

# Half Year Results Presentation

10 February 2004



Wesfarmers

# Presentation Outline

## Opening Comments

Michael Chaney

Group Performance

Richard Goyder

Divisional Comments

Peter Davis

Bob Buckley

Bob Denby

David Robb

John Gillam

Gene Tilbrook

Outlook

Michael Chaney


# Richard Goyder

Finance Director, Wesfarmers Limited



Wesfarmers

# Performance Summary

Half Year Ended 31 December (\$m)	2002	2003	 %
Operating Revenue (ex. sale of Landmark)	3,728.1	3,786.2	1.6
Net Profit (before g/will ex. sale of Landmark)	267.6	338.5	26.5
Goodwill Amortisation	(42.7)	(41.7)	(2.3)
Net Profit (after g/will ex. sale of Landmark)	224.9	296.8	32.0
Net Profit on sale of Landmark	0.0	304.3	n/a
Net Profit (after goodwill)	224.9	601.0	167.2
Earnings Per Share (before g/will ex. Landmark) (cents)	71.4	90.2	26.3

# Half Year Performance Highlights

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- Strong performance from operating units
- Lumley purchase
- Sale of Landmark
- GPEF divestment (Repco) - \$44.2m net profit
- Capital return of \$934m in December 2003

# Profit on Sale of Non-Current Assets

After Tax (\$m)	2002	2003*
Hardware	(0.1)	0.0
Energy	1.2	0.5
Rural Operations	0.4	0.2
Insurance	0.0	0.0
Industrial & Safety	0.4	0.4
Chemicals & Fertilisers	0.3	0.0
Other	0.0	3.2
<b>Total</b>	<b>2.2</b>	<b>4.3</b>

\* Excludes sale of Landmark

# Divisional EBITA

Half Year Ended 31 December (\$m)	2002	2003*
Hardware	196.1	211.9
Energy	123.6	115.1
Rural Operations	21.5	8.4
Insurance	12.4	35.8
Industrial & Safety	55.5	53.0
Chemicals & Fertilisers	15.7	20.6
Other	16.7	84.1
<b>Total</b>	<b>441.5</b>	<b>528.9</b>

\*Excludes earnings from sale of Landmark

# Divisional ROC & Capital Employed (before goodwill amortisation)

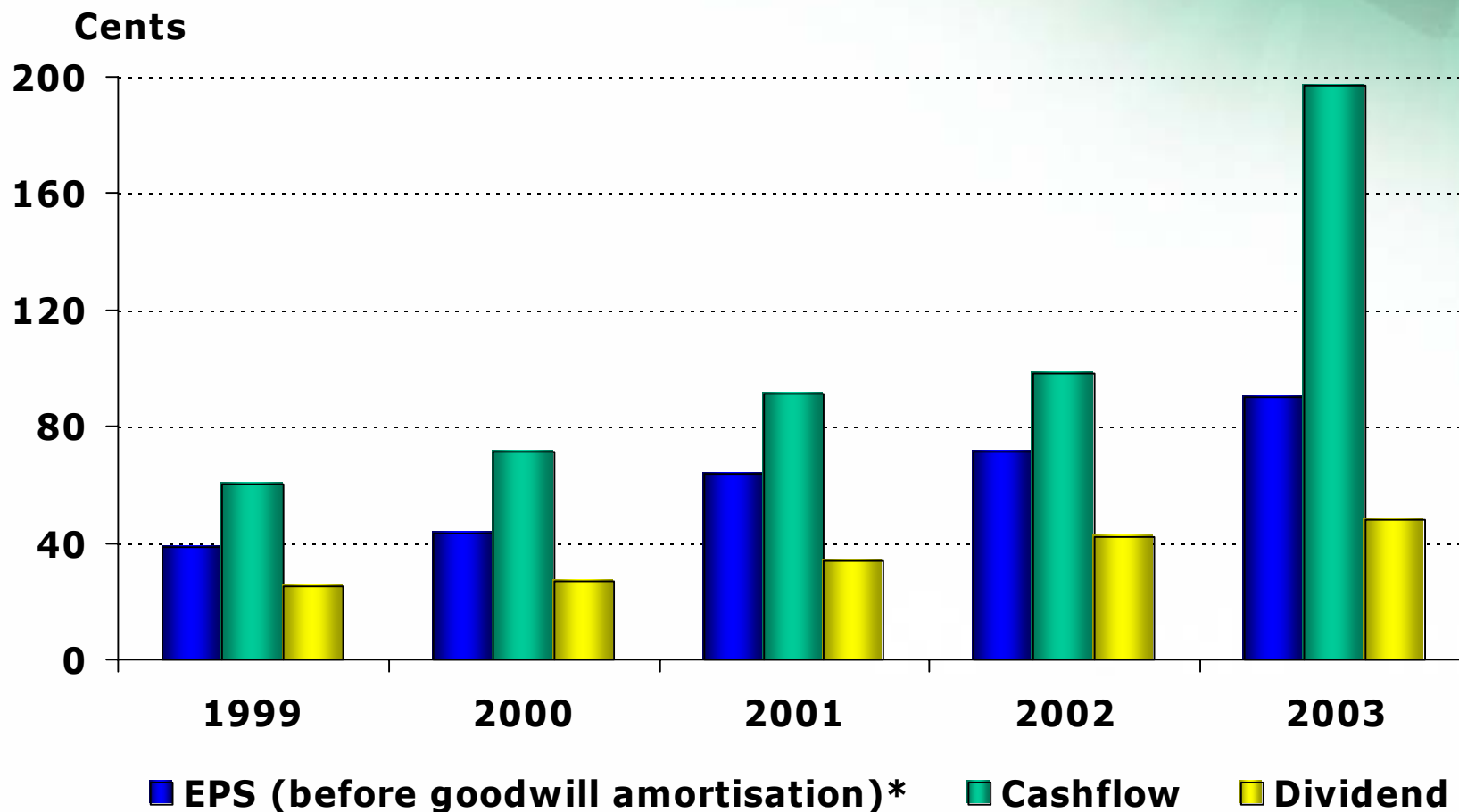
Rolling 12 months to 31 December	2003			2002 ROC %
	EBITA \$m	Capital Employed \$m	ROC %	
Hardware	364.9	1,928.9	18.9	17.8
Energy	251.3	778.8	32.3	30.2
Insurance	48.6	421.6	32.0*	58.6
Industrial & Safety	114.7	829.2	13.8	12.9
Chemicals & Fertilisers	83.8	475.5	17.6	15.8

\*2003 Insurance ROC has been adjusted to take into account that Lumley was owned for 2.5 months



# Cashflow & Dividend (Half Year)

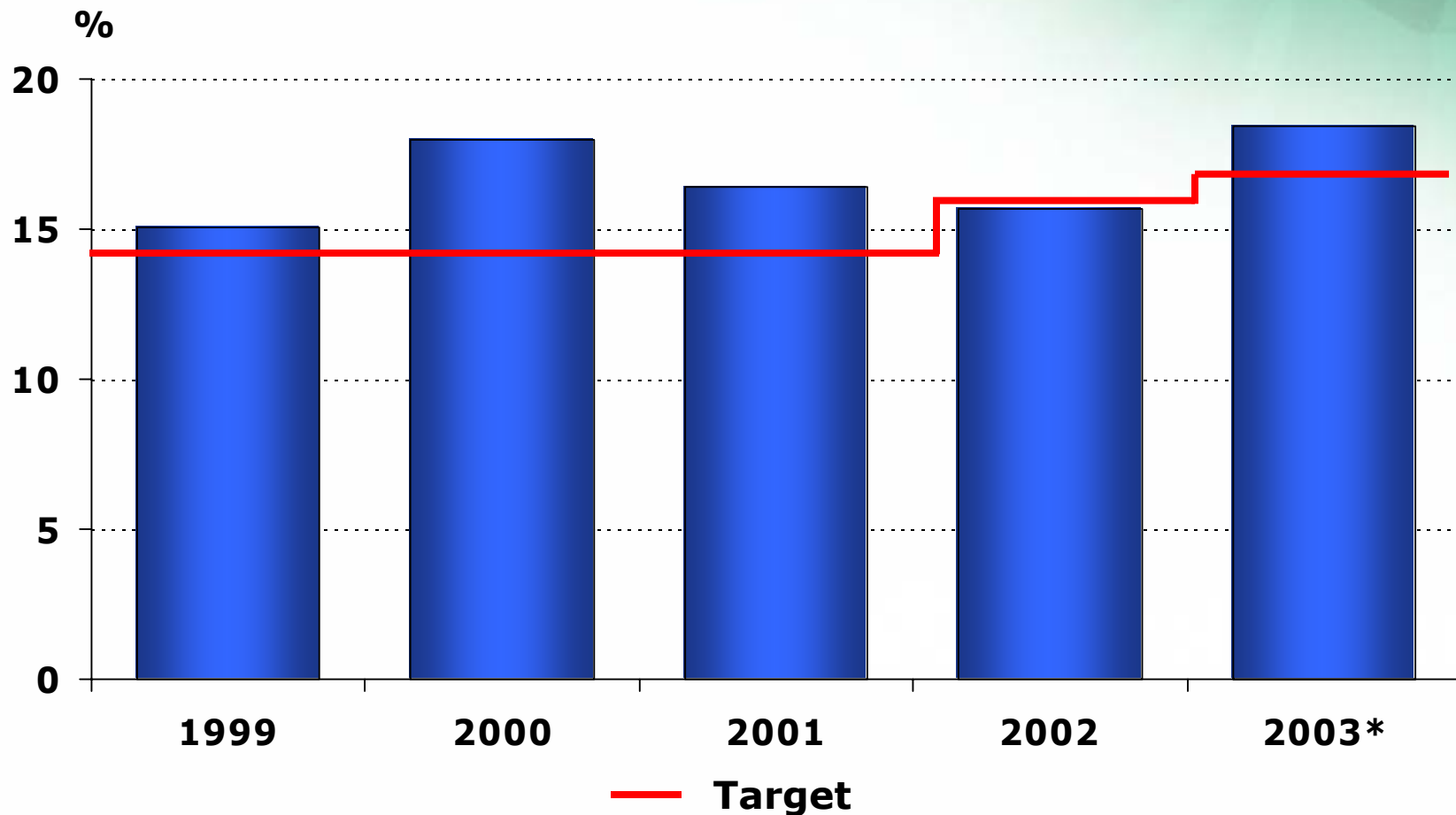
(earnings, cashflow and dividend per share)



