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Lodgement of Open Briefing.

Wesfarmers Limited
Wesfarmers House
40 The Esplanade
Perth Western Australia 6000

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The content of this Open Briefing reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Thursday February 13, 2003.

David Robb - Managing Director, Wesfarmers Energy Limited :

corporatefile.com.au
What benefits would arise if Rio's Mt Pleasant operation and Wesfarmers' Bengalla operation were combined, given their close proximity?

David Robb
It's really in Rio's hands but we're happy to talk to them. The operations are next door and literally separated by a line on a map. Combining the operations would give us some flexibility with draglines, which we don't have now and we could also share infrastructure. It makes economic sense to see if we can negotiate something with Rio.

corporatefile.com.au
How much might it cost to convert the current Wesfarmers LPG extraction plant into an import terminal in the event the gas supply contract to the plant is not extended beyond 2005? And what are the relative economics of operating an LPG extraction plant versus operating an LPG import terminal?

David Robb
The capital cost of conversion is less than $5 million. We're in the process of fine tuning our engineering designs and capital estimates and it's actually less than we thought.

We’re currently negotiating with several parties on extending the gas supply and gas transport contracts to the extraction plant, so I really can’t comment on the relative economics of operating an LPG extraction plant versus operating an LPG import terminal.

corporatefile.com.au
What are the expected changes in the cash cost of production in moving from the current operation at Curragh East to Curragh North?

David Robb
The only significant change is in the transport cost, which we expect to increase in the order of $2 per tonne. However, we should be able to absorb some of that in the efficiencies achieved through processing larger volumes through the existing plant.

corporatefile.com.au
Margins in the energy business look to have improved in the second quarter compared with the first quarter. Can you explain where you achieved the improvement? Was most of that Kleenheat?

David Robb
Yes, Kleenheat was the standout performer over the half and if we experience the typical decline in LPG prices moving into the northern hemisphere summer, then Kleenheat could finish the year strongly. In that case we should hold onto most of the margin gains we achieved in the first half. Within Kleenheat we’ve worked on becoming more sophisticated with our pricing and are now able to pass on LPG prices more quickly to customers.

corporatefile.com.au
Can you please explain the pricing of the modified domestic contract for Curragh?

David Robb
For commercial reasons, I can’t go into detail but we’ve always been comfortable with the stand alone economics of our Stanwell Power Station contract. One of the things we want to guard against with the Stanwell contract is a margin squeeze as our costs increase over time and I’m quite confident that Curragh would survive, based on the modified Stanwell contract, even if we suddenly didn’t have an export market.

There is usually some trade-off of price for length of contract but beyond that, I’m not prepared to comment.

John Gillam – Managing Director, Wesfarmers CSBP Limited :

corporatefile.com.au
Can you outline the main growth prospects for chemicals and fertilisers? Fertiliser sales have been declining – are growth opportunities more on the chemicals side?

John Gillam
I'm not prepared to go into specific opportunities in any great detail. As a general guide, we see greater growth opportunities in chemicals rather than fertilisers and that's because we have more chemical activities and an ability to share existing chemical infrastructure at our Kwinana works.

Our performance over the past five years also shows that we haven't run the fertiliser business as well as we could and, although we're a market leader, we have the ability to produce better results. We also have underutilised fertiliser capacity and, as such, we're seeking new markets for our proprietary fertiliser products.

corporatefile.com.au
When do you expect to meet your 18 per cent return on capital target for chemicals and fertilisers?

John Gillam
Our ROC has continued to improve and, in the absence of any new investments, we will get to our 18 per cent target sooner rather than later.

Our decision process in assessing any new investment will follow the usual financial disciplines of the group.

corporatefile.com.au
How is the chemicals and fertilisers business tracking against budget and where do you think you'll finish the year, particularly in relation to the drought?

