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The content of this Open Briefing® reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Tuesday, 14 November 2006.

General Corporate Issues

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Can you reiterate how you evaluate acquisitions?

Richard Goyder, Managing Director Wesfarmers
We have a very strong focus in the group on return on capital and have done for a long time. We continue to assess the performance of each of our businesses primarily on that measure. The one business that return on capital is least suited to, as a performance measure, is insurance. When assessing insurance businesses we take into account a range of factors such as combined operating ratio and insurance margin. Return on capital also happens to be very strong for our insurance business.

With the new accounting standards and the non-amortisation of goodwill, it is increasingly unlikely that, in acquisitions where there is significant goodwill, we'll achieve a return on capital of anything like 20% in the early years because we're not getting that boost through the reduction in capital.

Overall though, our approach to evaluating acquisitions hasn't changed. We do a discounted cash flow analysis and we evaluate the various risks to decide on the appropriate discount rate. On OAMPS, or any other acquisition we do, we will only proceed when we are satisfied that they exceed our hurdle rate on investment.

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Has the level of franking credits associated with the sale of ARG been determined yet?

Gene Tilbrook, Finance Director Wesfarmers
No it hasn't. Probably the most conservative indicator of how we believe that ruling will go is the way we tax-effected that sale in the 2005/06 full year results with pre tax profit of $234.9m and a tax effect of $56.2m.

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What might you do with the franking credits, given that your policy has been to pay excess credits to shareholders, but while keeping in mind that gearing has increased?

Gene Tilbrook
We don't link dividends to capital raisings. We pay dividends out with reference to available franking credits and we manage our capital quite separately. We raise capital if we need to or, if we have a surplus, we seek ways to distribute it to shareholders.

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Your Dividend Reinvestment Policy is done at a discount. Is it inconsistent to pay out excess franking credits as dividends and then get the capital back at a discount through the DRP?

Gene Tilbrook
No because they are two different things. The franking credits have a greater value to shareholders than on our balance sheet.

Richard Goyder
Our models, covering all tax paying classes of shareholders, indicate that franked dividends have significant value to shareholders. Also, our DRP was done at only a small discount prior to its suspension in 2002.

corporatefile.com.au
What about overseas shareholders?

Richard Goyder
Most overseas shareholders see our high dividend payout as a positive so we still think they are better off receiving franked dividends, although they don't get the same benefits as Australian-domiciled investors.

corporatefile.com.au
How do you rationalise Wesfarmers' contribution to global warming through its coal assets?

Richard Goyder
It's a good and serious question and I'm glad you asked it. We take social responsibility seriously, but we're pragmatic about it. The world wants energy and demand is increasing rapidly, particularly with China growing strongly off

a large base. Certainly demand for products such as steel is growing strongly as well. We have excellent coal assets in Curragh, Bengalla and Premier to supply those markets. They are open cut, have good strip ratios and have good quality coal and are very valuable assets for our shareholders.

We do think that the industry has to make a serious effort in reducing the impact of CO_2 emissions. We've contributed to the Coal21 Fund which is a $300 million fund to be matched by the Federal Government. It will look at various ways of either reducing or containing carbon emissions.

We have also been a participant in the Greenhouse Challenge through a number of our businesses and early last year we joined the federal government's Energy Efficiency Opportunities programme for large users of energy to come up with efficiency initiatives required by the new legislation.

In summary, I think we can balance the two. The world will demand energy and other products such as steel, but we'll be working with industry and government to make sure the consumption of carbon-based resources is mitigated.

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Can you give more detail on the 50 projects or so that you are considering? Is there now a greater proportion of offshore projects in that list?

Richard Goyder
I'm not sure how many projects in total we have on the go at the moment and it varies as to the number we're looking at offshore.

If everything lined up, we'd be very happy to make an investment offshore. Apart from creating wealth for shareholders by meeting our hurdle rate on investment, we'd like the experience of operating in new markets and to be in a position to evaluate more growth opportunities. However, we've still got to satisfy those pre-conditions and we certainly don't have stars in our eyes about going offshore. We recognise that it would usually be more difficult and challenging than operating in the environments we're familiar with.

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Would you mind explaining the changes to the investment approval process, the investment committee that's been set-up and how that fits with business development?