\* Excludes sale of Landmark

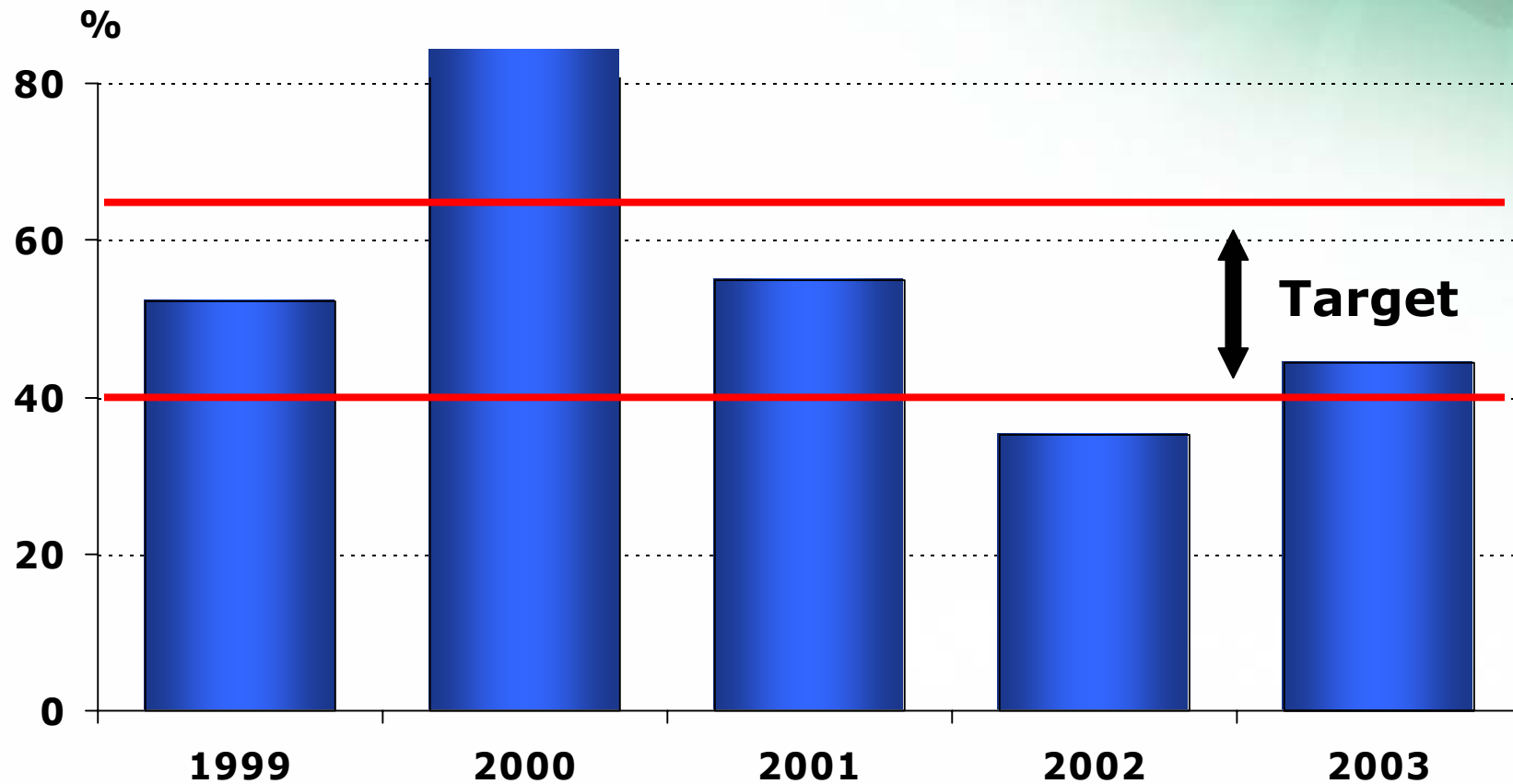
# Return on Shareholders' Funds

(pre goodwill) – rolling 12 months to 31 December

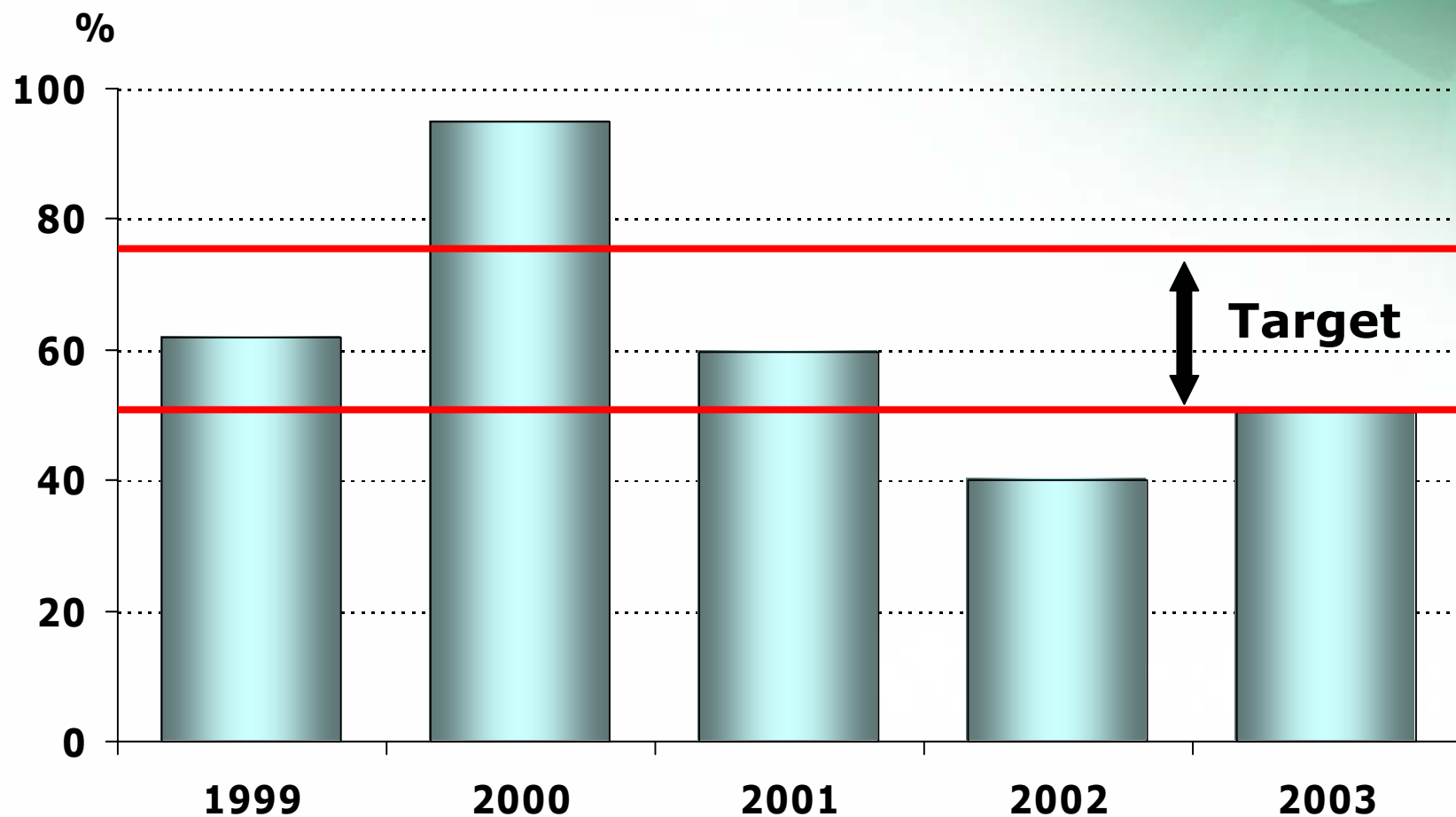


\* Excludes sale of Landmark

# Net Debt/Equity (as at 31 December)

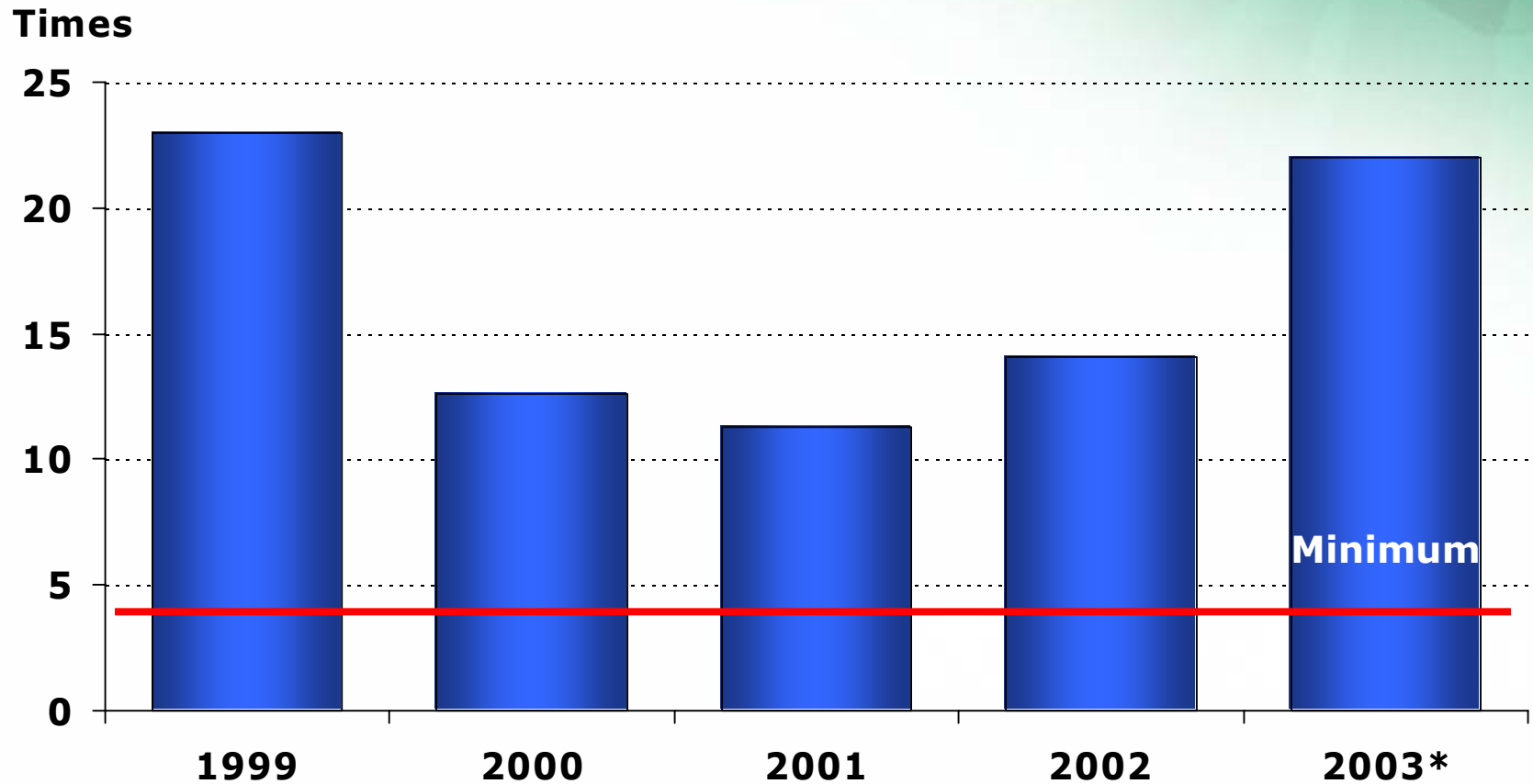


# Net Debt/Equity (as at 31 December) (assuming no upstreaming of Insurance funds)



# Interest Cover Ratio

(Rolling 12 months to 31 December)



\*Excludes the sale of Landmark

# Capital Management

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- Capital return of \$934m in December
- On-market buy-back of up to 5% of Wesfarmers shares
  - At 31 December 2003, approximately 6.98m shares repurchased at an average price of \$25.43

**Peter Davis**

Managing Director, Bunnings



Wesfarmers



**LOWEST PRICES**  
**WIDEST RANGE**  
**BEST SERVICE**



# Half Year Result

## Segment Result

(\$m)	2002	2003	Change
Revenue*	1,781.6	1,993.1	11.9%
EBITA*	196.1	211.9	8.1%
Amortisation	25.1	25.0	-0.2%
EBIT	171.0	186.9	9.3%
EBITA/Sales Ratio	11.0%	10.6%	-0.4%

\*Includes Revenue and EBITA from property and other

