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Lodgement of Open Briefing.**



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**Title** : Open Briefing. Wesfarmers. CEO Chaney on 65% Profit Rise

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Wesfarmers Limited announced a 65 per cent increase in net profit to \$414 million for the year to June 30, 2002 (EPS of \$1.38 per share before goodwill amortisation, up 44 per cent). Which business segments were the main contributors to the increase in profit?

**CEO Michael Chaney**

We recorded solid earnings increases from all key business units. In terms of magnitude, Bunnings hardware business effectively doubled its earnings. We also had a strong increase in the energy business, particularly from the coal mines. Wesfarmers Landmark and fertilisers and chemicals also recorded solid increases.

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The Wesfarmers share price has fallen from a peak of around \$33 in February 2002 to yesterday's price of \$29.30. Has anything materially changed in the outlook for your businesses?

**CEO Michael Chaney**

No, nothing. We have long ago given up trying to understand the causes of share price movements. The equity market has been weak lately and it's unlikely our share price wouldn't have been affected.

The outlook for all our businesses is positive. We expect what we call an acceptable level of profit growth in 2003 and we forecast further growth from there in our five-year plan.

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Net operating cash flows for the year were \$683.7 million compared with \$383.7 million last year, an increase of 78 per cent. Net debt to equity is now below the lower end of your target range of 40 to 65 per cent. The full-year dividend was \$1.11 per share, up from last year's 87 cents. Is that level of cash flow generation sustainable and where will you allocate cash flow this year?

**CEO Michael Chaney**

The level of operating cash flow generation is sustainable. This year we'll further reduce our gearing, in the absence of another acquisition. That's after allocating about \$330 million to capital expenditure.

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Equity markets and several commodity markets have recently performed poorly. Does this make you nervous about making more acquisitions or do you see it as an opportunity?

**CEO Michael Chaney**

We see it more as an opportunity. I must say that almost all the equity market acquisition opportunities we look at seem highly priced. The recent equity market fall may have helped that situation but not resolved it in many cases.

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During 2000 and 2001 Wesfarmers made several acquisitions, the Curragh coal mine, Westrail Freight, Iama Limited and Howard Smith. How do you rank the success of each acquisition so far?

**CEO Michael Chaney**

In terms of the effect on the Group, Howard Smith and Curragh have been the most important. Iama has been important to provide Wesfarmers Landmark with some economies of scale and that has gone really well. Westrail Freight is a smaller investment than the others but has also been a success.

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Earnings before interest, tax and goodwill amortisation (EBITA) from the Bunnings hardware business increased by 117 per cent over 2001 to \$297.1 million. Mitre 10 recently announced it had entered into a heads of agreement with Abigroup to develop stores similar to the Bunnings warehouse format. What threat does that pose?

**CEO Michael Chaney**

We don't see the Mitre 10/Abigroup arrangement as a material threat to Bunnings. The number of stores they've announced they're rolling out is fairly modest and there's probably room for another player in the market anyway.

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Bunnings aims for a roll out of 8 to 12 new warehouse stores each year. What's your strategy for Bunnings in New Zealand, where annual sales growth of 5.7 per cent was clearly lower than Australian sales growth of 15.1 per cent?

**CEO Michael Chaney**

We plan to employ the same sort of strategy in New Zealand as in Australia.

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Store-on-store growth in the combined Bunnings/BBC/Hardwarehouse network, excluding stores not trading for the full period or those affected by opening or closing of stores, was 11 per cent. How did the BBC/Hardwarehouse stores perform and when do you expect a financial performance similar to Bunnings?

**CEO Michael Chaney**

The overall store on store growth was 11 per cent on an adjusted basis. That comprised 9.5 per cent for BBC/Hardwarehouse and 12.4 per cent for Bunnings. Pleasingly, the growth rate in BBC/Hardwarehouse improved as the year went on.

Many of the BBC stores will never be able to perform at Bunnings' levels because of location and sometimes, physical constraints. We expect quite a significant improvement in the BBC/Hardwarehouse financial performance nevertheless.

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EBITA from Wesfarmers' energy business increased by 24 per cent to \$236.9 million due to strong growth in coal earnings. What were the results of contract price settlements for your export coking and thermal coal, effective from April 1, 2002?

**CEO Michael Chaney**

We're still in the process of finalising our export contract coal prices. We've had some coking coal settlements for contracts starting on 1 July. They've been around the levels that other companies have announced publicly.