Richard Goyder
We've asked the Board for greater authority on capital expenditure and we're pushing that into the divisions. The divisional managing directors now have a higher level of capital expenditure authority. The reason for the change is to ensure we're not stymieing innovation within the divisions as the Group gets bigger.

We now have quarterly meetings with each divisional board and a fifth meeting for budgets. It's pretty much a full day each time and it allows Gene and I to spend time with the management teams. However, we also wanted a process to enable capital expenditure to be approved efficiently and quickly and that's why we've established the investment review committee headed by Gene. That committee can approve capital expenditure of between $5 million and $20 million outside the meetings of the divisional boards and that expedites the decisions of the Group.

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Can you give an indication of where you'd be comfortable with cash interest cover ratios?

Gene Tilbrook
We'd be happy to go just a little into single digits on EBITDA to interest. We're pretty conservative, but it's important to maintain our credit rating.

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You mentioned an average debt level of just under $2 billion last financial year. What level do you expect this year?

Gene Tilbrook
As at 30 June 2006, it was down to around $1.5 billion although that was before the dividend paid in September. Without acquisitions we would have been running at below $2 billion this year, but OAMPS takes it up by around $700 million.

corporatefile.com.au
You've had a very competitive cost of debt over the years. What impact have the recent rate rises had on your average cost of debt?

Gene Tilbrook
They've progressively had an impact. However, we do have interest rate hedges in place covering about 50% of our debt for several years out.

Industrial & Safety

corporatefile.com.au
You mentioned that the third part of the growth strategy was bolt on acquisitions. Bolt on acquisitions have been really tough to integrate in the past, particularly Blackwoods. How much of a challenge is this and is it still part of the agenda?

Terry Bowen, Managing Director Wesfarmers Industrial & Safety
Integrating any acquisition is challenging, but remains part of our agenda. Assisting future integrations would be our current business unit structure as we can more easily identify how certain types of businesses might fit into our portfolio. For example, we clearly recognise that certain businesses would be complementary and not suitable for integration (say within Blackwoods) and would instead be a portfolio addition. We are also strong in our belief that Industrial and Safety can deliver organic growth.

corporatefile.com.au
Do you find with the specialty products that become commoditised that you are getting competition between the general and specialty sides of the business?

Terry Bowen
This occurs to a degree and is in many respects healthy. It is certainly manageable.

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You mentioned that you were looking at growing the product range. How do you actually enter a new market without disturbing that market through things like price deflation?

Terry Bowen
We find quite often companies enter new markets with nothing more to offer than low marginal based pricing, indeed often with no service ability compared to us. This can lead to price deflation. If we were to enter a totally new market, as this would be incremental business for us, potentially there could be likewise some market disturbance. We do though have very close relationships with our customers, and it is likely that our growth into a new market would be discussed with some of our customers in the first instance to see where we could add value, certainly in regards to service and their total procurement cost.

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Could you please comment on your return on investment expectations given your success in reducing capital employed?

Terry Bowen
We have a target of reducing our capital employed by more than the $65 million we have achieved already. Based on only the $65 million reduction in capital to date, our return on capital based on last year's EBIT would improve by around 1.2%.

corporatefile.com.au
You said you have removed 183,000 SKUs from the product range. Were all of those losing money? What share of your sales did they represent?

Terry Bowen
Often these products were not losing money if you analysed the headline margin only. However, once you include the total cost of stocking, ordering, potential obsolescence and added complexity to the business they were not a profitable part of our business. Overall they represented less than 5 % of our total sales.

corporatefile.com.au
You haven't talked about the distribution model much. Can you explain what stage you are at with that review?

Terry Bowen
We have currently got an exercise underway looking at our distribution model and we have also engaged a consultant company to do some modelling for us and confirm our thoughts. We should be in a position to comment more on our plans here during our next briefing update.

corporatefile.com.au
Can you give a split of your sales by state in terms of percentages?

Terry Bowen
This is information that we do not disclose.

corporatefile.com.au
What is your employee turnover?

Terry Bowen
It has reduced markedly over the last 12 months and is down to around 20% at the moment. You have to consider that this number is heavily weighted to warehouse staff and turnover, and that sales staff turnover is much lower than this.