# Half Year Result

## Trading Result

(\$m)	2002	2003	Change
Revenue*	1,755.7	1,965.0	11.9%
EBITA*	185.9	205.8	10.7%
Amortisation	25.1	25.0	-0.2%
EBIT	160.8	180.8	12.4%
EBITA/Sales Ratio	10.6%	10.5%	-0.1%

\*Excludes Revenue and EBITA from property and other

# Half Year Result

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- Cash store on store growth 13%
  - Strong result – Queensland, Western Australia, New South Wales & New Zealand
- Water restrictions
  - NSW Stage 1, Vic Stage 2, ACT Stage 3
  - Sales impact \$5m/month

# Half Year Result

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- Trade credit sales decreased by 5% (Australia)
  - Account rationalisation & store closures
  - Slowing housing construction market
  - Strong competition (margin)
  
- Inventory Management
  - Information systems
  - Supplier scorecard
  - Logistics

# 1<sup>st</sup> Half Highlights

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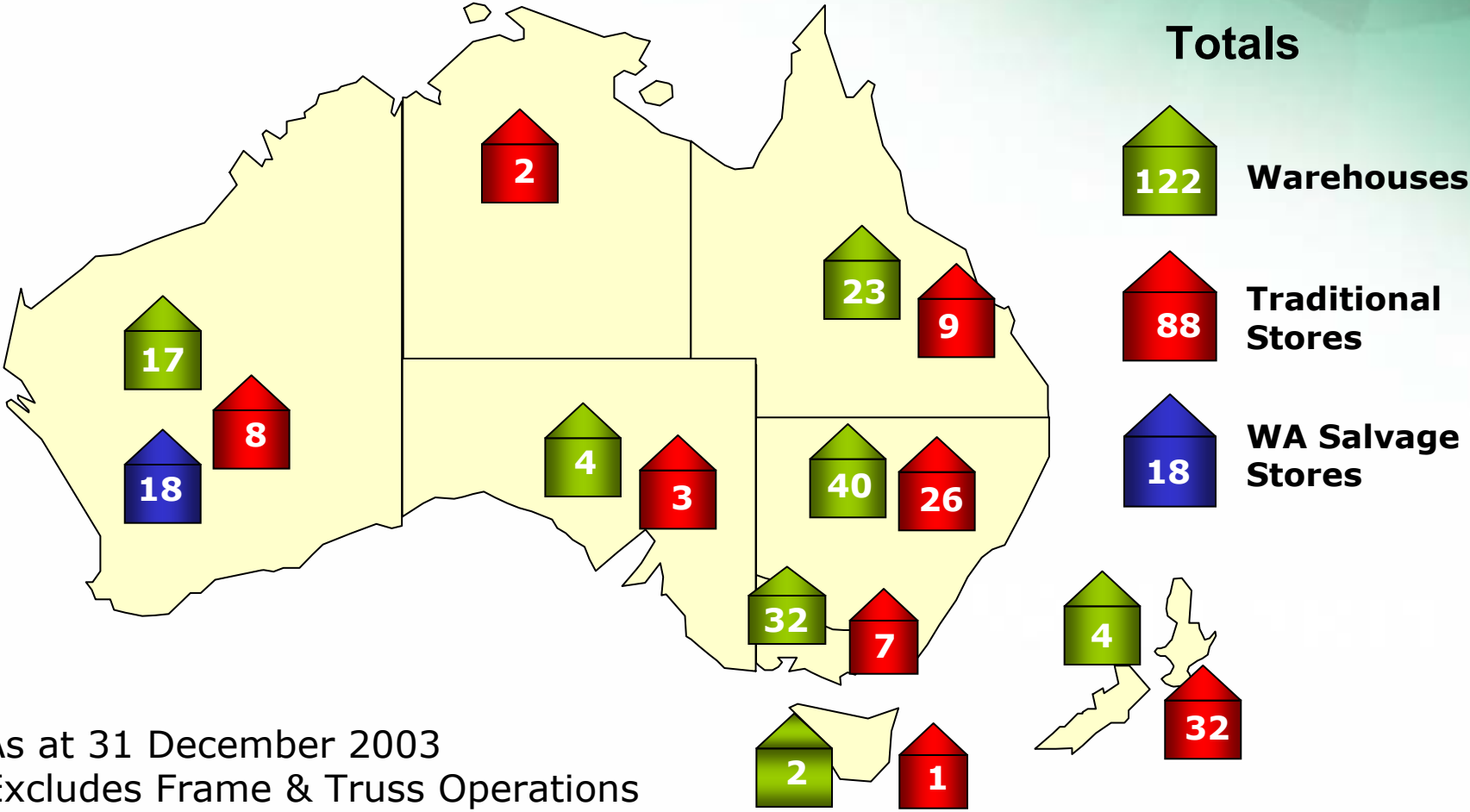
- Store Network Development
  - Warehouses
    - 8 new (NB: Christchurch NZ)
    - 2 closed (former Hardwarehouse)
  - Traditional stores
    - 6 closed (ex-BBC trade and small regional)

