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Lodgement of Open Briefing

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Wesfarmers Limited
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Title: Open Briefing. Wesfarmers. CEO on 18% Profit Rise

Record of interview:

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Wesfarmers Limited announced an 18% increase in net profit after goodwill amortisation to $569 million for the year to June 30, 2004. The net profit after tax was $873 million after including profit after tax of $304 million from divesting Landmark and normalised earnings per share was $1.74 per share before goodwill amortisation, up 15%. Many analysts now believe that the rate of profit growth for Wesfarmers' businesses will slow. Can you comment for each business segment?

CEO Michael Chaney
We expect to achieve profit growth in all major divisions. The rates will vary from fairly steady or modest growth in CSBP to higher growth rates in Energy and Insurance. This year in FY05 we'll report a full year of profits from Lumley whereas last year it didn't become part of the Wesfarmers Group until mid-October.

corporatefile.com.au
Can you explain why net operating cash flows for the year of $711 million were down from $819 million in FY03?

CEO Michael Chaney
Cash flow from operations was actually line-ball with FY03 apart from the fact that we had higher tax payments in FY04 and that accounted for most of the difference.

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Planned capital expenditure for FY05 is approximately $450 million compared with $258 million in FY04. Can you detail the major items and the level you expect for future years?

CEO Michael Chaney
For FY05, energy will spend around $250 million including around $140-150 million on Curragh North out of a total $290 million expenditure planned for the expansion there. Hardware will spend around $125 million, fertilisers and chemicals $40 million and the remaining $40 million will be spread over the other businesses.

In future we'll continue to spend on Curragh North and we expect the other divisions to be pretty well in line with the FY04 expenditures. In addition to these capital expenditure budgets we're evaluating some new investments like an expansion of the ammonium nitrate plant at Kwinana.

Hardware
corporatefile.com.au
Earnings before interest, tax and goodwill amortisation (EBITA) from the Bunnings hardware business increased by 12% to $392 million. It's now a fairly common expectation that hardware sales will slow this year. Can you detail the recent experience for Bunnings?

CEO Michael Chaney
There was quite a dramatic slowing in the June quarter. In April, normalised store-on-store cash sales grew 10.6%, by 6.8% in May and by 5% in June. In July, the growth rate for normalised store-on-store cash sales recovered slightly to just under 6%.

corporatefile.com.au
Bunnings reported a significant improvement in margin and inventory management. How did you achieve this and do you expect ongoing improvement?

CEO Michael Chaney
As you'd be aware we had some inventory issues this time last year and a lot of work has been done in the meantime to improve the controls. That's starting to bear fruit but there's more we can do. We're currently investigating new IT systems which will ensure that we stay ahead of the expansion challenges.

corporatefile.com.au
Mitre 10 is currently rolling out its first few Mega stores across Australia. What differences or similarities have you observed between the Mega stores and the Bunnings warehouse stores in terms of product offering, store layout, inventory levels, advertising methods or any other approach?

CEO Michael Chaney
The Mega stores and the Bunnings warehouse stores are quite different. The Mega stores have a narrower hardware range and more of a focus on things like kitchens,

bathrooms and appliances, and we see them as targeting quite a different market segment.

corporatefile.com.au
What's your assessment of the likely impact of the new Mega stores on the Bunnings business both in terms of sales and in competition for new sites? How will you combat the increased level of competition?

CEO Michael Chaney
No doubt like any competitor these stores will have some impact on Bunnings' sales but we don't consider it will be significant. We will continue to combat all competition through our everyday low-price model.

corporatefile.com.au
Sales growth in Bunnings' Victorian stores has lagged that in other states. Has anything significant emerged from the review of your Victorian strategy?

CEO Michael Chaney
Only that the demand in Victoria has been fairly weak for some time. Our strategy there is to enhance our marketing effort to bring more people into the stores.

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Wesfarmers announced the new role of Chief Operating Officer for Bunnings. Do you plan any significant changes to strategy?

CEO Michael Chaney
No. We identified a need to increase the senior management resources to meet the needs of a larger business.

Energy
corporatefile.com.au
EBITA from Wesfarmers' energy business decreased by 7.5% to $240 million. Wesfarmers announced that the Curragh North mine development has been brought forward and that future production volumes will increase. For FY05 you expect exports from Curragh and Curragh North to be around five million tonnes increasing to seven million tonnes in FY06. What split do you expect between hard coking coal, semi-soft and Pulverised Coal Injection (PCI) and can you explain the price differentials between these products?