John Gillam
The majority of fertiliser sales occur in the second half and we're focussed on the work we need to do to make sure we get a good result for the full year. To that end, we're assuming there'll be a return to normal rain patterns for the April to June period. Already there have been some summer rains and these will help to restore grower confidence.

corporatefile.com.au
Can you outline long term growth rates for ammonia and ammonium nitrate? Would you consider an expansion at Kwinana and what's the potential size and cost of such an expansion?

John Gillam
I'm not prepared to comment specifically on our view of long term growth rates for ammonia and ammonium nitrate markets, however, we do continue to see solid resource sector conditions.

Expansion of our ammonia and ammonium nitrate facilities at Kwinana is one expansion option but I'm not able to provide any further comment at this time.

corporatefile.com.au
Can you explain why you've had so many production difficulties at the Queensland Nitrate plant and the Kwinana ammonia plant? Are there any concerns with the sodium cyanide plant?

John Gillam
For the Queensland Nitrates facility and our Kwinana ammonia plant, perhaps our expectations may have been too high with regard to the timeframe to ramp these plants up to full production. The issues encountered during the initial phase of their operations have, however, been quite different. At Kwinana, the ammonia plant had two unplanned shutdowns inside its first two years but over the past 14 months has operated in a stable and very productive manner. Our people involved in the long term operation of ammonia plants say that is a normal pattern over the first two to three years.

The issues are a bit different with the Queensland Nitrate facility. There have been problems stemming from the quality of the plant construction and we have a major shutdown planned for March/April this year to address the remaining construction issues. Following this work, we are quietly confident the facility will operate well.

The start-up of production at our solid sodium cyanide plant has seen different challenges. There is limited solid sodium cyanide production in the world, it's a small and highly competitive industry and as such there's no sharing of technology or operating know-how. Production from our solids plant has to date been below our expectations but we hope to be able to lift the level of production and the level of our exports throughout the year. We have a good deal of under-utilized sodium cyanide production capacity which we could bring online for minimal capital outlay if needed.

corporatefile.com.au
Did the Queensland ammonium nitrate joint venture meet your profitability expectations in the first half or are you still ramping up production?

John Gillam
It met our profitability expectations for the first half and has performed well with production volumes slightly ahead of nameplate capacity. However, it will be a little while before we record a positive earnings contribution from the Queensland Nitrates joint venture. That's because, under the project's funding arrangements, profits will need to be generated to offset the prior period losses and meet preference share obligations before we can record positive earnings in the CSBP accounts. Our profit and loss account will benefit, of course, by not having to bring to account any losses, which we've had to do in 2001 and 2002. The difference between the first half last year and the first half this year is that last year we recorded losses from Queensland Nitrates whereas this period we recorded a zero contribution.

Bob Denby – Managing Director, Wesfarmers Industrial and Safety :

corporatefile.com.au
I think last year you mentioned that the likely sales growth for this year should be around 5 per cent. You've just reported around 3 per cent for the first half. Can you meet the full year target?

Bob Denby
We're still reasonably confident. However, there are a few projects that have kicked in a little later than we expected at the time we were doing the budget. So if we don't achieve our sales target, it will be more of a lag effect and the sales growth will pick up. We've also put in place a new marketing structure that should help with our growth objectives.

corporatefile.com.au
How have you been able to quickly improve the business, particularly the margin, given that you've recently consolidated and acquired new businesses?

Bob Denby
Wesfarmers has supported us in terms of capital investment in the business, provided it meets the ROC hurdles. We've spent more capital in the last 18 months than I can remember. That support has also given our employees the confidence to grow the business. Blackwoods may have previously been seen as just a cash cow to finance the rollout of BBC stores but now it's judged on its merits. We're now operating as a division, rather than the old way where several managers reported to the managing director of Howard Smith.

Some of our growth initiatives include the shopfront rollout, new marketing and brand strategies, the new catalogue investment and IT investment. We also see potential large cost savings in the areas of warehousing, distribution and logistics.

corporatefile.com.au
Can you estimate the percentage split of sales by key market segment?