# 1<sup>st</sup> Half Highlights

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- Store Network Development
  - Bunnings Warehouse upgrades
    - 5 completed
  - Former Hardwarehouse refits
    - 4 completed
  - Traditional store upgrades
    - 2 completed

# Store Network Update



# Outlook

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- Continued growth in DIY and renovation markets
- Rising interest rates affecting new housing
- Store development pipeline
- Store network upgrades and conversions
- Continuous improvement





**Bob Buckley**

Chief Executive, Wesfarmers Insurance



Wesfarmers



**Lumley**



# Agenda

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- Financial highlights for 1<sup>st</sup> half
- Claims performance
- Sale of Lumley Life
- Integration
- Outlook

# Financial Highlights and Outlook

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- Includes 2.5 month contribution from Lumley group
- Excludes Lumley Life
- Operating revenue of \$300.7m
- EBITA of \$35.8m (not pro-ratable)

# Claims Performance

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- Lower than budget
- Division not adversely affected by Melbourne storms -  
LGA protected by reinsurance
- LGNZ claims lower than budget
- WFI recorded higher than normal crop claims

# Sale of Lumley Life

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- Lumley Life sale completed on 30/12/2003
- \$4.4m overall reduction in Wesfarmers' purchase price

# Integration

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- Business focus and momentum uninterrupted
- Modest savings expected from merged reinsurance programs
- Higher retentions in Lumley from 2005 onwards
- Restructure of Lumley Technology continues satisfactorily
- Gennetic@ development restricted to current clients



# Outlook

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- Competition re-emerging in a number of classes
- Claims trending lower than budget
- Environment remains positive

## **Bob Denby**

Managing Director, Wesfarmers Industrial and Safety



Wesfarmers

# Financial Highlights

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- Operating Revenue down 0.6% to \$575m
- EBITA down 4.5% to \$53m
- EBITA up 5.1% for 2<sup>nd</sup> Quarter on last year
- EBITA/Op. Rev. Margin down from 9.6% to 9.2%
- EBITA/Capital up from 12.9% to 13.8%

# Business Activity Highlights

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- Blackwoods
  - Northern & Western regions strong growth
  - Central & Southern regions flat sales
- Protector Alsafe
  - New management & business improvement now in place
- New Zealand
  - Significant sales increase, margin & EBITA growth contributed by the Paykels acquisition

# Highlights for Half Year 2004

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- Blackwoods Trade Fair
- Integration of Blackwoods & Paykels
- Rationalisation of distribution centres
- Implementation of ERP system
  - Acc Payable & Gen Ledger live 1/10/03
  - Payroll live 15/10/03
  - Acc Receivable live 1/12/03

# Outlook for Second Half 2004

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## ➤ Australia

- Generally positive
- Easing of drought
- Continued spending in mining and transport infrastructure (cautious outlook due to AUD)

## ➤ New Zealand

- Steady
- EBITA improvement through integration of Paykels

**David Robb**

Managing Director, Wesfarmers Energy



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# Energy 2003/04 H1 Environment

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## Gas

- International prices similar to pcp
- Excise uncertainty

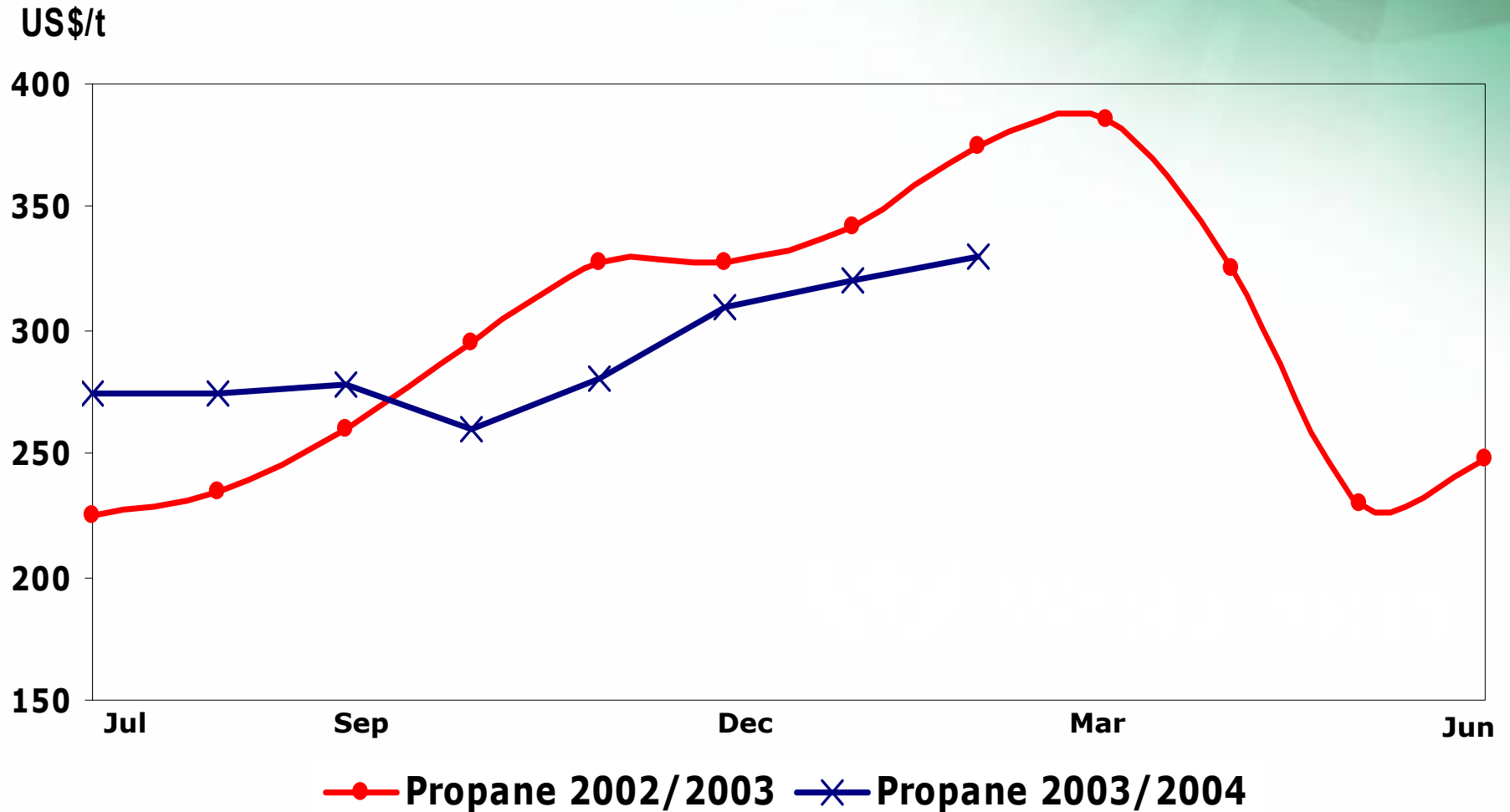
## Coal

- Demand firm, logistics bottlenecks
- Coking coal prices lower, steam improving
- Western Power deliveries down
- Adverse exchange rate movement



