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Record of interview:

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Wesfarmers Limited announced a 12% decrease in profit after tax to $392 million for the half year ended 31 December 2006. Included in that was a profit before tax of $24.9 million on the sale of non-current assets, partly offset by $10.6 million for transaction costs, closures and remediation. What were the significant profit movements by division and the main reasons?

MD Richard Goyder
Home Improvement earnings were up 22% on the same period last year, underpinned by very strong sales growth in Bunnings including cash sales growth of 14.1% and same store sales growth of 10.3%.

Coal earnings were down 47%, mainly due to the impact of lower export prices for metallurgical coal and increases in costs. Insurance, which had the impact of the newly acquired OAMPS business for two months of the period, was marginally down on last year reflecting higher claims particularly across the Lumley businesses.

Industrial and Safety earnings were up 11% on the previous year, reflecting the benefits of restructuring and capital management initiatives. Chemicals & Fertilisers earnings were up 4% on a strong performance from the Chemicals business and the sale of our chlor-alkali business. Energy was up 49.5% with strong performances across the division, particularly from the LPG extraction business.

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At the AGM in early November 2006, you reiterated your expectation that full year FY07 profit would be lower than the normalized $869 million you achieved in FY06. What is your current view and reasoning?

MD Richard Goyder
We still expect earnings in FY07 to be lower than FY06 on the back of the softening in export coal prices and increased costs in our coal division.

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Net profit after tax fell 12% despite operating revenue rising from $4.4 billion to $4.7 billion. Can you explain the squeeze on margins?

MD Richard Goyder
Revenue in Wesfarmers is derived from a number of businesses with different margins and the major increase in revenue came from Home Improvement where margins are lower than those achieved in, say, coal. That largely explains the margin squeeze.

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Can you explain why operating cash flow was up nearly 10% to $477 million when profit after tax fell 12%? Likewise, can you explain why dividends were up by 31% to 85 cents per share (fully franked)?

MD Richard Goyder
The strong operating cash flows arose from improved working capital management where, in this first half of FY07, we saw a decrease in working capital compared with the increase in the corresponding period last year.

We were able to increase the dividend because of the amount of franking credits available, as a result of the tax paid in relation to the ARG sale in June 2006 and from the OAMPS acquisition.

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As at 31 December 2006, Net Debt to Equity was 84% and capital expenditure for the half was $317 million. What capital expenditure do you expect for FY07 in total and for FY08? Can you explain the capital initiatives you have in place and the target for net debt to equity?

MD Richard Goyder
Capex for FY07 is expected to be around $800 million although some of that may move into FY08. The budget for FY08 has not yet been set.

In terms of capital management, one of our key targets is to maintain an A- rating which is prudent and is important for our insurance business. As a result, measures such as cash interest cover are as important as net debt to equity. We expect that, following the acquisition of Linde and Crombie Lockwood along with the underwritten dividend investment plan for the interim dividend, the cash interest cover will move towards 10 for the year to 30 June 2007. Our operating cash flows remain strong, as does our ability to service debt at these higher levels.

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During the half year you announced the acquisitions of the OAMPS and Crombie Lockwood insurance businesses. Wesfarmers also acquired the Lumley insurance business in 2003. Can you explain why Wesfarmers has recently made so many insurance acquisitions relative to the other types of businesses?

MD Richard Goyder
We do not favour any division in terms of acquisitions. It just so happens that these opportunities arose in insurance when they did. We have the view that capital should be available to each of our divisions as long as the acquisitions or growth opportunities they propose meet our stringent investment hurdles.

Home Improvement

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Earnings before interest and tax (EBIT) from the Home Improvement business increased by 22% over the corresponding period last year to $270 million. As you said, cash sales growth in Bunnings was 14% and store on store cash sales growth was 10%. Trade earnings (net of property sale contributions) increased by 18%. Can you give more detail on the reasons for such a strong performance in the overall Home Improvement business?

MD Richard Goyder
The performance is due to strong market conditions on one hand, particularly in Western Australia and Queensland, and a continued strong focus on Bunnings' core business strategies. The latter helps Bunnings take advantage of the improved conditions and good progress has been achieved in merchandising initiatives and the store refurbishment program. We're also seeing the benefit of a number of operational efficiency improvements implemented across 2006 which helped lift the service offer as well as benefiting the bottom line. The rollout of new stores continues to drive growth.

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How did the business perform relative to the total home improvement market?

MD Richard Goyder
We estimate that our retail business gained market share across the period with the strongest gain in the NSW market. We think the trade side of our business performed in line with the overall market.

Coal

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EBIT from Wesfarmers' Coal business decreased by 47% to $168 million. Can you explain the relative impact of sales volumes, coal prices and unit operating costs on the result?

MD Richard Goyder
A number of factors contributed to the 47% decrease in EBIT. At Curragh, the average coal price across all export products declined in line with price settlements last year. In addition, our sales mix has changed with the development of Curragh North increasing the supply of PCI coal. Export metallurgical coal sales were up 23% but partly offset by lower domestic sales. Further sales increases have been limited by infrastructure capacity constraints.

