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Wesfarmers Limited announced a 61 percent increase in profit after tax to \$180.3 million for the half year ended December 31, 2001 (EPS before goodwill amortisation of 63.5 cents per share, up 46 percent). You've stated the result was slightly ahead of expectations following the completion of the Howard Smith acquisition in August 2001 and you now expect to exceed the forecast contained in the Howard Smith bidder's statement of profit after tax of \$379 million for FY02. In which areas are you exceeding expectations?

CEO Michael Chaney

The hardware operations overall are performing better than we had assumed in that forecast, as are the fertiliser and chemicals operations. In addition, the category called 'other' has exceeded expectations, because of a strong performance by Gresham Partners.

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Recent acquisitions have pushed profits up significantly over the last couple of years and management has integrated the Howard Smith and IAMA businesses. Do you have the management resources to evaluate enough new investment opportunities at the same time as undertaking such large integrations?

CEO Michael Chaney

If we made a large acquisition soon after the Howard Smith takeover it might have presented some resource challenges because at that time we were also integrating IAMA and absorbing the Australian Railroad Group. Given the size of the Howard Smith task, resources were quite stretched. Now, however, those acquisitions have largely been bedded down and the business development department, for example, is free to focus on new evaluations.

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Your corporate objective is to provide a satisfactory return to shareholders with a target return on shareholders' funds of 16 percent per annum. One of your corporate strategies is to improve the performance of existing businesses. Which businesses have greatest scope for improvement?

CEO Michael Chaney

The fertilisers and chemicals business and Wesfarmers Landmark are the principal ones. In both cases, the corporate plans indicate that we should reach acceptable levels of return over the next five years. Additionally, the return on capital employed (ROC) for the industrial and safety division, which is currently close to 11 percent because of the goodwill we have booked, has the potential to have a ROC of around 18 percent within five years.

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Your second corporate strategy is to expand existing businesses. Which businesses have greatest scope for expansion?

CEO Michael Chaney

Obviously Bunnings would be the prime candidate because of its ability to roll out new stores and achieve organic sales growth within the BBC hardware network. We also think there's reasonable potential in coal and there should be some expansion of Wesfarmers Landmark.

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Wesfarmers' Energy business achieved a 16 percent increase in EBITA to \$107.0 million, again due mainly to strong coal results, particularly at Curragh. Wesfarmers is due to conclude contract price negotiations in the next couple of months for coal prices effective from April 1, 2002. What are current market conditions for export steaming and coking coal?

CEO Michael Chaney

The steaming coal market experienced some weakness in the first half and spot prices retreated but it is looking stronger now and that augurs well for price renegotiations. Whether that means we can rollover prices or even get an increase remains to be seen. We are more optimistic about coking coal and we would be disappointed if we don't achieve some price increases in the new contract terms.

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Wesfarmers has investments in three coal mines - Curragh in Queensland, Premier in Western Australia and Bengalla (40%) in NSW. Why were sales volumes and earnings at Bengalla below budget and when do you expect to meet budget?

CEO Michael Chaney

The market for steaming coal has been quite soft, particularly in Japan and we had some sales disappointments in that region. Most of the coal was not subject to long-term contracts but that situation looks to be improving and we expect to move larger volumes this half and beyond. We are making some progress in increasing the amount of coal under contract.

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You've successfully undertaken de-bottlenecking work at your Kwinana LPG plant to increase capacity by a further 10 percent to at least 330,000 tonnes per annum. However, LPG sales volumes were below budget, as were domestic LPG sales volumes and revenue. Full year earnings from your gas activities are expected to remain below budget (and last year) and are dependent on both local demand recovery and international price trends. How can you improve your gas business without relying on improvements in macro factors?

CEO Michael Chaney

We undertook an organisational restructure over the last year and that is yet to really pay dividends but I think it will deliver some incremental earnings.

We sought to improve the Autogas business by combining it with Elgas to form Unigas. That business has performed below budget because of the effect that high international LPG prices had on demand. Going forward we would hope to improve earnings from there.

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EBITA from the Bunnings hardware merchandising business increased by 84 percent over the same period last year to \$145.7 million after including Howard Smith for the first time and achieving continued strong growth in the underlying Bunnings business. Are you on schedule and achieving what you had hoped to achieve in integrating the Howard Smith hardware operations and to what extent did synergy benefits flow in the current result?