# Energy 2003/04 H1 Environment

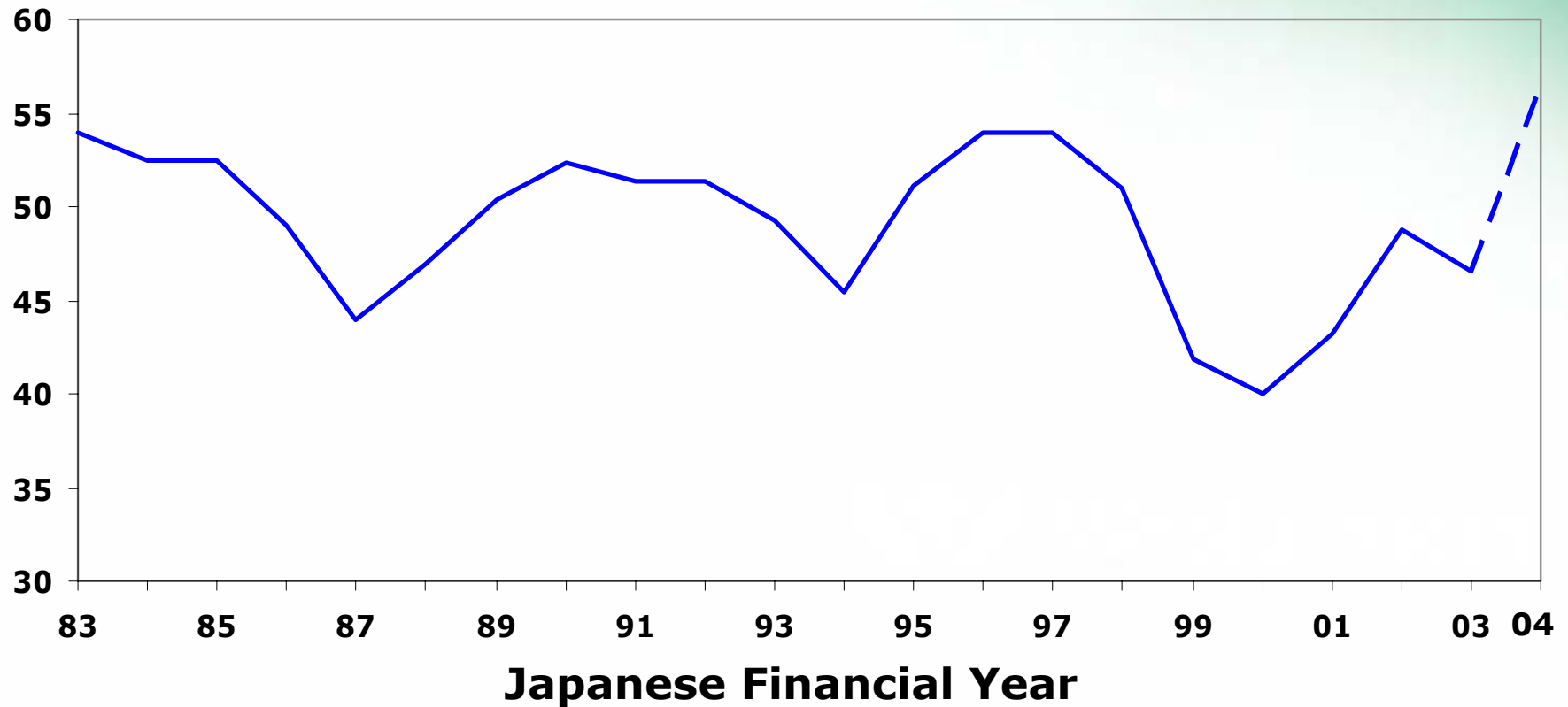
## Saudi Contract Price



# Energy 2003/04 H1 Environment

## Hard Coking Coal Prices

JRP US\$/Tonne FOB nominal



# Energy 2003/04 H1 Environment

## Thermal Coal Prices

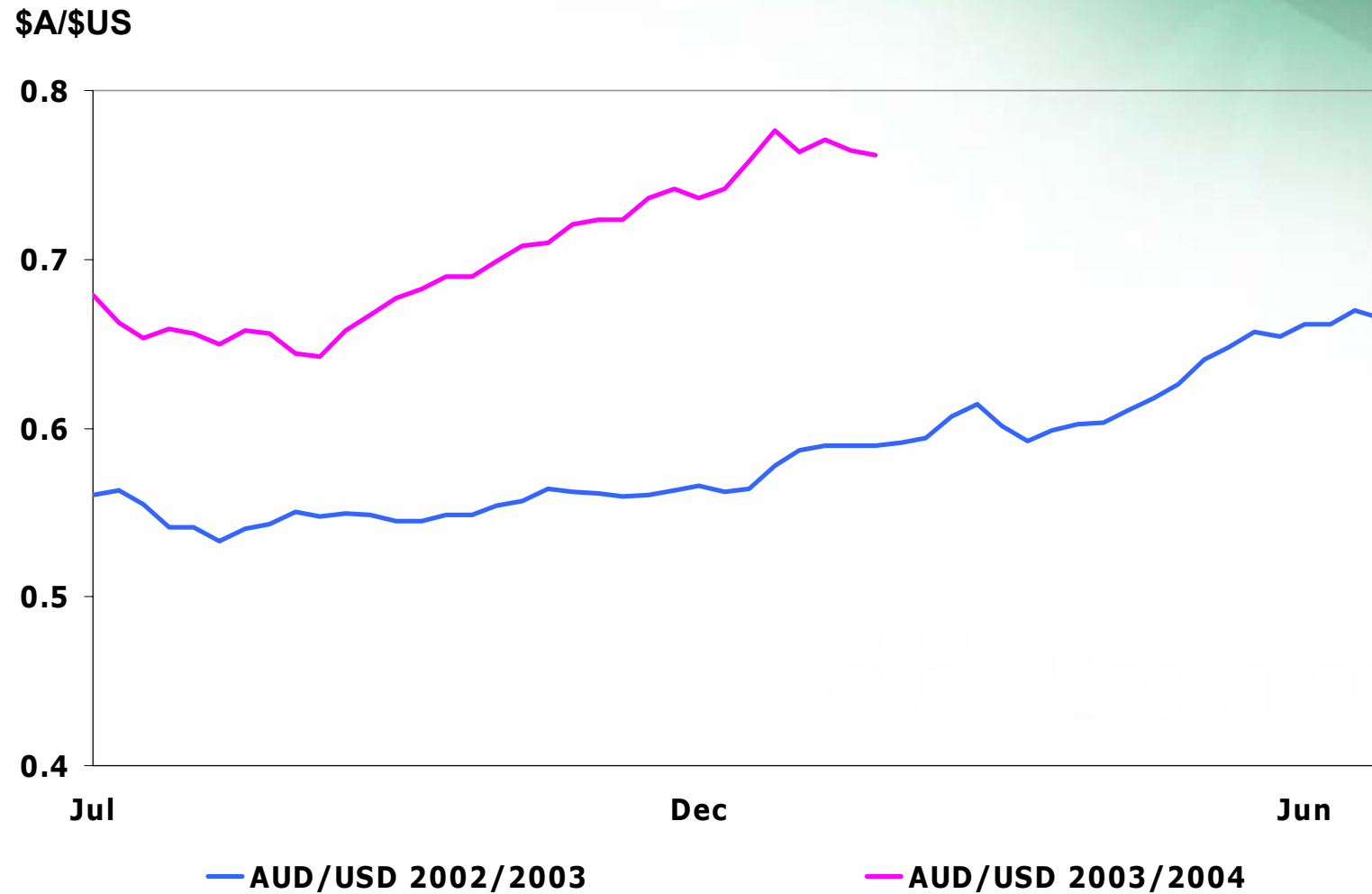
US\$/Tonne FOB nominal



Source: Barlow Jonker

# Energy 2003/04 H1 Environment

## Exchange Rates



# Wesfarmers Curragh Hedging Profile

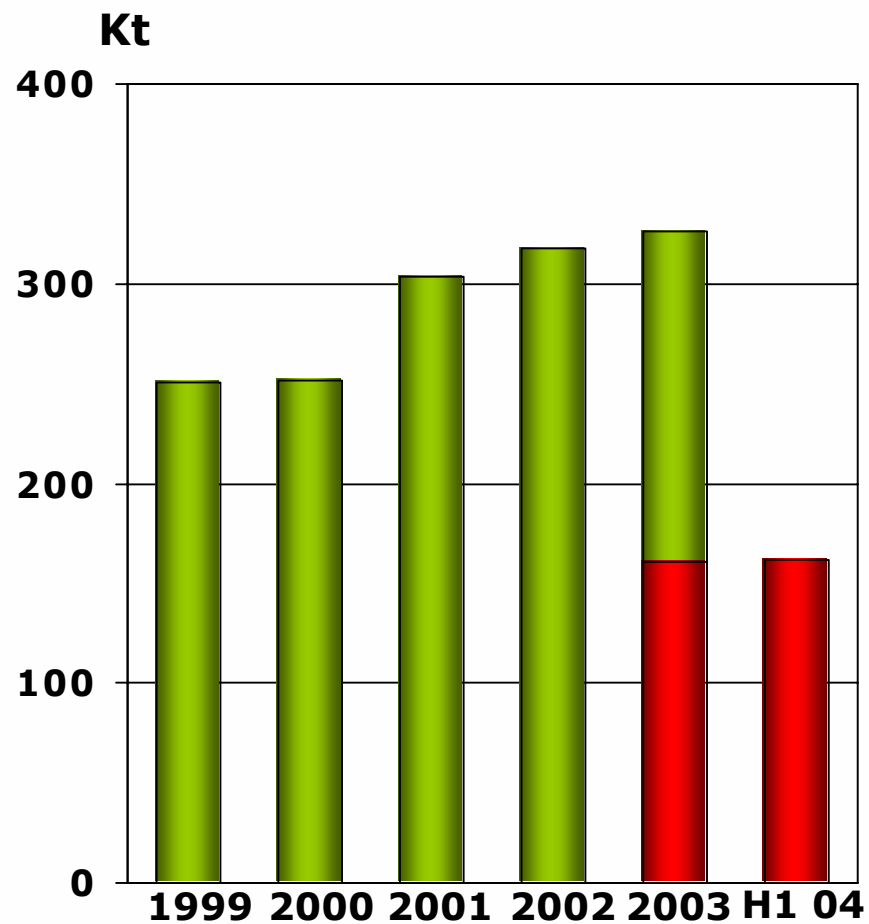
## at 31 December 2003

	Proportion of USD revenue hedged * %	Average AUD/USD hedge rate (\$)
2003/4	100	0.6109
2004/5	77	0.6349
2005/6	58	0.6347
2006/7	41	0.6540
2007/8	18	0.7023

