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Lodgement of Open Briefing.

Wesfarmers Limited
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Title: Open Briefing. Wesfarmers. CEO on 21% Profit Rise

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Wesfarmers Limited announced a 21% increase in profit after tax to $342 million for the nine months to 31 March 2003 (eps of $1.07 per share before goodwill amortisation, up 10%). This excludes an after tax profit of $56.2 million from the sale of the Girrah coal deposit. The Wesfarmers' management team recently met to set the company's rolling five-year corporate plan. What significant issues or adjustments came out of that process and can you comment on the profit outlook for the full year?

CEO Michael Chaney
Each year our management team meets to discuss longer term strategies, including constructing a five-year financial forecast. That financial forecast invariably shows encouraging growth and this year is no exception. However, it's inevitable that the actual results turn out differently to our forecasts, sometimes lower and sometimes higher, but the planning process is a useful exercise for formulating business strategies.

As far as the profit outlook for this year, the board of directors has reconfirmed its February statement.

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Australia received fairly wide spread rain over the last month or so. To what extent have drought conditions eased and can you explain the implications for your Wesfarmers Landmark, fertiliser and Australian Railroad Group (ARG, Wesfarmers 50%) businesses?

CEO Michael Chaney
The drought has broken to some extent across the nation with some encouraging early rain in a number of areas. However, there is a real need for a proper seasonal break to occur shortly if farmers are to have what could be described as a normal season. The lack of recent follow-up rain has been disappointing.

Wesfarmers Landmark merchandise revenue has not been far off budget in the last two months but the sales mix has been less profitable. Sales have mainly comprised lower margin, essential items and it will take a good seasonal break to restore margins to where they should be.

A normal cropping season in Western Australia and South Australia would give ARG much higher grain haulage by the end of next year, while fertiliser sales for CSBP are running a little behind budget and last year but we expect them to finish the year at levels similar to 2002.

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At the time of the half year results in February 2003 you announced a share buyback of up to nearly $500 million designed to improve capital efficiency. This caused some concern amongst credit analysts because of the impact on your gearing levels. What's been the reaction from ratings agencies?

CEO Michael Chaney
The ratings agencies have not expressed any concerns about our buyback whatsoever. Our gearing is low and they appreciate that, even with the buyback, our balance sheet will remain conservatively geared. One strange article appeared in the press about credit aspects of the buyback but that article simply lacked credibility.

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Earnings before interest and tax from the Bunnings hardware merchandising business increased by 24% over the same period last year to $274 million (before goodwill amortisation). That was helped by an additional one month's trading from the Howard Smith business after its integration in August 2001. Unlike last year, Easter fell after the end of the quarter. What impact did this have on current results?

CEO Michael Chaney
Revenues over the March quarter were only impacted by about 1% due to Easter falling in April this year. The more important trading period is in fact the school holidays and they didn't vary much in timing this year from last year. One disadvantage we had to endure this year was a ban on hardware trading on Easter Sunday in both Queensland and Victoria for the first time.

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Bunnings has undertaken stock clearance sales of deleted stock lines previously acquired from Howard Smith. Although this has increased sales it has also reduced margins. Can you quantify this? To what extent has it affected margins? What volume of obsolete stock did you acquire and how much remains?

CEO Michael Chaney
The margins in the third quarter were affected by inventory writedowns, competitive issues and probably the underestimation of shrinkage in the previous six months. However, it's probably much safer to look at margins over a longer period such as for the nine months in the year to date. On that basis, margins are in fact higher this year than last.

We haven't quantified the amount of obsolete stock we acquired but there's still some tens of million of dollars worth in hand. It will be a few months before we clear this stock because there's no point in giving it away.

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Although recent hardware sales data reflect continuing growth, the share market has expressed concern because the rate of growth is slowing. Is that a serious issue for you?

CEO Michael Chaney
One would always prefer the high rates of sales growth to be maintained but realistically you have to expect that at some stage the market will go off the boil. That started to happen in Victoria in September and then spread to NSW and we think that trend will continue for a while. However, we do have some strategies in place to offset lower rates of sales growth, including more intense marketing, but it's hard to completely counter that sort of softening in the economy.

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Earnings before interest and tax from the energy business increased by 16% to $201 million (before goodwill amortisation and before the sale of Girrah) due to strong growth in gas earnings. Domestic LPG sales volumes for Kleenheat Gas were below budget and LPG input prices were up from last year. Therefore, can you explain why earnings were above budget and whether there's more outperformance to come from Kleenheat?

CEO Michael Chaney
Kleenheat has had a particularly good year because its profits are significantly up at a time when its raw material input price has risen. This is the first time that the negative correlation between LPG prices and Kleenheat profits has been broken. Usually if LPG prices rise then we expect to see Kleenheat profits fall. The main reason for the good performance is that David Robb has instituted better management practices across the business. We've restructured the organisation, improved the contractual pricing arrangements and achieved quite significant cost savings. Although we've made the majority of cost savings, we hope Kleenheat will continue its improved performance in the coming years.