Bob Denby
We categorise our sales by product rather than market segment. I'm not able to give a percentage split of sales by product.

corporatefile.com.au
How much of your volumes are imported and what's been the impact of the appreciating A$?

Bob Denby
Approximately five to seven per cent of our purchases are imported direct by our company, this has had a minimal affect on our results.

corporatefile.com.au
Howard Smith made a number of acquisitions in industrial and safety just before the takeover by Wesfarmers. To what extent have you integrated these businesses, particularly in terms of cost savings?

Bob Denby
Most of these businesses are now fully integrated and are on our software systems. For example, when we acquired Motion Industries in 1997 it was losing about three quarters of a million dollars but now it's profitable and with good growth prospects.

corporatefile.com.au
Your position in the MRO market is obviously quite unique, with few direct competitors but many indirect competitors in specific product categories. Do you see any threat from anyone trying to copy the WIS model?

Bob Denby
Copying the WIS model would be extremely difficult because it's unique in many ways but I suppose competition could increase from local competitors that are growing and merging. We see our position as unique because we have over $200 million invested in stock across 200-plus locations to satisfy the demand of the MRO market.

corporatefile.com.au
The industrial and safety business carries a fair amount of goodwill from the Howard Smith acquisition. Is the financial performance of industrial and safety judged on a pre or post goodwill basis?

Bob Denby
Our performance is judged on a number of criteria. One major target is to achieve a ROC of 18 per cent. That's on a post goodwill basis and we aim to achieve that within five years. We can't change the level of goodwill but we can increase the EBITA figure, which influences our ROC, so that's what we concentrate on.

corporatefile.com.au
Industrial and safety and Bunnings have a lot of similar products and Wesfarmers Landmark, like industrial and safety, has a large distribution network. Has there been any work in understanding these potential synergies between the groups?

Bob Denby
No, because we've been too busy improving our own businesses. We've met with Landmark about the potential for shared facilities and the consolidation of product ranges. We might be able to do something over the next couple of years, however, what might seem like the same products, are often not. That's because they're sold in different configurations and to different markets.

corporatefile.com.au
It's interesting to see that New Zealand has around 50 per cent more branches than New South Wales. Do you have any plans to consolidate any New Zealand branches?

Bob Denby
The 62 branches we have in New Zealand is the highest number we've got anywhere. There are several examples of multiple branches in the one town or city

but these vary in size from two shop front staff to around 150. Those branches are judged on their market share and acceptance by the customer. However, there are instances where we've merged separate branches. In Mackay we merged a Bakers, Atkins and Blackwood branch into a single branch.

Mark Allison – Managing Director, Wesfarmers Landmark Limited :

corporatefile.com.au
Can you comment on competitor behaviour during the drought?

Mark Allison
There hasn't been much change. We've still experienced price discounting and the large customers are being targeted.

corporatefile.com.au
Ignoring the impact of the drought, what sort of growth profile do you expect for rural services and insurance?

Mark Allison
We're now better positioned for growth than we've ever been and we should be able to increase earnings with a return to average seasonal conditions. The last year has been dedicated to reducing costs, reviewing strategies, improving IT and positioning the business for growth.

corporatefile.com.au
Did you inherit the cotton business through IAMA? Do you plan to get out of this business, given it hasn't performed very well?

Mark Allison
Yes, we inherited the cotton business through IAMA. Cotton has been a strong business over a number of years. However, there's been a fundamental change in the last couple years in cotton. It relates to the emergence of the genetically modified cotton varieties. These varieties require far less spraying during the year, which was a value-adding stage requiring a range of chemicals. The consequence is that the margin pool in the business has significantly reduced.

We just need to change the way we think about cotton and move from the IAMA days of multiple sprays, high margin proprietary chemistry and move across a different mix of activities. We have reviewed the business and have plans to grow other business areas.

corporatefile.com.au
Can you comment a little bit on the Incitec Pivot merger, how that might impact on your east coast growth ambitions? How are you likely to grow in the east coast - organically or by acquisition?