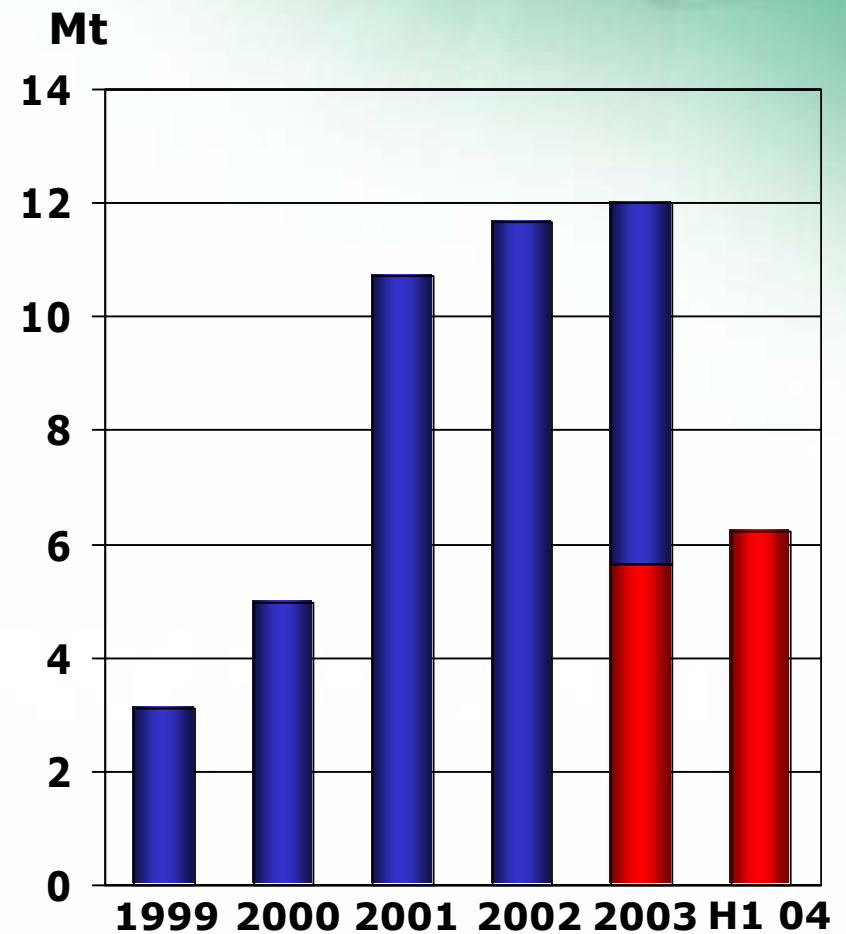
\*Calculated after adjusting for Curragh North, USD capital and operational expenditure and USD royalty payments.

# Production

## W LPG



## Coal



# Production

Mine	Beneficial Interest %	Coal Type	Half ended	
			Dec-02	Dec-03
			('000 tonnes)	
Premier	100	Steam	1,711	1,593
Curragh	100	Coking	1,836	2,213
		Steam	990	1,149
Bengalla	40	Steam	1,098	1,252

# Logistics Bottlenecks

<b>Demurrage</b>	<b>Half ended Dec-02</b>	<b>Half ended Dec-03</b>
Gladstone	\$0.04m	\$2.0m
Newcastle	\$0.4m	\$1.2m



# Sales Volumes

## 1H2004 versus 1H2003

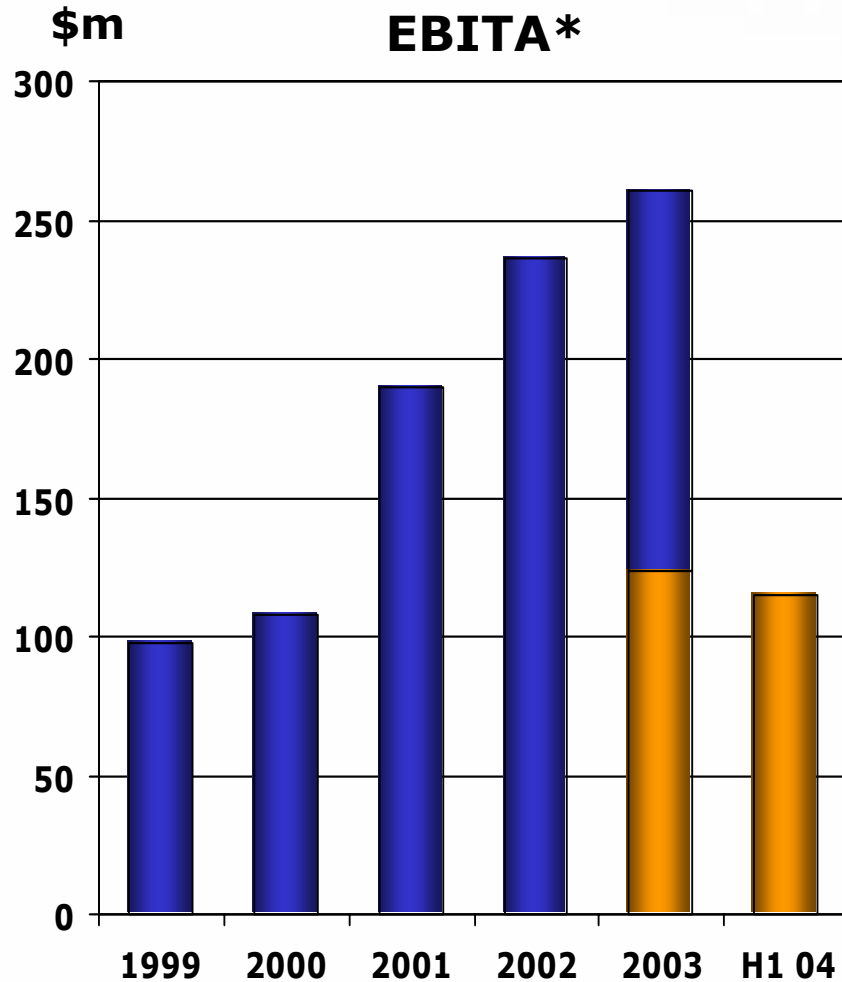
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➤ Kleenheat Gas	+2%
➤ Wesfarmers LPG	0%
➤ Air Liquide*	+3%
➤ Premier	-6%
➤ Curragh	+31%
➤ Bengalla	0%