As I mentioned in the presentation, we have improved our HR team, management focus and people processes and systems to both attract and retain the right people. This has included the introduction of a variety of new measures, such as site allowances for remote sites, to improve in this area. Remote areas with high labour demand are a challenge for all businesses, but overall we are much happier with our performance on staff retention over the last 12 months.

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What are your sourcing import targets?

Terry Bowen
We know that some of our smaller competitors import large percentages of their product ranges, however, the major distributors are less inclined to reveal this kind of information. It is likely we will import more product in the future than today, but we remain close to our partner suppliers who share a joint commitment to growing our business as well as their own.

corporatefile.com.au
Can you comment on your recent movements in market share? Has any area of the business seen declines in market share?

Terry Bowen
Given the spread of the product range and the general fragmented nature of the markets we operate in, market share is difficult to be exact with. However, we estimate that we are at least holding market share in most categories.

Chemicals and Fertilisers

corporatefile.com.au
You mentioned that gas supply issues were affecting your business. Can you explain that?

Keith Gordon, Managing Director Chemicals and Fertilisers
The issue for us has been that we haven't been able to access adequate firm transmission capacity, but the Dampier to Bunbury Natural Gas Pipeline has undergone debottlenecking and it now has a greater capacity to supply gas. We have now renegotiated to a firmer transmission arrangement.

corporatefile.com.au
On Queensland Nitrates, what's your opinion on the value of making a modest-sized, incremental expansion?

Keith Gordon
We're continuing to examine the debottlenecking potential at QNP. The rationale behind that has been to replace product that we've needed to import with manufactured product. An expansion through debottlenecking on the basis of replacing those imports makes sense. The key issue for us will be to determine the market dynamics post expiry of our current contracts. QNP is now in discussions with its customers to try to secure that volume over the longer term.

corporatefile.com.au
What additional products might you export?

Keith Gordon
We already export solid sodium cyanide and we export the odd fertiliser shipment on a spot basis. Exports of ammonium nitrate could make sense regionally, depending on what happens with manufacturing capacity in the region. However, a major issue determining the transport of ammonium nitrate is the tight regulatory conditions associated with transport of the product.

corporatefile.com.au
It seems that the margins are knocked about if you have a production difficulty at QNP and Kwinana because you have to replace that lost production with imported product to meet sales contracts. It seems everything about the contracts is in favour of the customers. How can you get around that? Can you get more flexibility with your contracts?

Keith Gordon
The new AN plant coming on line in Western Australia gives us production flexibility. The normal pattern is to have a plant shutdown for maintenance every two years, so we'll have one of the two AN plants shut for a period each year. Through managing our stocks and maintaining production from the other plant during the shutdown, we expect to be able to avoid imports.

Disruptions to our cyanide operations aren't as big an issue because our customers have more storage capacity on site and shutdowns of cyanide plants are usually of a much shorter duration.

At QNP we believe there may be opportunities to source product locally instead of at the high import prices of the last couple of years. If we did debottleneck QNP then that would provide a solution, but I think there are also local solutions if the expansion doesn't go ahead.

corporatefile.com.au
Are you saying that fertiliser volumes are likely to be down this year or are you waiting for the outcome of the seasonal break?

Keith Gordon
I'm reluctant to talk about volumes now in November because as late as May in the last couple of years we thought we had a good handle on fertiliser volumes for the year to June, but ended up being quite wrong. If we get a good season, we think that the market usage volumes will be in line with long term averages. The year before last we sold about 1.1 million tonnes and last year it was about 0.94 million tonnes. One major issue that might affect final sales volumes will be the amount of stock on farm.

corporatefile.com.au
I understand you have a large component of fixed cost in your business and want to address this. Can you explain that?

Keith Gordon
Seasons like we've just had highlight the need for us to be running our business efficiently and to try and match our costs to the volume of product we are selling. We are looking at a wide range of initiatives across the business including the makeup of our workforce and how many permanent employees we can carry. Our dispatch team is looking at a range of initiatives to improve efficiency including more effective use of front end loaders, and the configuration of our dispatch plants. I can't say that we have one single, major initiative that will alter the fixed and variable cost mix, but we're certainly reviewing our entire cost base.

corporatefile.com.au
Why didn't the investment in the QNB project proceed?