Mark Allison
We don't believe the merger will thwart our growth ambitions in eastern Australia and in some respects we've been looking forward to the merger to give us greater momentum to drive our position against independent fertiliser distributors.

corporatefile.com.au
Can you remind us of the size of the synergies you expect to achieve out of the IAMA merger and what you've achieved so far?

Mark Allison
The number is around $30 million to $40 million per annum. The rough split of the cost savings would be $10 million in purchasing facilities, $15 million in head office IT and the remainder from regional duplication. However, it's very difficult to track them for a long period when earnings in each segment move up and down.

corporatefile.com.au
Can you comment on your market shares across your main product groups in rural services and insurance?

Mark Allison
Merchandise is in the order of 40 per cent, fertiliser sales would be 14 to 16 per cent on the east coast, finance around 1 per cent, insurance 3 to 4 per cent, regional real estate around 20 per cent, wool around 20 per cent and livestock around 20 per cent. The big opportunities are to grow fertiliser, finance and insurance.

Peter Davis – Managing Director, Bunnings Building Supplies Pty Ltd :

corporatefile.com.au
Why have you only opened seven warehouse stores in the past year?

Peter Davis
A number of issues have delayed the opening of new warehouse stores including the restructuring of the business, closing existing stores and state government planning issues. We're confident that we can open eight to twelve new warehouse stores a year over a long period of time.

corporatefile.com.au
Could you explain why your December sales figures were lower?

Peter Davis
There has been some softening in the market, however there were several additional factors which contributed to our lower December figures including moving out of the unprofitable segments of the trade sector, water restrictions in Victoria, major retailers bringing forward their Christmas sales, warm weather in Victoria and the fact that last year's numbers were inflated because we reduced the high level of BBC stock we'd inherited.

corporatefile.com.au
Can you explain why your trade sector sales were up only 2.1 per cent when other companies have recorded boom results?

Peter Davis
We attribute that to the restructuring of our trade business and also the fact we're in the small to medium-sized builder market rather than the large construction market. We won't deal with the larger builders to the detriment of margins. So, even though our sales numbers suffered a little, we were able to maintain our margins and exceed our EBIT expectations despite a fairly poor December. We should meet our EBIT budget for the current half year.

corporatefile.com.au
Can you give us an idea about the store-on-store growth at both Bunnings and Hardwarehouse stores?

Peter Davis
BBC Hardwarehouse store-on-store growth is higher than that of Bunnings at the moment. I'm not prepared to quote numbers.

corporatefile.com.au
Given the tighter planning environment, what capital expenditure do you expect for each new warehouse store?

Peter Davis
Total capital, including property, would be about $15 million per store and excluding property, it would be about $5 million to $7 million per store.

corporatefile.com.au
What trends are emerging with the average dollar spent per basket between Hardwarehouse and Bunnings stores?

Peter Davis
The average sale in a Hardwarehouse store is still about 10 per cent below that of a Bunnings warehouse. It was even lower than that at the time of acquisition. That provides us with a big opportunity to work the Hardwarehouse stores harder.

The average sale per basket has been growing since we opened the Bunnings warehouse stores. A lot of that has to do with improvements in our product range.
We've identified 35 more BBC traditional stores for potential re-fits. We did a trial at Carlingford before Christmas and sales in the first month were up 45 per cent. That's also a great opportunity for growth.

corporatefile.com.au
Will new warehouse stores dilute the profitability of existing stores or are there still good locations for new stores?

Peter Davis
In some cases it may impact the network, however, there is a significant number of other locations where this will not be the case. Opportunities to get another Mentone or Nunawading-type of store, are getting harder. One thing we have announced, and is on the agenda, is to evaluate the possibility of building some double storey stores with parking underneath, that we've seen in London.

corporatefile.com.au
Can you explain how long it takes for a new store to achieve the sales level of an established store?

Peter Davis
By about year three a new store is delivering our benchmark ROC.

corporatefile.com.au
What do you expect for sales margins in the second half?

