

**WESFARMERS LIMITED**  
**ANNUAL GENERAL MEETING - 8 NOVEMBER 2004**  
**CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S ADDRESS**

Good afternoon ladies and gentlemen.

It is my great pleasure to welcome you to the 23rd annual general meeting of our company.

This year we celebrate two historical milestones; the 90<sup>th</sup> year since the formation of our predecessor company as a Western Australian farmers' co-operative and 20 years as a listed entity on the Australian Stock Exchange.

If I may divert for a few moments, I would like to acknowledge the presence of my predecessor as Chief Executive, Mr John Bennison. John was the fourth Chief Executive of this company.

The first was Mr Basil Murray who led the co-operative for its first 11 years. The next two were John Thompson and Keith Edwards. John Thompson, whom unfortunately I never met was, in my view, the greatest entrepreneur this state has ever seen. I have never counted, but my impression is that he started at least one new business for each of the 32 years he was Chief Executive - each and every one to improve the lot of the farmer in the first half of the last century.

He was followed by Keith Edwards, the first Chief Executive I had the privilege to work with. Keith consolidated the group into the sound commercial enterprise that it was when John Bennison took over in 1974.

John was the father or creator of the modern Wesfarmers.

He had the foresight to recognise that the co-operative structure was no longer appropriate for what was, arguably, the country's most successful farmers' company.

John had the courage and determination to institute a restructuring against some stiff opposition. In this, and many other ways, John set us on the path we are on today. John, we officially welcome you and thank you.

Wesfarmers was listed on the ASX in 1984, with an initial market value of around \$80 million. Today, Wesfarmers is one of Australia's top dozen corporations and its market capitalisation has risen to about \$13 billion.

In another aside, if I may: It struck me when I was reading this presentation this morning that 13 is the number of the day.

The current market capitalisation is about \$13 billion.

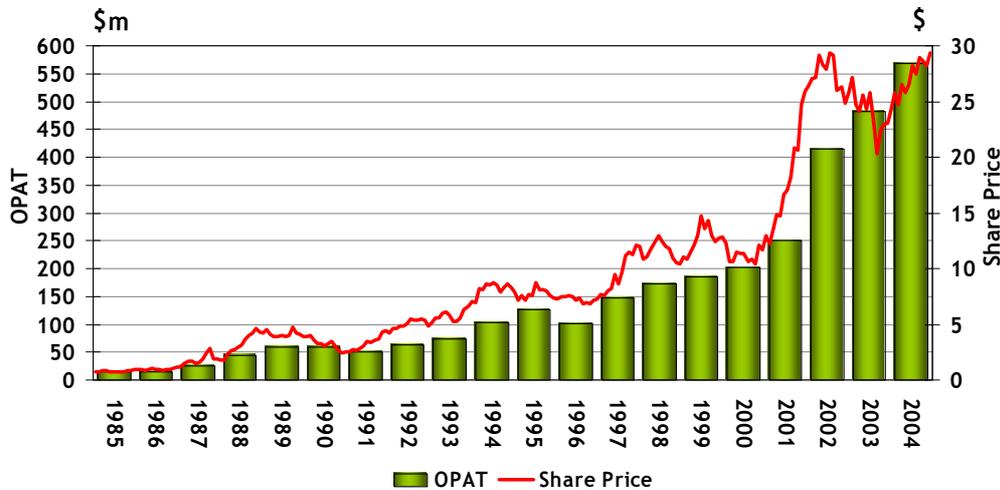
The profit of the company at the time of listing was \$13 million.

Michael Chaney took over when the market capitalisation was \$1 billion and grew it 13 times.

When we listed the company it had a market capitalisation of \$80 million and during the time of Michael's predecessor it grew by a factor of 13 to \$1.1 billion. If we think we have done great things since listing, the profit after tax in John Bennison's first year was \$1 million and, guess what, it was \$13 million on his retirement.

While one of our central tenets is to guard at all times against hubris and a belief in our own infallibility, it is reasonable, on an occasion such as this, to cast our eyes and minds back over what has been achieved.