Operating costs continue to be under pressure with the significant contributors being contract labour, contractor overburden removal costs and road haulage from Curragh North.

The Stanwell rebate increased by $48 million and demurrage costs at Gladstone increased by $2.5 million. Gains from hedging were $8 million lower than in the previous corresponding period.

Looking forward, cost pressures will continue. Road haulage of coal from Curragh North is expected to end over the next few months as the conveyor becomes fully operational and this should help to reduce production costs.

At Premier the average coal price declined, reflecting the new long term contractual arrangement with Verve Energy. Unit costs increased due to sales volumes decreasing by 14%.

At Bengalla the average coal price declined slightly, in line with reported price settlements. High unit costs were largely due to the higher costs of inputs plus the introduction of contract overburden removal, which was completed in November 2006. Gains from hedging were $6 million lower than in the previous corresponding period. Demurrage costs increased by $2.6 million due to longer ship queues at Newcastle.

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Feasibility studies are continuing, to determine the viability of increasing the annual run of mine capacity at Bengalla from 8.7mt to 10.7 mt. As you've said, shipping queues are extreme and demurrage costs have increased. To what extent will infrastructure capacity constrain Wesfarmers' coal exports from Curragh and Bengalla in the future?

MD Richard Goyder
Curragh has contracted capacity with both Queensland Rail and the Central Queensland Port Authority of 7 mt for the year commencing 1 July 2006 to

support the growth of export metallurgical coal sales. This contracted capacity will increase to 7.5 mt annually from July 2007.

Queensland Rail's track duplication work continued to constrain rail capacity in the first half of the year. Rail performance for the first half was at 95% of contract. Duplication works will continue through the remainder of the year and will constrain the rail delivery system until early 2007/8. The Gladstone Port suffered some ship loading delays in 2006 and works continue on the third ship loader. The third train unloading station was completed in November 2006, but we expect vessel queues and high demurrage costs to continue through the year due to disruptions associated with these continuing upgrade works.

Our previously stated sales range of 6.2 mt to 6.5 mt for metallurgical coal at Curragh for the year ending June 2007 remains unchanged with deliveries for the first half tracking towards the upper end of this range.

At Bengalla, the increase of $2.6 million in demurrage costs was due to vessel queues in November and December 2006 increasing to in excess of 50 ships with a waiting period of approximately 20 days. The expansion of Port Waratah Coal Services is expected to be completed in the second half of FY07, however exports will continue to be limited by below capacity rail in the near term.

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Can you give an indication of your coal price settlements so far, particularly compared with the larger producers such as Rio and BHP? What influence do you see these sustained, and possibly increasing, cost pressures and infrastructure constraints having on long term coal prices?

MD Richard Goyder
Negotiations to renew the annual price of Curragh metallurgical coals continue with international steel making customers. They are around 65% complete. The negotiations are expected to be concluded within the next few months and we'll update the market on the outcomes when they are completed. Settlements have generally been in line with reported industry outcomes and we've maintained coal price relativities.

In recent years, the cost structure for coal mines has increased significantly. The coal mining industry has witnessed an unprecedented increase in the cost of inputs such as fuel, tyres, labour, consumables and contractor costs. This increase in cost structure will provide some support for long run prices for export metallurgical and thermal coal.

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For the half year, the Stanwell rebate was $68 million versus $20 million in the pcp. Can you explain the magnitude of that increase? What do you expect for the full year?

MD Richard Goyder
The Stanwell export price rebate is based on a 12 month moving average for realised semi soft coal prices. The rebate in the current year has included a period of very high prices that prevailed in the year to 31 March 2006. For FY07, we anticipate a Stanwell rebate cost of some $125 million depending on final tonnage outcomes and then lower the next year.

Insurance

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EBIT for the insurance division was $60 million (or $52 million excluding the OAMPS contribution and amortisation of intangibles, which compares with $63.5 million in the pcp). With reference to market activity during the half year and the outlook, how would you describe the stage of the insurance cycle? How well are your KPIs such as the insurance margin, combined operating ratio and net earned loss ratio holding up?

MD Richard Goyder
The insurance sector remains extremely competitive. Our results against this background, though satisfactory, were impacted by a combination of large claims, lower exchange commissions from reinsurers and higher expenses associated with acquisitions. Growing our gross written premium in this environment is pleasing.

The KPIs you referred to were contained in our ASX announcement. Of particular note was achievement of a combined operating ratio of 90.5% which, although higher than in previous years, remains at a strong level and well within our long term average range.

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During the half year you announced the acquisitions of the OAMPS and Crombie Lockwood insurance businesses. Can you explain how these acquisitions will increase the scale of, and diversify, your insurance division?