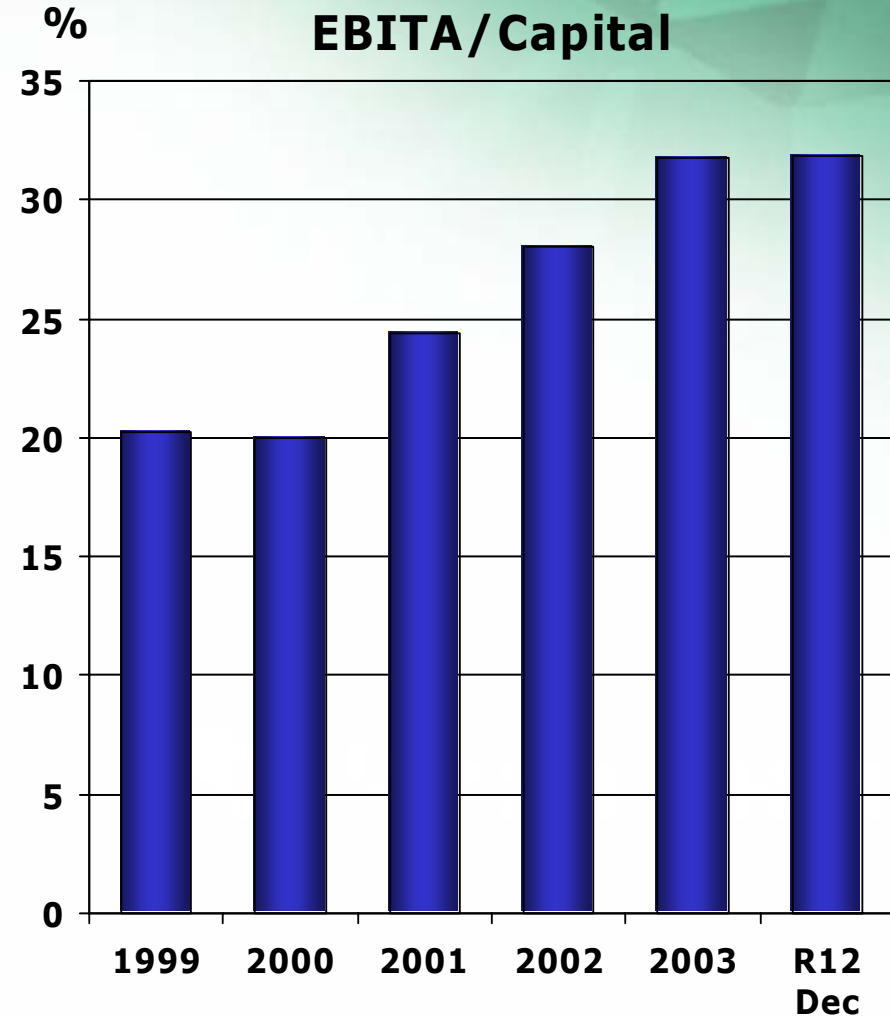
\*Pipeline Sales

# Profitable Growth – Energy Division

## Financial Performance



\* Excludes Girrah \$80.5m in 2003



# Energy Highlights

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- LPG excise outcome
- ALWA HIsmelt construction progress
- Mid West power project commissioning
- Curragh North development
- Premier's mineral sands sales progress
- Successful Oracle system implementation

# Energy Issues Second Half

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- LPG prices and demand
  - Lower summer peak
  - Excise decision impact
  - Supermarket success
  
- Coal volumes, prices, costs
  - Export sales prices increase
  - Production performance (dragline shutdown)
  - Inventory effects
  
- Exchange rates
  - Hedge program

**John Gillam**

Managing Director, CSBP



Wesfarmers

# CSBP

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AGRA



QNP



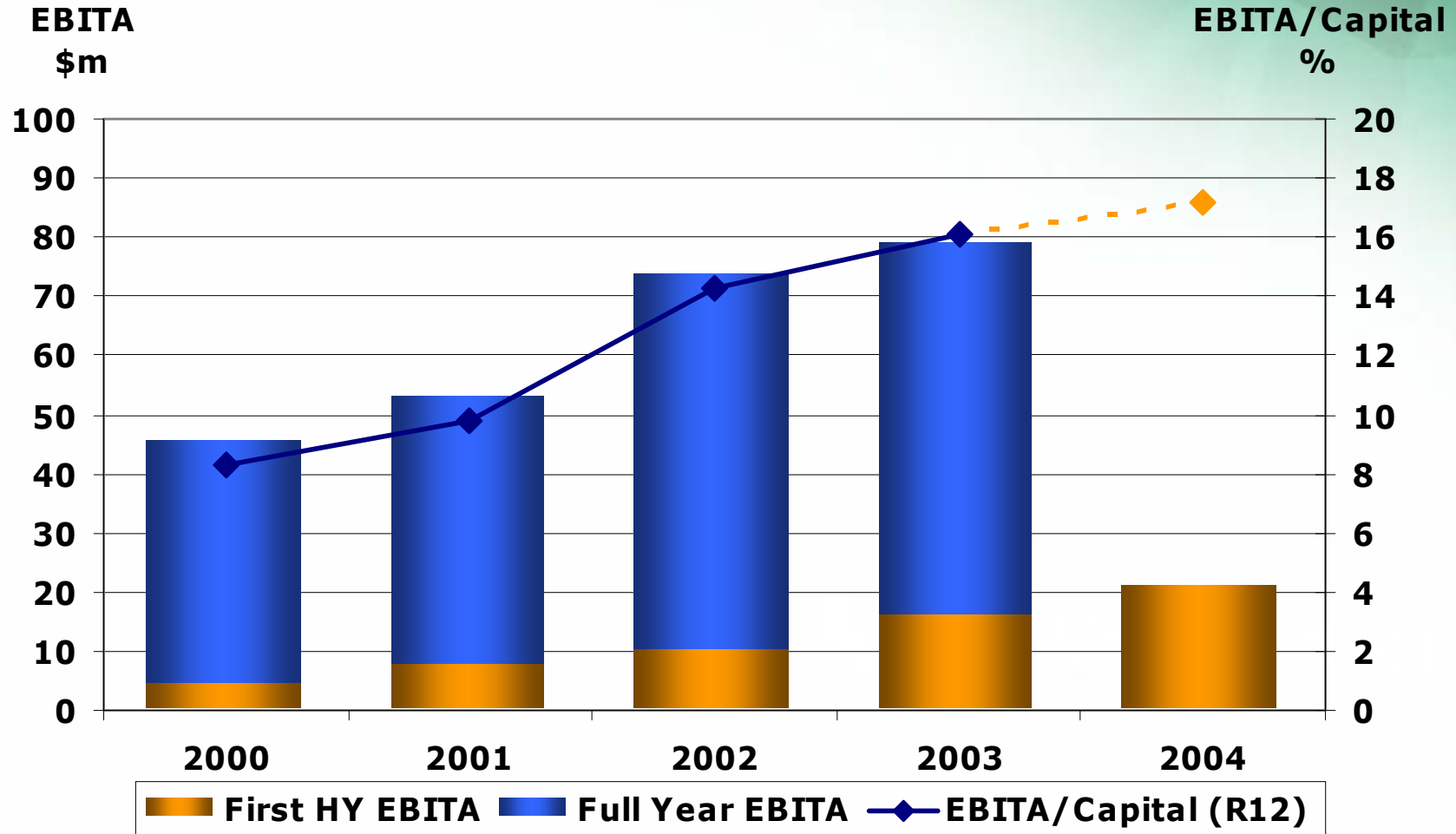
# Performance Summary

## Year to Date

		Actual HY03	Actual FY03	Actual HY04	Δ
<b>Chemicals</b>					
Total Sales	('000t)	196	413	223	+27
Revenue	(\$m)	84	174	94	+10
<b>Fertilisers</b>					
Total Sales	('000t)	241	988	249	+8
Revenue	(\$m)	74	297	77	+3
<b>Company</b>					
Safety	(R12 LTIFR)	6.9	5.4	4.8	-2.1
EBITA	(\$m)	15.7	78.9	20.6	+4.9

# EBITA and EBITA/Capital

## 5 Year Trend





# Chemicals

## Key Influences Year to Date

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- Favourable resource sector conditions
  - Lift in AN volumes
  - Contracted ammonia customer difficulties
  - Competitive sodium cyanide markets
  
- Steady production performance
  
- Queensland Nitrates performing to expectations
  - Joint venture structure simplified

# Chemicals

## Outcomes Year to Date

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- Higher Ammonia and AN contribution
  - Ammonia export shipment in October 2003
  
- Queensland Nitrates positive contribution
  - Equity accounted earnings from July 2003
  
- Sodium cyanide margin pressures
  
- Earnings contribution 19% higher than pcp

# Chemicals

## Outlook

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- Continued strength in resource sector demand
  
- Short term earnings softness
  - Major ammonia plant shutdown May 2004
  - Below budget sodium cyanide earnings
  
- Evaluating growth opportunities

# Fertilisers

## Key Influences Year to Date

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- Good seasonal conditions
  - Record 2003 harvest
  
- Solid first half sales programme
  - Good distributor support
  - Competitive pricing
  
- Cost base and supply chain improvements

# Fertilisers

## Outcomes Year to Date

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- Higher sales volumes
  
- Growth driven by liquid fertilisers
  - storage and handling investment support
  
- Cost base and supply chain benefits
  
- Improved overall contribution

# Fertilisers

## Outlook 2004

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- Positive outlook for 2004 harvest
- Focus on strong market offer
  - Product range leadership
  - Increased sales and service presence
- Cost base and supply chain improvements
- Pricing pressure from import based competitors
- Developing new markets for proprietary fertilisers

## **Gene Tilbrook**

Executive Director, Business Development  
Wesfarmers Limited



Wesfarmers

# OUTLINE

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- Australian Railroad Group
- Gresham Private Equity
- Business Development