## Share Price v Operating Profit After Tax



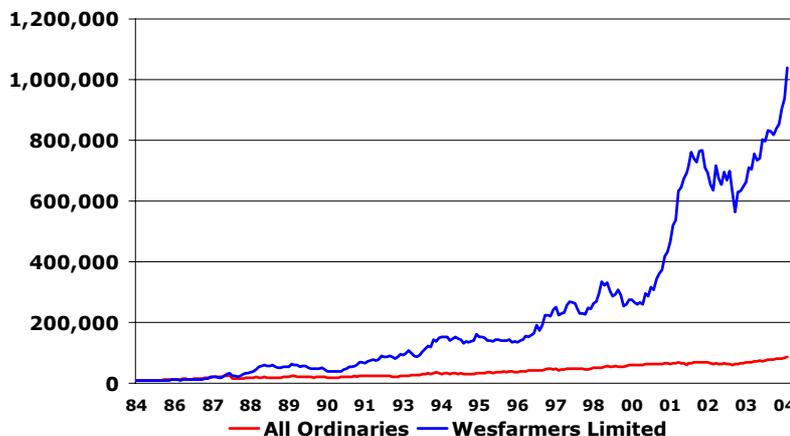
\* Excludes Girrah and Landmark

This graph illustrates how the company's operating profits, shown as green bars, have grown over that period from \$13 million after tax in 1985 to \$569 million in 2004; and the share price, shown in red, has risen commensurately.

As the next graph shows, a shareholder investing \$8,000 in Wesfarmers shares in 1984 (and reinvesting all dividends and capital returns) would now have an investment worth over \$1 million compared with \$86,000 for an investment in the whole stock market.

That represents a total shareholder return of 30 per cent, per annum over 20 years.

## Australian Accumulation Indices 1984 - 2004



This performance ranks Wesfarmers number one in the Australian Stock Exchange over that time.

This success, I must say, was beyond our wildest dreams when we entered the public company domain 20 years ago.

Our achievements can be attributed to many factors – but none more so than by continuing to focus on the simple objective of providing a satisfactory return to shareholders.

I can assure you that this will always be the key principle applied to management of the portfolio of businesses that make up the Wesfarmers group.

### **Meeting Format**

Ladies and gentlemen, our meeting today, will comprise four main parts.

The first of these will be a short video covering the activities of the Wesfarmers group in the last financial year.

After the video, I will provide an overview of the company for the 2004/05 year.

Part three of the proceedings will be a review by our Managing Director, Michael Chaney, of how the group's businesses are going at the present time.

We'll then move into the formal part of the meeting to consider, discuss and vote on the resolutions set out in the Notice of Meeting.

I now invite you to watch the video which highlights some of the activities of the group for the 2004 year.

Ladies and gentlemen – once again I would like to extend a warm welcome to you all.

I hope you enjoyed the video and that it helped to broaden your understanding of the Wesfarmers group.

### **Results**

As you would have read in this year's annual report and seen in the video presentation, Wesfarmers achieved another record result in the 2004 financial year.

Net profit after goodwill amortisation rose by 18 per cent to \$569 million. If we include the profit of \$304 million from the sale of our rural services business, Landmark, net profit after goodwill amortisation was \$873 million.

Normal operating earnings per share (pre-goodwill) increased by 16 per cent to \$1.74.

The full year dividend increased this year by over 10 per cent to \$1.40 a share. As a benefit to shareholders, the dividend was paid on 30 August, a month earlier than last year.

The activities of the group and the performance of each of our operating divisions have been covered in detail in the company's annual report and in the corporate video which we have just watched.

I will therefore confine my remarks to a few fairly broad comments on each of the divisions.

## **Hardware**

The contribution made by the hardware business for the 2004 year was pleasing, with earnings up 12 per cent.

Part of this growth was attributable to the opening of new warehouse stores. Twelve new warehouses were opened, expanding the chain to 125 across Australia and New Zealand. In addition, at year's end, we had 85 smaller stores.

To meet the demands of this ever-expanding operation we decided there was a need to increase the senior management resources available to Bunnings.

After the close of the financial year, John Gillam, formerly Managing Director of CSBP, was appointed Managing Director of Bunnings and Peter Davis was appointed to the new role of Bunnings' Chief Operating Officer.

## **Energy**

The group's energy businesses performed above expectations for the year but earnings were below those recorded last year.

Overall, the coal businesses achieved steady growth in volumes but earnings were below the previous year's mainly due to lower coal prices and demurrage costs.

Kleenheat's gas volumes were in line with last year's but earnings were lower, affected by competitive pressures in the autogas market and higher international LPG prices which reduced margins.

We announced recently that the Board had given approval to capital expenditure of up to \$290 million over the next three years to bring the Curragh North coal resource to full production. The development of Curragh North is expected to more than double the recoverable resources available in and around Curragh and extend the mine life to at least 2025. Annual tonnages will increase from 2005.

## **Industrial and safety**

The industrial and safety businesses achieved a solid result in 2003/04.

Earnings were slightly lower than last year's primarily due to the poorer performance of the Protector Alsafe business. With significant restructuring now complete, results are expected to improve in 2005.

