

Title : Open Briefing. Wesfarmers CEO Michael Chaney gives earnings update

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During the Howard Smith offer period, Wesfarmers Limited forecast net profit of \$323 million for the year ending June 2002. This compares with the net profit of \$251 million in the year ended June 2001. Recently, Wesfarmers received 100 percent acceptance of the offer. Does the profit target remain achievable?

CEO Michael Chaney

The forecast of \$323 million was made in the absence of the Howard Smith transaction. We're forecasting a higher profit for the year ending June 2002 now that we've successfully completed the Howard Smith takeover. Including Howard Smith, we forecast a net profit of \$379 million on the basis of a July 1 acquisition date and a full year of synergies. The acquisition was actually completed in mid August and the synergies will come through over the course of the first year but at this stage we're confident of achieving a good profit result. Trading in the first two months of this year for the rest of the group has been strong and we're running ahead of budget.

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What amount of goodwill has been brought to Wesfarmers' balance sheet following the Howard Smith takeover and how will the amortisation of goodwill impact on profit?

CEO Michael Chaney

The goodwill directly arising from the Howard Smith takeover will be approximately \$1 billion. In addition, Howard Smith has about \$300 million of goodwill on its balance sheet and there was already about \$280 million of goodwill on our balance sheet. In total, Wesfarmers will be carrying around \$1.6 billion of goodwill and that will be amortised at a rate of about \$80 million p.a. over 20 years.

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Recently Wesfarmers has paid dividends equal to 100 percent of EPS. Will you maintain this payout ratio and will the future dividend payout ratio be linked to EPS before or after goodwill amortisation?

CEO Michael Chaney

We expect to maintain that payout ratio on an after amortisation basis.

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What progress have you made with integrating BBC Hardware and the Blackwoods industrial distribution business into Wesfarmers?

CEO Michael Chaney

Around 50 people have been involved in the integration activities and they've achieved a lot in the first month and we're feeling very positive about the acquisition. We expect to do more over the next one to two months.

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What are you doing about BBC branding?

CEO Michael Chaney

We had originally intended to continue with the BBC and Hardwarehouse brands in the New South Wales market but subsequent market surveys have changed our view. The market surveys have indicated that there's not much loyalty to those brands and secondly, that the traditional BBC stores have suffered because of the emphasis on Hardwarehouse advertising.

Our current plan is to adopt a single Bunnings brand nationally, including within New South Wales and we expect to achieve that within the next year.

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How will the events in New York last week impact Wesfarmers and to what extent is Wesfarmers exposed to a slowing world economy?

CEO Michael Chaney

We don't believe there will be any direct impact on Wesfarmers from the tragic events in New York.

Clearly, if one of the outcomes is a world recession, we would be affected. However, we think our businesses are less susceptible to a downturn than some others. For example, the continued rollout of Bunnings warehouses and the realisation of synergies following the Howard Smith and IAMA acquisitions should provide us with natural growth even under more difficult conditions.

A worldwide recession would be expected to have an effect on demand for our coal and LPG.

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Does Wesfarmers Federation Insurance have any insurance exposure as a result of last week's events in New York?

CEO Michael Chaney

It does not have any direct exposure and any indirect exposures are not material.

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The Australian dollar has recently fallen to below US\$0.50. Can you outline Wesfarmers' currency exposure in each business unit and the hedging arrangements?

CEO Michael Chaney

Our approach to hedging has been to endeavour to ensure that our profits grow at a fairly steady rate. We regard Wesfarmers as an industrial company rather than a resources company.

We have a general policy of hedging 50 percent of the US\$ revenue derived from our export coal volumes. However, we are now fully hedged for the year ending June 2002 having taken out additional cover at around US\$0.52. We assumed a US\$0.55 exchange rate for our profit projection during the Howard Smith transaction and we believed there was value in reducing downside risk on that.

Beyond 2002, we are about 50 percent hedged on average with the proportion higher in the early years and lower in subsequent years.

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And what about currency hedging for your LPG exports?

CEO Michael Chaney

We have hedged some of the currency exposure relating to exports of our LPG in the current year only. We tend not to hedge longer term because of natural hedges that occur within our gas business.

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Thank you Michael.