Keith Gordon
We didn't proceed because we didn't think it was the best outcome for our shareholders. There are a number of differences between the way we and Dyno Nobel look at that project. The main one is we look at it purely as an AN manufacturing facility while they have a range of products and services through which they can add value to the AN. So Dyno Nobel has a different view on the economics of that project.

There are some concerns about what an expansion would do to the market balance and, if we were involved, our exposure would have been totally to the increased AN product.

corporatefile.com.au
How much of your sales or earnings is currently coming from the resources sector?

Keith Gordon
Over the past few years it has been about 60% from chemicals and 40% from fertilisers, but last year the percentage attributable to chemicals increased slightly due to the downturn in fertiliser. At the moment, the biggest constraint we have for growing chemical sales is the capacity of our manufacturing plants as they are generally sold out, so we're concentrating on keeping our plants on line.

corporatefile.com.au
Sodium Cyanide seems to have increased sales significantly. Is this sustainable?

Keith Gordon
We had a number of one off influences in our solid sodium cyanide business last year. The move away from consignment stocks resulted in some one off sales that won't be repeated. Additionally, we also purchased some third party product which we are unlikely to carry on with in the future. These two one-offs were reflected in the increased sales volumes and contribution.

Insurance

corporatefile.com.au

Can you talk more about your intended broader role in financial services after acquiring OAMPS?

Bob Buckley, Managing Director Wesfarmers Insurance

I think it's just an acknowledgement that OAMPS has a superannuation capability, it has a 25% stake in a finance house that provides premium funding and we have our own premium funding business. So we have to think about what we do with those parts of OAMPS and we will either expand them or sell them. I don't think I'm signalling anything other than to say we're now a player in more sectors than just general insurance.

corporatefile.com.au

You surprised me when you didn't mention return on invested capital for the OAMPS acquisition, as usually we'd expect Wesfarmers to state that. Can you explain that as it seems to me that OAMPS may be a little more of a strategic investment?

Bob Buckley

I'm very happy to repeat that we will only make investments that meet our hurdle rates and OAMPS does that. It is earnings per share positive.

corporatefile.com.au

But you target returns on investment don't you? Not earnings per share?

Bob Buckley

We do target return on capital, but earnings per share is an important criteria as well. The return on capital in year one won't meet our target, but we will meet our target in the short term. Therefore it is strategic as well as a very good investment. It gives us a number of opportunities including a really strong base from which we can play a role in the consolidation of the broking industry. It gives us the know-how and the expertise to service the SME end of the business where we think the margins are far better than for the larger corporates where the sector has really taken a battering on pricing lately.

corporatefile.com.au

How much scope is there to use the Wesfarmers balance sheet, to increase the risk exposure of businesses such as OAMPS, to improve overall returns?

Bob Buckley

In our general underwriting business there is potential to retain a lot more risk, but we've had tremendous results on our reinsurance programs over many years both with Lumley and WFI. When we looked at the cost/benefits of retaining more risk against the cost of reinsurance we found that the cost of reinsurance, for us, is better than the industry average. So we've erred on the conservative side and maintained our reinsurance program at moderate levels. That will be until the day that reinsurance prices rise to the extent that it changes the cost/benefit equation against us. We've got the scope to adjust our reinsurance program as circumstances change.

corporatefile.com.au

How do you manage the potential conflict between running an underwriting business and a broking business?

Bob Buckley

I think it would be very difficult if Lumleys had bought OAMPS because then you'd have a supporter of Lumleys being owned by them and you'd also have Lumleys trying to stand in the market getting support from OAMPS' competitors. For the Wesfarmers insurance division though, it makes a lot of sense. WFI competes with Lumleys anyway and I think it gives us the opportunity to play in both sectors. Having OAMPS now gives us an opportunity to deal with clients that Lumley and WFI would never write. One of the things we will have to do is maintain arms-length relationships so that OAMPS can stand in the market and find other underwriters to support them.

Similarly Lumley will continue to seek support from the broker market generally.

Coal

corporatefile.com.au
As you ramp up production at Curragh North, can you give an indication on price negotiations and also the markets for your products?

Stewart Butel, Managing Director Coal
On pricing we will update the market when we conclude annual price negotiations. This is expected to take place in February/March 2007. We're still seeing very strong demand for coking coal from steel makers around the world and we're not seeing any sign that they are looking to reduce steel production, probably the contrary. However, we are seeing coal mines ramp up production and observe some stock build up of hard coking coal that may result in some market softening.

corporatefile.com.au
Where do you expect PCI production to be for FY08 as a percentage of the sales mix?