# ARG

## 50% Interest with Genesee & Wyoming

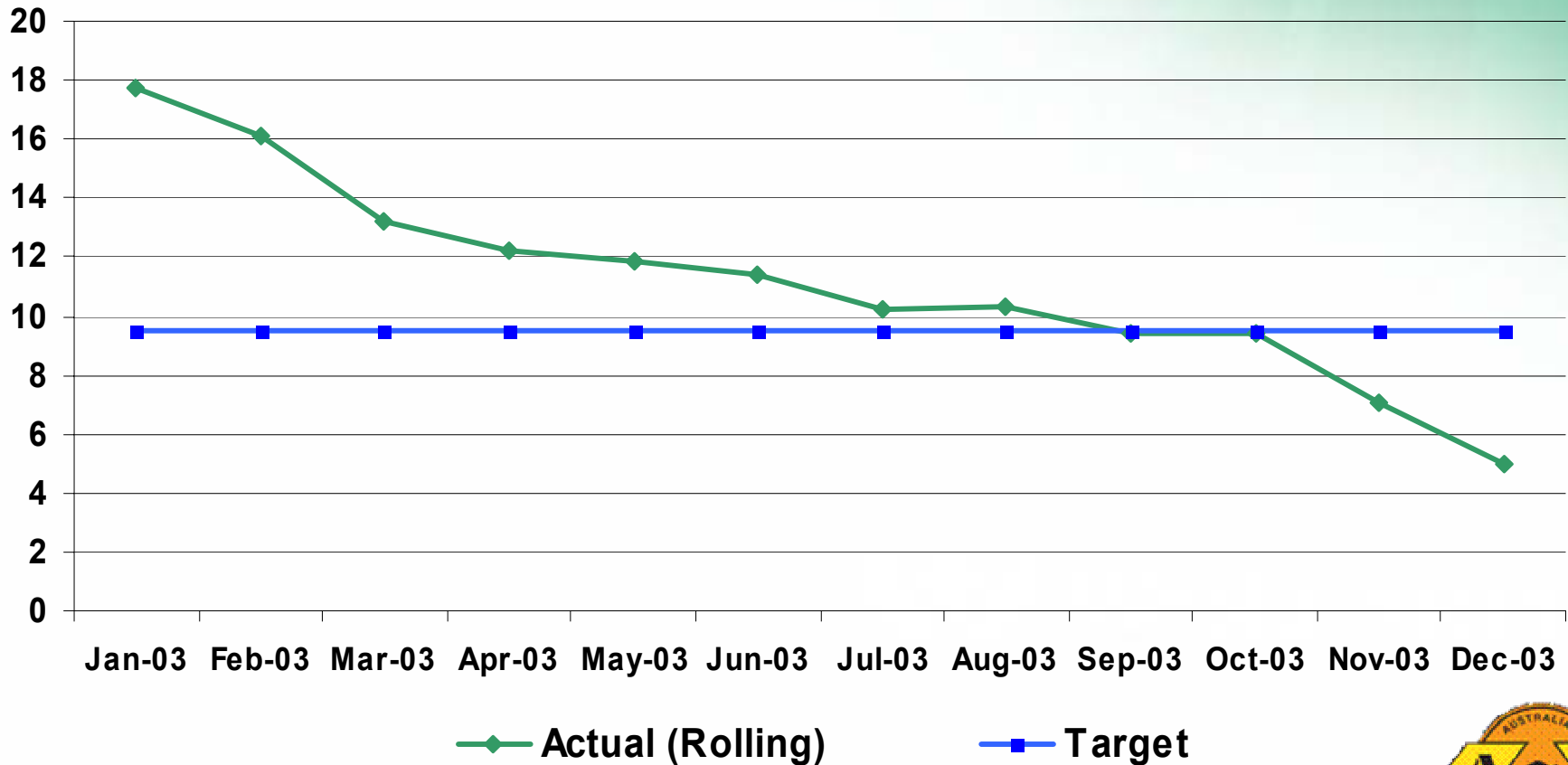
- Improved performance, although still below expectations
  - Large grain harvest
  - New business gained
  - Improved safety / reduced incidents



# ARG

## Rolling LTIFR

Frequency Rate



# ARG

## 50% Interest with Genesee & Wyoming

- Actual performance improved, although still below expectations
  - Large grain harvest
  - New business gained
  - Improved safety / reduced incidents
  - Refinancing



# ARG

## 50% Interest with Genesee & Wyoming

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- Outlook for improvement
  - Grain season
  - New business contributions
  - Operational initiatives
  - Mineral tonnages



# Gresham Private Equity Fund 1

## 50% interest

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- Repco IPO
  - \$64m EBIT contribution
  - 5+ times money back
- Other divestments being considered
- Wesfarmers has some \$52m invested in Fund 1, representing half the fund



# Gresham Private Equity Fund 1

## Remaining Investments

- Cashcard - ATMs + financial transaction processing
- EROC - mining / infrastructure contractor
- Norcros - building materials, coatings
- Riviera - cruisers
- Virgin Active - health clubs
- Raywood - vehicle control systems



# Gresham Private Equity Fund 2

- Wesfarmers has committed up to \$100m (of 1<sup>st</sup> close \$110m)
- Potential commitment: \$150m of \$300-350m target
- Investments over 4 – 5 years
- Life of up to 10 years; realisations 6 – 8 years



# Gresham Private Equity Fund 2

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- Wesfarmers' involvement:
  - Investment Committee; and
  - secondee





# Business Development



Wesfarmers

# Projects to December 2003

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- Lumley Insurance completion
- Koukia acquisition
- Landmark sale
- Lumley Life sale

# **Michael Chaney**

Chief Executive Officer, Wesfarmers Limited

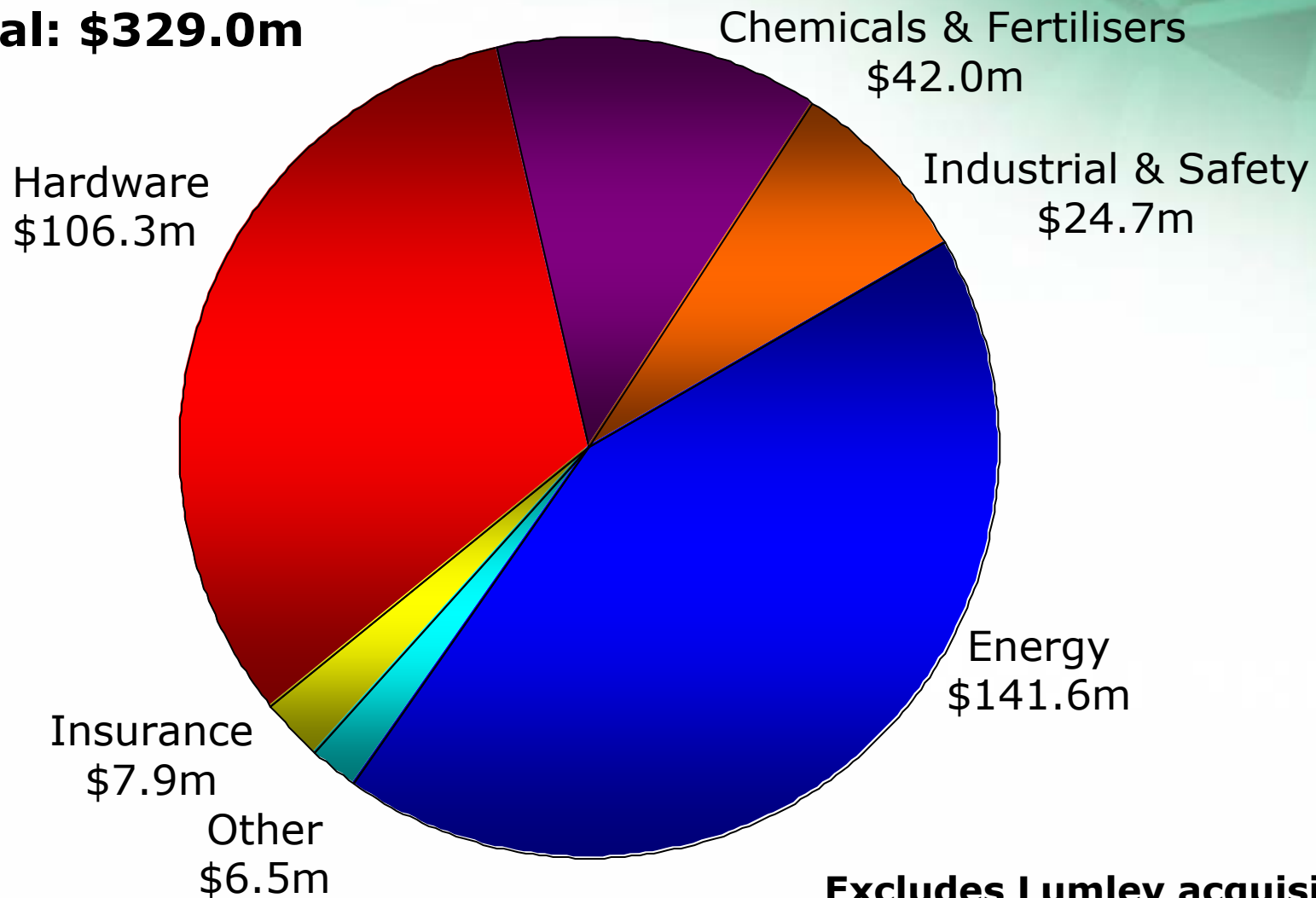


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# Capital Expenditure Programme

2004 Estimate

**Total: \$329.0m**



**Excludes Lumley acquisition**

# Outlook

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- Hardware – solid retail sales growth
  - subdued trade sales performance
- Favourable outlook for Industrial and Safety
- Improved earnings from CSBP
- Lower short term earnings outlook for Coal, medium term positive
- LPG outlook dependent on international LPG prices

## Outlook (cont)

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- Positive outlook for Insurance
- Australian Railroad Group – improving performance
- Continued wind down of Sotico operations
- Further profitable divestments likely for GPEF

# Questions



Wesfarmers