate the business is beginning to stabilise following the significant downward trend in earnings experienced in the 2007 financial year. Importantly our fourth quarter comparative sales figures of 2.4% (3.2% including Easter) was above food inflation which in this period was affected by significant fresh produce deflation.

Some comparisons of the performance of the Coles division in the second half of 2007/8 can be made to the second half of 2006/7 under the previous ownership; however several factors need to be considered.

Firstly, we've split out the benefit in Coles' earnings that have resulted from the fair value adjustments made at the time of acquisition. The EBIT benefit was $77 million for the full ownership period, and $70 million relating to the second half, of which the majority relates to the food and liquor business. These adjustments relate to the release of provisions associated with off-market contracts as well as reduced depreciation resulting from a lower fair value of PPE and software. These adjustments have only been included since acquisition.

Secondly, we've included $44 million of retail support costs in the earnings of Coles which relates to divisional expenditure on items such as payroll costs, human resources, finance and marketing expenses. Under previous ownership, retail support costs were not fully allocated to divisions and instead included in corporate costs. As with all our autonomous divisions, such costs sit rightfully in the division's P&L and so to do a fair comparison a large amount of previously reported corporate costs need to be deducted from the earnings of the Coles business.

A third difference is our second half period includes January but not July, as was the case under the previous ownership, and July is generally a stronger trading month than January.

Finally, Wesfarmers accounting policies have been introduced across Coles. In a number of areas these policy changes have resulted in a higher realisation of operating costs and / or lower capitalisation of amounts than would have been previously recorded under Coles accounting policies.

So while comparisons cannot be precise, we believe that after taking into consideration these key differences the result reflects a small improvement in underlying earnings.

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Can you comment on the increase in finance costs in FY08, the items included and expectations going forward?

Richard Goyder
Our finance costs for FY08 were $800 million, considerably higher than the $200 million in FY07, reflecting the increased debt levels associated with the acquisition of Coles Group during the year, higher interest rates and additional costs.

As highlighted in our Appendix 4E, our finance costs include interest expense; other borrowing costs such as amortisation of establishment fees; and discount adjustments.

Interest expense and other borrowing costs, including establishment costs, are all associated with our debt facilities. We've given guidance that we expect our interest rate to be in the mid to high eight percents, including borrowing costs. We've also indicated that we expect average net debt to fluctuate between $9.5 billion and $10 billion in FY09.

Discount adjustments relate to the provisions we've recognised for off-market contracts within Coles and the Stanwell rebate within Resources. These adjustments will continue to be recognised for the term of the contracts.

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Thank you Richard.

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