The integration of the newly acquired Paykels business in New Zealand with Blackwoods is now complete. This business will give the industrial and safety division a far more significant presence in New Zealand.

## **Insurance**

One of the highlights for the group this year was the purchase in October 2003 of Lumley's Australian and New Zealand insurance operations which led to the creation of a new insurance division.

Excellent earnings from this division were achieved for the year due to a strong focus on the underwriting of quality business and a favourable claims environment.

Following the acquisition of the Lumley operations, Bob Buckley, formerly General Manager of Wesfarmers Federation Insurance, was appointed Chief Executive Officer of the new division.

### **Chemicals and fertilisers**

CSBP's chemicals and fertilisers business made an above budget contribution for the year benefiting from good demand, improved customer focus and a strong operational performance.

Since the year's end, Keith Gordon has been appointed Managing Director of CSBP. Keith has extensive agribusiness experience both within and outside Western Australia.

### **Other activities**

Wesfarmers' investment in the Gresham Private Equity Fund made a material contribution to the company's results for the year from the sale of some of the Fund's investments. The company has committed up to \$150 million to a second Gresham Private Equity Fund following the success of the first Fund.

The 50 per cent-owned Australian Railroad Group achieved improved earnings for the year due mainly to improved grain and iron ore volumes and a reduction in incident costs.

As you will have read in this year's annual report, since the end of the financial year, Sotico's jarrah business and assets have been sold, completing Wesfarmers' exit from the native forest products industry. I take this opportunity to acknowledge the tremendous efforts of Sotico's Managing Director, Ron Adams, and his team in the management of the disposal process.

### **Corporate governance**

I would now like to comment briefly on corporate governance.

The Wesfarmers Board takes its corporate governance obligations and responsibilities very seriously. A considerable amount of Board and management time is devoted to improving our policies and processes in this area.

At last year's AGM, I outlined our progress towards compliance with the "Principles of Good Corporate Governance and Best Practice Recommendations" released by the Australian Stock Exchange in March 2003.

I am pleased to report that the company is in substantial compliance with these Principles.

Details of the changes we have implemented over the last 12 months are included in the company's "Corporate Governance Statement" contained in the 2004 annual report. In addition, summaries of the company's corporate governance charters, codes and policies are available on our website.

Over the last 12 months, we have focused on improvements in two main areas:

- executive remuneration; and
- risk management.

In the area of executive remuneration, changes have been made to strengthen the alignment between individual rewards and company performance.

In the area of risk management, a comprehensive review of our approach was undertaken. This review has resulted in enhancements to our processes for the identification, management and reporting of risks.

Wesfarmers recognises the importance of timely, accessible and effective communication with its shareholders. To this end, all of our company announcements and presentations are posted on our website following their release to the ASX. In addition, we now have a service which allows shareholders to register their email addresses with our share registry to automatically receive electronic notification of all significant announcements, reports and notices of meetings. This service can be accessed on the Wesfarmers website or through our share registry.

### **Corporate social responsibility**

Ladies and gentlemen, when you took your seats today you would have noticed on the chair a copy of our brand new report covering what is generally described as non-financial performance.

This is the seventh such document we've produced. This year we've changed its title to "Social Responsibility Report" and brought forward the publication date to coincide with today's meeting. We thought it appropriate that shareholders attending here today should be able to receive a copy of this very comprehensive report which details our approach to environment, safety and health issues and which provides, also, some information on the way in which our companies engage with the communities in which they operate.

The report's cover provides an excellent example of socially responsible behaviour. Those reusable shopping bags hanging out to dry on the cover attest to the outstanding leadership shown by our Bunnings business in providing alternatives to plastic bag use, the disposal of which generate such significant environmental issues for the community.

For the first time, the report contains a section at the front which provides a group wide snapshot of significant economic, environmental, safety and community issues with which we are involved.

I commend this document to you.

It is a very visible reminder that while our primary objective is shareholder return, we place huge importance on the ways in which we go about achieving that objective – such as, how we treat our employees, our respect for the environment and the maintenance of very high ethical standards.

These aspects of corporate conduct, often referred to under the umbrella descriptors of corporate social responsibility or sustainability, are becoming increasingly important, to both the general and investor communities. There is no doubt that they will continue to grow in significance and, by reporting voluntarily and publicly as we do, we are being very positive in relation to our external audiences and demonstrating to our internal audience, our employees, how seriously we take these issues.

You will notice in the report that Wesfarmers retains its membership of the Dow Jones Sustainability World Indexes for 2005. This places us with 16 other Australian companies who are ranked, on environmental, social and economic criteria, in the top 10 per cent of the biggest 2,500 companies in the Dow Jones World Index.