Thermal coal contract prices will be settled lower so we'll receive lower thermal export prices in the current year. Thermal coal spot prices are also soft.

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For the year, Curragh sales were 6.0 million tonnes, Premier 3.6 million tonnes and Bengalla around 2 million tonnes (40 per cent). Can you comment on industry speculation that the Curragh wash plant might be expanded to a capacity of 11.5 million tonnes and on your coal sales outlook generally?

**CEO Michael Chaney**

There's some further expansion potential at Curragh, if markets and our mining schedule allow, because we've substantial spare capacity at the wash plant. In the current year, we expect exports of coking coal to increase by about 400,000 tonnes.

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Have pricing and sales volume of Bengalla coal been disappointing?

**CEO Michael Chaney**

The volumes were a little disappointing in FY2002. They were about the same levels as 2001, which was around 15 per cent below budget. We're expecting some additional

export tonnes from Bengalla this year. Prices were in line with what we'd anticipated early in the year.

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How might Wesfarmers capitalise on the ongoing deregulation of Western Australia's gas and electricity markets?

**CEO Michael Chaney**

One of our hopes is that deregulation leads to lower gas and electricity prices. Wesfarmers is a large consumer of energy in Western Australia. There may well be some investment opportunities in this sector but it's too early to detail anything.

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The industrial and safety businesses contributed EBITA of \$84.8 million (for 11 months). The ROC was 8.7 per cent and is well below your hurdle rate of 18 per cent. Is it considered a core business?

**CEO Michael Chaney**

We define a core business as one in which our shareholders do better if we retain it and a non-core business as one in which our shareholders do better if we dispose of it. I expect to continue to consider industrial and safety a core business.

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How do you anticipate improving returns from industrial and safety?

**CEO Michael Chaney**

We shall get some revenue growth, particularly from new infrastructure projects and we'll have some useful cost savings arising from logistics improvement programs and the rationalisation of businesses required by Blackwoods.

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EBITA from the fertiliser and chemicals business segment increased by 39 per cent to \$73.5 million, with higher sales in both fertilisers and chemicals. Did both fertilisers and chemicals record an improvement in EBITA?

**CEO Michael Chaney**

Most of the improvement in the fertiliser and chemicals business segment came from higher chemicals revenue and profit, with a smaller improvement from fertilisers.

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There's been speculation of rationalisation in the industry for some time. What are the impediments to rationalisation, either in the manufacture or distribution of fertilisers?

**CEO Michael Chaney**

One of the issues is that several of the Australian fertiliser businesses operate in quite separate markets and so the amount of synergies available is limited. That's not the case with all possible combinations so it may be that some rationalisation takes place.

Wesfarmers is not only a producer of fertilisers but a large distributor of other companies' fertilisers and that continues to be an important part of our business.

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What impact is the Australia-wide drought having on the fertilisers or Wesfarmers Landmark businesses?

**CEO Michael Chaney**

At this early stage, the impact of the drought is limited. In Western Australia we have a sub-regional drought, where many areas should have good crops but there are also some drier areas that won't generate much cash for purchase of fertiliser next year.

In eastern Australia, a continuing drought could have an impact on Landmark's business as farm income might fall from the levels achieved last year. But again it's a bit early to tell what overall effect the drought will have.

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ABARE recently forecast a drop in Australian farm incomes for 2003 of 40 per cent. How might that affect Wesfarmers?

**CEO Michael Chaney**

That would have an impact on the Landmark business and potentially on our fertiliser business in Western Australia but we've tended not to place too much reliability on forecasts like that because things can change pretty quickly.

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EBIT from the rural services and insurance business increased by 47 per cent to \$89.2 million (before goodwill amortisation). Premium income for Wesfarmers Federation Insurance grew by 16.6 per cent and earnings were similar to last year's record result. How did it achieve this result within the insurance industry malaise?

**CEO Michael Chaney**

Wesfarmers Federation Insurance is one of the best insurance companies in Australia. It has a conservative approach to risk and investment. It managed to record above budget earnings despite a high level of crop related claims.

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Can you comment on the merger progress for Wesfarmers Landmark?

**CEO Michael Chaney**

It's going according to plan. The synergies we originally mapped out to the present time have been achieved and we expect to continue to win some more.

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Thank you Michael.

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