

Title : Open Briefing. Wesfarmers. CEO Chaney on Profit & Outlook
Date of lodgment: 8 May 2002

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Wesfarmers Limited announced a 61 per cent increase in profit after tax to \$281.3 million for the nine months to 31 March 2002 (EPS of 96.8 cents before goodwill amortisation, up 44 per cent). Your most recent profit forecast for the year ending June 2002 was to exceed \$379 million after tax. Is that forecast still valid and what's the outlook for 2003?

CEO Michael Chaney

The forecast's still valid. When we did our full-year profit estimate in February, we expected to exceed the \$379 million and that's still the case. Our estimate of the full-year performance hasn't varied much between February and now.

The outlook for 2003 is positive, we expect to have a reasonable profit increase but we're yet to finalise our budgets.

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Earnings from the Bunnings hardware merchandising business increased by 99 per cent over the same period last year to \$222.0 million before goodwill amortisation. You've achieved improvements through better purchasing terms and a reduction in duplicated costs after the integration of BBC Hardwarehouse stores. How much improvement have you achieved in the operation of the old BBC stores? Do these stores now achieve similar sales and sales margins to the Bunnings stores?

CEO Michael Chaney

It's still early days in the integration process and we're not changing the branding of BBC's traditional stores in New South Wales straight away because we want to get them operating properly first. So there's improvement still to be achieved from those stores in terms of total sales revenue and EBIT.

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The store rationalisation programme is expected to result in three Hardwarehouse and 24 traditional BBC store closures by June 30. What number of Bunnings and remaining BBC warehouse and traditional stores will exist by June 30?

CEO Michael Chaney

By June 30 we expect to have 247 stores comprising 111 warehouses, 119 traditional stores and 17 WA Salvage stores.

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Have you improved your share of the Sydney hardware merchandising market beyond the market share purchased through the BBC acquisition?

CEO Michael Chaney

It's still too early. We're still sorting out the network and organic growth is something that's still ahead of us.

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You've stated that the outlook for the balance of the financial year remains positive for both retail and trade sales. In previous cycles, what impact have rising interest rates had on trading conditions for the Bunnings hardware business?

CEO Michael Chaney

Rising interest rates traditionally have had no noticeable effect on the retail side of the business. The impact of rising interest rates causes the housing cycle to turn down and that flows on to the trade side of the business.

After the BBC acquisition, our total trade sales account for about 25 per cent of total sales across the network compared with about 13 per cent before the acquisition. We expect that proportion to fall from 25 per cent to about 20 per cent over the next five years.

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Earnings from Wesfarmers' energy business increased by 24 per cent to \$173.0 million before goodwill amortisation, due to strong coal results. How did you achieve that increase in earnings when operating revenue of \$712.1 million was only up marginally?

CEO Michael Chaney

Operating revenue was flat because the substantial increase in coal revenue was almost equally matched by the fall in gas revenue. The latter arose from falls in the international LPG price and also the removal of autogas earnings in the current period due to the establishment of the Unigas joint venture. The coal sales were higher margin than the sales we lost in gas.

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New contract coal prices, effective from April 1, 2002, would normally be decided by now. What outcome do you expect, why the delay and when do you expect a conclusion?

CEO Michael Chaney

In coking coal, it's clear prices are going to rise. The delay in price resets has resulted from the unwillingness of our customers in Japan, in particular, to finalise contracts when they're having difficulty with the profitability of their steel businesses.

In steaming coal, the market's softer and negotiations are dragging on but we hope they'll be resolved in the next month.

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Preliminary works are underway at the Curragh East deposit. What impact will mining Curragh East have on production and earnings?

CEO Michael Chaney

The recent drilling and mine planning work at Curragh East has been encouraging and it appears that we'll be able to increase production of export coal by about 0.5 million tonnes a year for a number of years.

The operating cost structure at Curragh East should be similar to that at Curragh.

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Sales volumes and earnings were below budget at Bengalla (Wesfarmers 40%) due to reduced domestic sales and strong competition in export markets. Can you increase earnings by improving the operation or is it a case of waiting for improved markets?

CEO Michael Chaney

The challenge is to sell more coal and we had a disappointing year in that regard. The joint venturers feel confident they'll have more success in the coming year.

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Earnings from the fertiliser and chemicals business segment increased by 48 per cent to \$34.3 million. In recent years, the fertiliser and chemicals business segment has fallen short of your target return on capital of 18 per cent. What financial and other operating objectives have you set for CSBP?

CEO Michael Chaney

We've set the same ROC target of 18 per cent for CSBP as for all our business segments. The corporate plan for CSBP shows it should achieve more profitable levels over the next few years. There was a significant improvement in ROC over last year and it should finish at around 13 per cent by the end of this financial year. We see ROC growing from there.

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How might a successful takeover by Wesfarmers of a fertiliser distributor or producer impact on Wesfarmers Landmark, a fertiliser distributor and Wesfarmers CSBP, a fertiliser producer?

CEO Michael Chaney

That could impact both CSBP and Wesfarmers Landmark in any number of ways. At CSBP, there are quite significant gains to be won from increasing market share or recovering market share and controlling costs, while fertiliser distribution is an important and growing part of Wesfarmers Landmark.

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Has Western Australia so far received enough rain leading into winter for the cropping season and what are general conditions like for your fertiliser business?

CEO Michael Chaney

We've had some good rainfall across the agricultural area and the signs are we'll have a generally good opening to the season. Competition is at acceptable levels.

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Production problems have occurred at the Queensland Nitrates joint venture since it was commissioned in 2000. What capital has been invested in the joint venture by Wesfarmers and can the problems be solved to the extent that the investment will meet your hurdle rate?

CEO Michael Chaney

Wesfarmers has invested around \$30 million and our current view is we'll overcome the technical problems we've been having in the ammonia plant and get much better returns out of the investment.

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You're currently constructing a sodium cyanide plant (Wesfarmers 75%) in Kwinana, Western Australia. Other Australian sodium cyanide plants have struggled to break even after years of poor market conditions. What capital is involved and why can you make this investment a success?

CEO Michael Chaney

CSBP's 75 per cent share of the capital investment is about \$20 million. The new plant will be a low cost producer of solid sodium cyanide. Moving to the solid stage gives us access to some export markets and we believe it will give us good returns.

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Earnings from the rural services and insurance business increased by 33 per cent to \$49.3 million before goodwill amortisation. You've had control of IAMA for over a year now. Can you comment on how that integration with Wesfarmers Landmark is proceeding, particularly in terms of achieving at least \$40 million per annum over three years in cost savings and when the investment will reach your hurdle rate of return of 18 per cent?

CEO Michael Chaney

We're on track to achieve our cost savings. Wesfarmers Landmark's five-year plans show it reaching an 18 per cent ROC within that period. That will not be without its challenges.

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After the IAMA merger, Wesfarmers Landmark and Elders hold a dominant position in the agribusiness products and services industry. You've managed to achieve cost savings through the merger. What about product pricing benefits?

CEO Michael Chaney

Our margins are running pretty well in line with the assumptions we made when we made the acquisition. That is, we've had some margin gains.

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In October 2000, the Australian Railroad Group (ARG), comprising Wesfarmers Limited and Genesee & Wyoming Inc successfully acquired the Westrail Freight business for \$585 million. At that time, the joint venture expected to outlay up to \$400 million over the following five years on track upgrades and purchase of new rolling stock. How is the capital investment program progressing and what is the outlook for this business?

CEO Michael Chaney

The capital expenditure program is progressing to plan and the outlook for the business is for some growth in profit.

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Thank you Michael.