CEO Michael Chaney
In FY05, PCI will contribute 140,000 tonnes of a total 5mt of export coal and that will increase to 1.2mt out of a total 7mt in FY06. The remainder will consist of approximately 70% hard coking coal and 30% semi-soft.

The long term pricing differential shows that semi-soft trades at approximately US$10 per tonne less than hard coking coal and PCI currently sells at a US$2-3 per tonne premium to semi-soft.

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Can you explain the revenue sharing arrangements you've negotiated with one of Curragh's customers and the benefits to Wesfarmers?

CEO Michael Chaney
The customer concerned is Stanwell Power Station which owned the Curragh North resource. Wesfarmers acquired the resource in a competitive tender and one of the conditions was that we would pay Stanwell 25% of the semi-soft export price above A$60 per tonne multiplied by the total export tonnage from Curragh. At current semi-soft levels, the payment to Stanwell in the current year would be around A$5-10 million. If coal prices rise significantly, the rebate payable will be higher but we'll be delighted to be making it.

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In FY04, you incurred the dragline maintenance costs at Curragh. Was that a one-off expense?

CEO Michael Chaney
No. Although the dragline maintenance cost was less than the $14 million we had forecast, it will be an ongoing expense because we will be refurbishing all the draglines over the next few years. So it would be wrong to factor a profit increase in FY05 due to the absence of that expenditure.

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What other growth opportunities are you pursuing in coal?

CEO Michael Chaney
We look at other potential acquisitions from time to time but at the moment there's not much around. It's not possible to talk about anything specific.

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There was a report of production problems at Bengalla (Wesfarmers 40%). Can you clarify the situation?

CEO Michael Chaney
The main problem at Bengalla has been with shipping - port delays and demurrage costs. We've also had some production issues in terms of product rehandling because we're mining what is a fairly narrow strike-length deposit. However, the main constraint at the moment is on the export logistics side.

Industrial & Safety
corporatefile.com.au
Operating revenue from the Wesfarmers industrial and safety businesses (WIS) was up 3.5% to 1.15 billion but EBITA decreased by 4% to $112 million, primarily due to the performance of the Protector Alsafe business. Protector Alsafe has stabilised and is showing signs of improvement. What proportion of total revenue does Protector Alsafe contribute to industrial and safety? What impact on earnings could it make if you turn it around?

CEO Michael Chaney
Protector Alsafe generates around 15% of the WIS revenue and, if we had achieved budget, the impact on the Wesfarmers Group would have been less than 1% of EBITA.

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WIS continued the rollout of its "hub and spoke" logistics model. Can you explain what this is and how it will benefit the business?

CEO Michael Chaney
The "hub and spoke" logistics model involves more efficient handling of product between the manufacturer and the ultimate user and a rationalisation of inventory holdings. The general thrust of the model is to maintain large inventory at "hub" locations and to put in place logistics arrangements to enable rapid satisfaction of customer demands through the "spokes". We've also opened some more shop-front outlets as part of that strategy.

Fertilisers & Chemicals
corporatefile.com.au
EBITA from the fertiliser and chemicals business segment increased by 9% to $86 million. Fertiliser sales were 1,062,000 tonnes. Sales of Flexi-N liquid fertiliser reached over 10% of the total sales volume. What is the relative operating margin for Flexi-N and what total fertilisers sales do you expect in FY05?

CEO Michael Chaney
We're not able to provide any detail on margin differentials. In FY05, we're budgeting on an 8% increase in fertiliser tonnage sales.

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Orica has recently completed significant expansions to its ammonium nitrate businesses in the Eastern States. Wesfarmers has just announced a feasibility study into a potential expansion of its Kwinana plant. Has there been any price reaction from Orica's expansion? What capacity increase are you considering at Kwinana?

CEO Michael Chaney
There has not been any material price reaction from the recent capacity expansions due to the strong product demand at the moment. Our feasibility study is evaluating a possible doubling of Kwinana's current production of 250,000 tonnes.

Insurance
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EBITA from the insurance business was $96 million (before goodwill amortisation). You've said that the outlook for FY05 is positive despite signs emerging of increased competition in some market segments. The divisional insurance margin was 16.8% and the combined operating ratio was 86.5% (including the approximate 8 months of ownership of Lumley). What are your targets for these KPIs?

CEO Michael Chaney
We don't have specific targets because obviously it depends upon claims history but Lumley and Wesfarmers Federation Insurance have traditionally always maintained CORs below 100% and we will pursue a strategy that will enable us to continue that.

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Thank you Michael.

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