MD Richard Goyder
We think these acquisitions are sound investments in their own right and will enable us to participate in the insurance sector on a broader scale, particularly in relation to the engagement with customers. Our underwriting activities will remain independent of the broking activities, but OAMPS and Crombie Lockwood hold prominent positions in their respective markets. We intend to build on those solid positions.

Industrial and Safety

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EBIT for the industrial and safety business rose 11% to $51 million despite operating revenue decreasing a little over 1%. Return on capital was up from 13.2% in the pcp to 13.7%. How did you achieve that? How much more earnings growth can you derive from the business improvement initiatives?

MD Richard Goyder
The EBIT growth reflects the restructuring activities undertaken over the last 12 months as well as generally strong expense control. The increase in return on capital was driven by a strong focus on improving capital management, particularly in respect to inventory. Rolling 12 month capital employed, including the Bullivants acquisition, reduced by some $43 million as at 31 December 2006 compared with the same period last year.

Continued earnings growth is expected from our restructuring activities and business simplification initiatives, which are aimed at increasing productivity and reducing costs. Growth will also be fuelled in coming years through range and industry extension whilst seeking complementary bolt-on acquisitions such as Bullivants.

Chemicals & Fertilisers

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EBIT for CSBP, your chemicals and fertilisers business, rose 4% to $28 million despite revenue from fertilisers falling nearly 20% to $106 million. Can you give more detail on the change in earnings contribution from both chemicals and fertilisers and the reasons?

MD Richard Goyder
Earnings contribution from the chemicals business was similar to the prior corresponding period although there are some differences in the mix. Most notably the contributions from the Kwinana ammonia business was significantly lower than the prior corresponding period due to a planned maintenance shutdown. Conversely the contribution from QNP was significantly higher.

The contribution of the fertiliser business was significantly lower than the previous corresponding period with the driver being lower volumes although tight expense management mitigated the impact to some extent.

Significant non-trading items included the profit on the sale of the chlor-alkali business and the $3 million spent on remediation at the Bayswater property.

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Rainfall in Perth for the six months to 31 December 2006 was well below average. How is that affecting fertiliser sales so far in the financial year? How important is the seasonal break in April/May for the full year earnings of the CSBP division?

MD Richard Goyder
The drought has had a significant impact on fertiliser sales and the seasonal break will be critical to the full year performance of the fertiliser business. If a normal break occurs, we expect a large crop to be planted although a large carryover of fertiliser on farms may have some dampening impact on sales.

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The capacity of your chemicals plants is sold out due to the resources boom. How can you grow earnings from chemicals? Are prices moving up? How were plant performances over the quarter?

MD Richard Goyder
We do see opportunities to continue to grow the chemicals business. The ammonium nitrate expansion project is well underway and, in our 75%-owned sodium cyanide joint venture, Australian Gold Reagents, we're negotiating to supply sodium cyanide to the Boddington gold project.

In the main, our plants have performed well since the shutdown of the ammonia plant. The availability of the solid sodium cyanide plant continues to improve. One of the sodium cyanide solution plants experienced production limitations during the first half, but resources have been applied to resolve this.

Energy

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EBIT from Wesfarmers' Energy business was up nearly 50% to $38 million. Production from Wesfarmers' LPG plant was up 19%. What was the revenue and earnings performance of the division excluding Wesfarmers' LPG? Are you able to predict the LPG content in the natural gas supply to the LPG plant with any more certainty?

MD Richard Goyder
The half year EBIT increase came from higher contributions from each of the business units within Energy with the largest improvements achieved by Wesfarmers LPG and Kleenheat.

LPG content, a proportion of propane and butane in the gas, results from the quantity of LPG placed in the Dampier Bunbury Natural Gas Pipeline by the gas producers in the north west of Western Australia. Over the past 18 months the LPG content has been variable and this variability is expected to continue throughout 2007. Therefore it is very difficult to predict, with any degree of accuracy, the overall production. Given this, our best estimate is, on average, that production levels for the full year will continue to be above last year.

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Can you outline the assets acquired through the Coregas Pty Ltd. purchase (previously Linde Gas)? What are Wesfarmers' power and gas assets in addition to those acquired from Linde? Can you outline the growth potential for your gas and power assets?

MD Richard Goyder
Coregas sells a variety of industrial and speciality gases primarily servicing manufacturing, medical and scientific customers with a well established presence in NSW, Victoria, Queensland and South Australia through both their direct sales force and a wide network of agents and distributors. The Coregas assets include

an air separation unit and hydrogen plant at Port Kembla, bulk tanks, bulk storage facilities, depots, retail outlets and a speciality gas laboratory.

Wesfarmers Energy's other gas and power assets are Kleenheat Gas including a 50% share of the Unigas joint venture, Wesfarmers LPG, enGen and a 40% shareholding in Air Liquide WA.

Growth potential exists from improvements and expansions within existing businesses, further investment and development of LNG as a fuel to replace diesel fuel for the heavy duty vehicle and remote power generation markets and we continue to evaluate investments in other segments within the energy industry.

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Thank you Richard.

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