Peter Davis
We expect to maintain or slightly decrease margins over the second half. Our main aim is to protect the EBIT margin. We can do that either by volume growth, providing our pricing doesn't suffer too much, or by reducing costs.

corporatefile.com.au
How have you maintained the perception of low prices now that Bunnings and BBC no longer compete?

Peter Davis
We want to maintain our position as a price leader. We've improved our margins wherever possible but we're conscious of going too far.

corporatefile.com.au
Can you comment on the buying efficiencies you expected as a result of the merger?

Peter Davis
We've made some improvements but I don't foresee much further room for improvement. We're fostering a partnership relationship with our suppliers.

corporatefile.com.au
Can you maintain store-on-store sales growth of around 10 per cent?

Peter Davis
We do our strategic plans this time of the year so we're reviewing that at the moment but I feel comfortable that we can maintain that sort of growth. One poor December doesn't establish a trend.

Michael Chaney – Managing Director, Wesfarmers Limited &
Richard Goyder – Finance Director, Wesfarmers Limited :

corporatefile.com.au
How do you decide on the size of an investment you'll make in any one industry?

Michael Chaney
We're simply driven by the economics and we'll invest if the business meets our hurdle rate of return on investment. We don't pay much attention to balancing the types of business if we have relatively more capital invested in coal for example.

corporatefile.com.au
Could you detail some of the one-offs that were in the result, restructuring charges or provisioning for the drought?

Richard Goyder
In the half year we used another $10 million of the restructuring provisions that we'd made in relation to the Howard Smith and IAMA acquisitions. That was based on the number of the old BBC store closures during the half. The restructuring provisions will continue to reduce with the store closure program over the next few years.

corporatefile.com.au
You've made a point before that one of the lessons learned in the ARG joint venture is that maybe 100 per cent ownership is better than 50/50. Are you comfortable with the level of ownership in other joint ventures such as Bengalla (40 per cent)?

Michael Chaney
We've always been happy with Bengalla. We have a good relationship with the operator, Coal & Allied. They've had to deal with some marketing issues in the last year or two and we've had slower export contract sales than we'd hoped for but we've never concluded that we'd like to run the business. Gresham Partners is another joint venture, although clearly the other partners are more in control of that business and that's been a great investment.

corporatefile.com.au
Why did you sell Girrah? Will that increase competition for Curragh coals?

Michael Chaney
We considered the impact that selling Girrah would have on competition and we actually delayed announcing the sale of Girrah until we'd secured Pisces (North Curragh) to allay any concerns of our customers. Having purchased Pisces, we could assure customers that we could expand our products.

We also sold Girrah because it made economic sense. The NPV calculation, not surprisingly, showed that it made sense for the deposit to be developed by Anglo because they have infrastructure next door and we would have needed to negotiate the use of their roads and facilities if we developed the deposit ourselves. The NPV of owning Girrah was quite a bit lower than the NPV of selling it.

corporatefile.com.au
Can you see any opportunities for investment in gas and electricity utilities?

Michael Chaney
We participated in the privatisation of the Western Australian government's gas assets but were an under-bidder, in some cases by 25 per cent. We haven't revisited those types of assets in the last year.

We look for investments where we can add management and systems expertise to the existing operating skills of our partner. We did that with Genesee & Wyoming when we purchased the Westrail Freight business to establish the ARG joint venture.

Our investment philosophy has been successful. The market viewed Curragh as expensive when we bought it but it’s turned out a real bargain. Howard Smith had modest growth compared with Bunnings and we’ve hopefully turned it into more of a Bunnings, with a higher growth rate.

We’re evaluating investments now which we think we could acquire for an acceptable price and enhance the profits.

corporatefile.com.au
What about offshore opportunities?

Michael Chaney
We thought about ten years ago that within five years we’d have a more significant offshore presence because opportunities would run out in Australia and we were only a tenth as big then as we are now.

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