CEO Michael Chaney

Apart from one or two glitches, we are pretty well on schedule and have had nothing of any great concern. The synergy benefits we have reported will be larger than we had originally assumed. We are expecting \$40 million in synergy savings in the current financial year and over \$60 million per annum in subsequent years.

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Store on store growth at Bunnings outlets, excluding stores not trading for the full period and stores affected by Bunnings warehouse store openings, was 11.0 percent. Your hardware business now has over 260 stores, including over 100 warehouse stores. What rollout of warehouse stores do you plan and what further closures of the old style stores do you expect?

CEO Michael Chaney

As part of our corporate planning process this year, which is still underway, we have focussed on a detailed analysis of future store locations and the likely rollout schedule. That indicates we should maintain an average annual net increase in warehouse stores of about 10 each year for the next 10 years. Normally we only do five-year plans but in this case we thought it was useful to look at the subsequent five years as well.

We have not made final decisions regarding traditional store closures but the maximum of 86 traditional stores, which we talked about in the Howard Smith bidder's statement, will now be quite a bit lower.

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If the draft policy "Integrated Land Use and Transport" was ratified by the NSW state government, what impact might the policy have on Bunnings' ability to grow in NSW and can you influence the process before a final policy is released?

CEO Michael Chaney

This has been a live issue for us over the last year and we have been very heavily involved in seeking to influence the outcome. The legislation, if passed as the draft policy stands, would have a negative effect on all stand-alone box retailers and we regard the draft policy as quite inappropriate. Now that we own the BBC chain we are in a much better position in the Sydney market than we would have been without it, and are thus less vulnerable to this factor.

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Wesfarmers CSBP, your fertilisers and chemicals business, achieved a 30 percent increase in EBITA to \$9.9 million. What strategy is Wesfarmers CSBP taking to combat the increasingly competitive fertiliser industry?

CEO Michael Chaney

Over recent years Wesfarmers CSBP lost some market share to competitors which had products with higher nitrogen and phosphorus analysis. We have recently been developing new products to counter that and they will soon be available for release.

In addition, we are having success with liquid nitrogenous fertilisers and we expect to achieve reasonable growth in those. That growth should come from substitution of our own products and those of our competitors.

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Fertilisers and chemicals is currently achieving a ROC of 10 percent or well below your divisional target of 18 percent per annum. Can you achieve the hurdle rate without relying on increases in product prices, particularly when you already have a high market share in chemicals and the fertiliser industry is so competitive?

CEO Michael Chaney

We think so. Certainly our five-year corporate plan envisages fertilisers and chemicals achieving a ROC of 18 percent per annum. Frankly, we've had that expectation for the last few years and it's been harder to achieve than we'd hoped.

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Would you sell that business if it became obvious that you won't make the ROC target?

CEO Michael Chaney

If we were offered the right price.

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Wesfarmers Landmark, your agribusiness products and services subsidiary, achieved a 32 percent increase in EBITA to \$34.6 million. Wesfarmers Landmark has reported that livestock prices remain strong. What is the outlook for rural commodities?

CEO Michael Chaney

Livestock prices have been strong for some time and there's no doubt they will fall at some stage but we don't think any fall will be too dramatic in the next year. Wool prices are good but volumes are way down and that's having an effect on profitability. Interestingly, wool now contributes less than 10 percent of the gross profit of that business, which is a dramatic change.

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Has the merger between Wesfarmers Dalgety and IAMA to form Wesfarmers Landmark been a success, particularly with reference to your financial hurdles and the fact that this division has a ROC of 10.7 percent, which is well below your target return?

CEO Michael Chaney

Again, our corporate plan shows us reaching acceptable levels of return within the five-year period. When we made the acquisition of IAMA we fully expected to have low returns in the early years and in fact we are running ahead of those projections.

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"Other businesses" achieved a 93 percent increase in EBITA to \$35.1 million. What is contained in other businesses?

CEO Michael Chaney

It's a range of investments that now includes things like Sotico, the forest products business, Australian Railroad Group, Gresham Partners and profit from sales of listed investments. The EBITA split between the main parts is fairly even. In the December 2001 half year, an amount of about \$7 million was included from the sale of our transport businesses and that is the major contributor to the profit from non-current asset sales that we detailed in our release.

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Thank you Michael.