Stewart Butel
It should be fairly consistent with the current year. In FY07, we expect the sales mix to be 50% hard coking coal, 30% PCI and 20% semi-hard. Over the last couple of years we've been ramping up Curragh North and it now constitutes approximately 50% of our sales mix.

corporatefile.com.au
Why do you select low ash content and low volatility as the two main determinants of the quality of coking coal when there are a lot of other characteristics that determine quality? Can you explain where Curragh sits in terms of these other characteristics such as coke strength?

Stewart Butel
Curragh has very high cold coke strength and we're ranked right at the top end of producers on that measure. As part of our sales program, we've targeted customers who want low ash, low volatile and high cold coke strength coking coal in their blend and it's been a very successful marketing campaign.

corporatefile.com.au
Some in the coal industry believe that the price gap between the poorer and better quality hard coking coals will widen. Do you agree with that?

Stewart Butel
We believe our price relativity will be maintained against other products in the market.

corporatefile.com.au
Will you be able to maintain the sales tonnage of hard coking coal you sell?

Stewart Butel
Yes because we have long term sales contracts of 3-5 years. There will be some movement of around +/- 10% from the base tonnage.

corporatefile.com.au
Can you please confirm, for the cash operating cost information you've provided, that it does not include any capitalised items?

Stewart Butel
Yes.

corporatefile.com.au
Can you explain what you are doing to conserve water?

Stewart Butel
At our Curragh mine we consume quite a lot of water. Water is purchased and we recycle around 50% of the amount we use. We're looking at how we can increase the amount of water we recycle, and reduce evaporation by potentially putting covers over dams, using pipes instead of drains to transfer water. As part of the mining process, ground water flows into the mining pit which we pump out and we will increasingly use that as part of our water consumption.

corporatefile.com.au
With oil prices falling back a bit, what would be your expectation for cash cost movements over FY07?

Stewart Butel
I agree that we're seeing some positive signs with oil. Curragh consumes a lot of fuel, but we're still seeing a lot of pressure from contractor and labour costs and I don't think that will go away in the short term. Our labour turnover remains relatively high at around 8%. We've been able to manage costs by ramping up production, but ongoing cost pressures will remain.

corporatefile.com.au
Is there any chance of increasing production at Premier, say from exporting?

Stewart Butel
We're looking at every opportunity to increase production from Premier. There are a number of smaller tenders in the WA market at the moment. In the export market however, Premier coal is a high moisture, low energy thermal coal. Prices would need to be considerably higher for export sales of Premier coal to make commercial sense.

corporatefile.com.au
Can you explain the market opportunities from the potential char plant at Premier?

Stewart Butel
There are a number of niche markets for char. We're targeting smelters and steel makers that need sources of carbon for their processes. We think we have a product that will be well accepted.

Energy

corporatefile.com.au
Do you expect your new $138 million LNG project to be earnings per share accretive when it is operating in FY09?

Tim Bult, Managing Director Energy
It is a long term infrastructure project and it meets our risk adjusted financial hurdle rates. However, I'm reluctant to be specific on the project financial returns because one of our strategic objectives is to be the first mover in the market for LNG as an alternate fuel for heavy duty vehicles in Australia.

corporatefile.com.au
Presumably your LNG fuelled remote power stations will replace diesel-based generation?

Tim Bult
That's right. Off grid power stations that, due to size and/or location, don't justify being supplied by gas pipelines have typically been powered by diesel. For the mining companies involved, LNG fuelled power generation will deliver the opportunity for cost savings, particularly in the current oil price environment, and a greater ability to budget for power costs given the relative price stability of LNG compared to diesel.

corporatefile.com.au
What's the minimum size power station needed to justify a switch to LNG?

Tim Bult
The economic size to justify an LNG-based power station would, indicatively, be somewhere around 5MW depending on whether there was continuous demand. The infrastructure required includes facilities to store the LNG at a refrigerated temperature. All of it is standard and proven technology.

corporatefile.com.au
How much volatility on LPG content do you get in the Dampier to Bunbury Gas pipeline?