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LPG export earnings were above budget due to higher prices. Wesfarmers and Alinta have been negotiating for a lengthy period to extend the gas supply contract from the North West Shelf to the Wesfarmers LPG extraction plant beyond June 2005. A complicating factor is that the WA Government is considering dropping the legislative requirement, post July 2005, for a minimum LPG content. Can you

comment on the state of commercial negotiations and what you understand about the government's current position?

CEO Michael Chaney
We're currently negotiating with a number of gas suppliers regarding supply post 2005 and we're hopeful that we'll be able to come to satisfactory arrangements.
The WA Government announced recently that it would not continue the legislation which guarantees a minimum quantity of LPG coming down the pipeline. However, that's not a surprise given that the original guarantee was provided in order for Wesfarmers to justify the LPG project. In any case, the plant will be written off by 2005.

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Coal sales volumes from Curragh and Bengalla (Wesfarmers 40%) were both below budget. Why do you expect coal sales for the June quarter to be positive?

CEO Michael Chaney
Coal sales have been below budget at Curragh for several months for various reasons but management has always been confident of catching up. Part of the problem was shipping restrictions at Gladstone Port and these were resolved from early April. In fact, we've already made up quite a bit of the shortfall during April and management is confident that we'll achieve full year budget.

At Bengalla there was also a problem with the Newcastle Port being coal bound and it's likely that Bengalla will come in below sales budget for the full year. However, in the scheme of things that's not such a major issue.

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You have previously mentioned that Wesfarmers would probably not be interested in investing in a business where you're unlikely to reach your hurdle rate of investment return. How do you explain your current and prior interest in investing in the Dampier to Bunbury gas pipeline, a regulated but low return business? What are your broader growth ambitions in the energy sector?

CEO Michael Chaney
It is hard to respond to that while maintaining commercial confidentiality.

I'd define our broader ambitions in the energy sector as finding investment opportunities related to our many different energy businesses, providing they generate acceptable returns.

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Earnings before interest and tax from the industrial and safety business increased by 35% to $82 million (before goodwill amortisation) despite sales revenue increasing only 10%. How was the earnings growth achieved and to what extent can it continue?

CEO Michael Chaney
The industrial and safety division is operating well. We've focussed very carefully on doing the job more effectively and to that end have undertaken a number of

rationalisation projects. For example, we've cut out the practice of doubling handling deliveries and we've also merged some businesses, thereby achieving cost savings. We believe we can do more on costs but we also think we can grow the revenue line.

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Earnings before interest and tax from the rural services and insurance business decreased by 3% to $47.7 million (before goodwill amortisation). It's pretty clear that the breaking of the drought is crucial to the short term performance of this business but how do you feel about the full year outlook for the rural division?

CEO Michael Chaney
Yes, obviously its performance depends a fair amount on the drought breaking and the later that occurs the harder it will be for the division to meet its latest profit budget. If the change in sales mix I referred to earlier continues over the next couple of months, it would reduce EBIT by about $5 million to $6 million from current estimates. Our latest view of the group's full year result takes account of that.

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Earnings before interest and tax from the fertiliser and chemicals business increased by 17% to $40.2 million (before goodwill amortisation). You've stated that, with reasonable commodity prices prevailing and a return to normal seasonal conditions in autumn, fertiliser sales volumes in WA should exceed last year's. How are you achieving volume growth during a drought?

CEO Michael Chaney
The drought in WA occurred in the 2001/02 season and we've assumed that we'll have a normal seasonal year in WA this year. There have been very encouraging early signs this year and indications, at this stage, are that we should go close to our volume budget in WA.

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ARG has hauled lower volumes of grain and iron ore in the year to date. The lower grain haulage is explained by the drought but what explains the lower iron ore volume when iron ore demand has been quite strong? Is the underlying business performing in line with expectations?

CEO Michael Chaney
ARG hauls iron ore from Portman Mining's Koolyanobbing operation in the south of the state. That operation has experienced some environmental issues which constrained production levels. These were largely resolved during the last month.

Overall, ARG has performed below expectations because of the drought, lower iron ore volume and a higher than normal number of derailments. Over the last few months, the number of derailments has diminished greatly and we're hopeful that it just represented an abnormal period.

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In recent years, Wesfarmers has sold several non-core assets and indications are that WA Salvage might be next. What non-core assets remain in the portfolio?

CEO Michael Chaney
I describe a core asset as one whereby we add value for our shareholders if we retain it and a non-core asset as one whereby shareholders will be better off if we sell it. Occasionally we find that some of our assets are valued more highly by others for various reasons and if that's the case in the future we would consider selling.

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I know you don't like talking about share markets but what's your view of the equity market post-war and specifically, does it allow you to approach potential acquisitions with more confidence?

CEO Michael Chaney
Our confidence with respect to acquisitions was not undermined by the uncertainties in sharemarkets in recent times. It was more a case of expecting community uncertainties to have a negative impact on corporate cash flow and, if that occurred over the longer term, it would obviously make any acquisition target less attractive. However, in the scheme of things nothing much has changed in terms of our acquisition outlook. We're as busy as ever evaluating opportunities and I would expect that occasionally we will make them.

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Thank you Michael.

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