Tim Bult
LPG content of gas delivered to the plant was particularly volatile last financial year, but it has steadied a little since. However, we are still seeing that it can change on a day to day basis. We've seen it, indicatively, as low as 0.7 tonnes per TJ and up to as high as where it was, on average, prior to 2005. The LPG content now depends on the operational schedules of the gas producers

whereas previously the gas producers had an obligation to meet certain minimum LPG content levels for gas supplied into the pipeline.

corporatefile.com.au
Where do you get the gas from for the LNG plant?

Tim Bult
We've entered into a long term gas supply agreement with Santos who will supply us from the John Brookes field. We also have a long term agreement with the Dampier to Bunbury Gas pipeline operators to deliver the gas to the plant.

corporatefile.com.au
Your return on capital for FY06 was 26.8%. The LPG plant has virtually been written down to zero, yet it is still delivering an earnings stream. Is Kleenheat meeting its return on capital?

Tim Bult
Just to clarify, the LPG plant will be fully depreciated by the end of FY08 although the quantum of depreciation charge is currently fairly modest. In a vertically integrated sense, the LPG production and Kleenheat businesses together are meeting our return on capital targets. There is some degree of natural hedge between the two businesses, but at times of high Saudi Contract Prices for LPG we have experienced return on capital challenges for Kleenheat as was the case in the last financial year. Having said that the performance of the business has improved slightly so far this financial year compared to the same period last year.

corporatefile.com.au
You use the LPG produced from the plant to meet domestic requirements and export the rest. Is there a chance that the content, and therefore production from the plant, will fall below domestic requirements?

Tim Bult
Our domestic market supply requirement varies because, in addition to demand fluctuations, we are not the only producer supplying LPG into the Western Australian market. Yes, there is a chance that at some point the LPG content may fall to a level such that production from the plant will be unable to fully meet domestic demand requirements particularly given seasonality and higher demand in winter. However, we have now upgraded the LPG plant to be able to operate as an import facility as well as an export facility and there is sufficient storage capacity on site to accommodate imports. So we would be able to import any future shortfall to our domestic requirements.

corporatefile.com.au
Would it be profitable to do so?

Tim Bult
In general, Kleenheat's contracts allow it to pass on price movements to customers. Of course, one of the problems in times of high prices and input

costs is that the retailers will pass on price increases to consumers who might respond by reducing consumption.

corporatefile.com.au
Is Kleenheat's traditional cylinder business making money in the eastern states?

Tim Bult
Kleenheat is making a contribution from its 45kg cylinder product which is largely used in households. Given the high Saudi Contract Price environment for LPG, and other cost factors, we've had to pass price increases on which have resulted in sales volume pressure on this product over the last 18 months or so.

Home Improvement

corporatefile.com.au
Given you go to a lot of effort to give comp store cash sales growth, why don't you just give total sales growth?

John Gillam, Managing Director Home Improvement
A decision was made at a group level to cease quarterly reporting some time ago. What we provided at our AGM was simply a guide to our current retail trading performance in the form of a comp store cash sales growth number for the first quarter. This is, in our view, a reasonable guide as to how our business is currently performing, particularly given the store network is still growing.

corporatefile.com.au
You've moved larger builder trade sales out of hardware stores to increase retail sales yet you still want to grow trade sales. How are you going to improve trade sales without offering credit? What is your strategy on credit?

John Gillam
Providing credit to trade customers has been a fundamental part of the Bunnings business for many decades and we are one of the largest corporate credit providers within the housing sector in our markets. We carry a large credit book and we know from external evidence that it is run very efficiently, in terms of days sales outstanding, bad & doubtful debt write offs and other measures.

We have noted that in some offshore markets, hardware businesses have walked away from providing credit, but I think if you do that you lose an important part of the overall business relationship in this sector. For example, by retaining a credit relationship, we have the ability to cut our better customers some slack when they may need it.

It is obvious that retail and large trade customers have very different requirements. By removing the larger trade volumes from our store network, we've been able to get more clarity around how we can succeed in trade. We're now better able to serve the larger home builders as well as the smaller contractors and this is how we will achieve growth in the overall trade area.

corporatefile.com.au
You're opening 12-14 new stores this year. Taking into account things like the property you have bought, how many new stores are you planning over a longer period?

John Gillam
We don't disclose our overall property pipeline for new stores, but that said, we don't make the statement - that we plan to open 10-14 warehouse stores annually for the foreseeable future – lightly. We have eleven warehouse stores under development at the moment and under development means that construction of the store has started.

corporatefile.com.au
You mentioned that, after the restructure, the trade business is currently earnings dilutive. How long will it be earnings dilutive? Also, can you discuss your current retail trading conditions on a regional basis?

John Gillam
We'll be disappointed if the trade DC side of our business is earnings dilutive over the full FY07 period. The Frame & Truss side of the trade business is more exposed to volumes linked with new housing starts and when we expanded that part of our trade offer earlier this year we did so in the knowledge that this is a cyclical business which is currently operating in a market which is at the low end of a cycle.

Turning to regional retail conditions, we're doing well at present in NSW. We are underweight in terms of our relative market share in NSW and we've put a lot of effort into this market over the past 18 months or so to lift our share, so we'd be disappointed if we weren't seeing improved results. Queensland and WA are going well for us and Victoria and South Australia are trading better than they have in recent times. New Zealand is a tougher market in an overall sense at present, but we're the fastest growing home improvement business in that region.

corporatefile.com.au
Are you prepared to let your EBIT to sales margins fall in the pursuit of average sales growth?

John Gillam
Our first aim in seeking to lift our average sale is to provide better value to customers. If we can provide customers with better value at higher price points, then we should be able to lift our average sale. Within our existing store network we are working hard to lift average sale in this manner and this has the ability to provide us with strong growth. What all of that might mean for our overall margins is a separate issue. I recall mentioning previously that when we model our business over the long term we see some decline in net

margins but, if we achieve good growth through lifting our average sale, this may alter.

corporatefile.com.au
Can you talk about the competitive environment and whether a well-capitalised competitor such as Mitre 10 would be positive or negative for your business?

John Gillam
The home improvement market in Australia totals over $30 billion and we face a range of competitors. The strongest competition we see often comes from category specialists. Businesses such as Reece perform strongly in their specialist areas. If you look at Reece, their turnover exceeds $1 billion and they are the clear leader in plumbing. There are quite a few other well placed category specialists across the whole home improvement sector.

Mitre 10 has terrific network coverage and we sense there is a lot of equity left in their brand which won't be lost overnight. The Home franchise likewise has good overall market coverage. We would see the challenge for these businesses being to unlock the benefits of their network coverage and we watch what they do carefully and, where appropriate, we respond.

In simple terms, we think if we can continue to deliver better outcomes in terms of range, price and service, within our offer, then the bar just gets higher and higher for competitors such as Mitre 10 who are coming at us with a broad offer.

Against the category specialists we seek to deliver a range that compares favourably to them and then to deliver better value to customers through price and service.

corporatefile.com.au
I think there are around 146 warehouses currently. I was thinking you had a target of around 200 in the overall market. What's the expectation on the ultimate number of warehouses?

John Gillam
We don't comment on where we see the total number of stores in the network ending up. We are planning to open 10-14 warehouse stores annually for the foreseeable future and we are comfortable to provide that guidance based on our annual corporate planning work that looks out 5 years.

corporatefile.com.au
You mentioned you've made progress on stock turns. Can you outline how much you've managed to improve that measure and by how much you can improve it once the new software system goes in?

John Gillam
We're not looking to improve stock turns through the new system. Our system project is primarily about ensuring we have the capability within our business to perform strongly at much larger volumes in the future. In terms of stock

performance, we focus on overall productivity rather than stock turns and last financial year we got around a 15% improvement in inventory productivity on top of a similar level of improvement in the year before. We're hoping to maintain that level of improvement going forward.

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What strategy do you have to extend the growth phase of stores that are relatively mature?

John Gillam
At a macro level we've done a lot of benchmarking work over time and, when we look at the best-performing retailers globally, we find that our use of space is not as good as theirs. This work indicates to us that there is a 20-25% lift in space utilisation for us to achieve through a range of merchandising and operational strategies. Better use of space is a huge growth opportunity. It's easy to calculate that adding 10-14 stores annually will not, by itself, be sufficient to maintain strong sales growth. We have to also work our existing network harder and, for example, what I mentioned earlier regarding average sale is part of what we are doing to achieve this.

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