The report also mentions some of the community contributions we make, both with respect to donations and our sponsorship, through Wesfarmers Arts, of visual and performing arts organisations that make such an important contribution to the cultural depth of a nation. A very significant feature of the activities of the arts support programme over the past two years has been the national tour of selected works from the Wesfarmers art collection. Marking 25 years since the start of the collection, the “Sublime” exhibition has, since leaving the Art Gallery of WA, been to nine capital cities and regional centres and been seen by more than 250,000 people.

I will now hand over to Michael Chaney to provide a review of the current trading of the group’s businesses.

### **Managing Director’s review of current trading**

Good afternoon ladies and gentlemen.

I am pleased to report that all of the company’s businesses are performing well at the present time and we feel confident that Wesfarmers’ profits will continue to grow in the coming years.

#### **Hardware**

As you may recall, we announced in August, when we released our annual profit results, that the Bunnings hardware operations had experienced a slowdown in sales growth in the last quarter of the 2004 financial year.

Prior to that Bunnings had been achieving a normalised store-on-store sales growth rate of around 10 per cent, but this slowed to an average 6 per cent in the last quarter.

That slowing continued until August, but I am happy to say that things have turned around in September and October.

For the July to October period, the normalised store-on-store growth rate was 8 per cent.

One pleasing aspect of these figures is that, compared to the aggregate hardware sales figures published by the Australian Bureau of Statistics, they indicate that Bunnings is more than holding its own and is increasing its market share.

Bunnings’ overall sales growth is, of course, assisted by the fact that it is rolling out new warehouse stores and refurbishing the older ones. In the current financial year we expect to open at least another 10 new warehouse stores as well as the first two of the new smaller 3000 series stores.

#### **Energy**

The Energy division, which encompasses our coal, gas and power assets, continues to perform well and should have a bright future given the near term outlook for export coal prices. Booming conditions in the world steel industry are driving strong demand for coking coal which will benefit our Curragh operations in Queensland. The earlier-than-expected start of production from the Curragh North mine at the end of the first quarter of calendar 2005 will allow us to take advantage of the higher coal prices. We expect to export around 7 million tonnes of coking coal in the 2005/06 financial year, up from the 4.6 million tonnes in the year just passed.

Despite the recent interest rate rise in China and efforts by that country's government to cool economic growth, expectations are that coking coal prices will rise significantly in the contract year commencing on the first of April next. What will happen to prices in subsequent years is beyond our ability to predict. If the world's developed economies continue to prosper in conjunction with continued strong growth in China and India, we may well enjoy high coking coal prices for some years; but this is not something we are counting on. Our ongoing challenge is to find new sources of profit to replace the earnings we shall lose if and when coal prices eventually fall.

On the steaming coal side, Wesfarmers' 40 per cent investment in the Bengalla coal mine, which sells coal for energy production both domestically and offshore, should make solid returns this year as it also benefits from higher export coal prices.

Performance at the Premier coal mine at Collie in WA continues to be sound, with a lot of work going on to secure new supply contracts. The majority of our existing sales are under a contract that terminates in 2010 and we are working to ensure that Premier will have significant supply agreements beyond that date.

You may also be aware that, in partnership with J Power of Japan, we were one of three entities short-listed two weeks ago to bid for construction of the State's new base load power station.

Energy's gas and power businesses are performing well in an environment of record high LPG and diesel prices.

### **Industrial and safety**

The performance of the industrial and safety division, with its maintenance, repairs and operating supplies businesses, continues to be disappointing, particularly in Protector Alsafe.

It appears that demand for the division's products will be sustained by heightened activity in the mining and infrastructure sectors, but the market continues to be very competitive.

### **Insurance**

The insurance businesses of Lumley General Australia, Lumley General New Zealand and Wesfarmers Federation Insurance have been operating well in a more competitive environment. Performance in this business can be significantly impacted by adverse claims, but we are expecting another strong result for the insurance division this year.

### **Chemicals and fertilisers**

In CSBP, demand for mining chemicals remains very strong on the back of the strength of the resources sector. Fertiliser sales are traditionally low at this time of year, with demand in early 2005 dependent on a reasonable seasonal and price outlook.

We are undertaking a feasibility study into expanding ammonium nitrate manufacturing capacity at Kwinana from 235,000 to 470,000 tonnes per annum at a cost of around \$140 million, with a decision expected in mid-2005.

### **Other**

Our rail joint venture, Australian Railroad Group, while showing some signs of improvement in operational performance still has some significant challenges to overcome before it is meeting our benchmark financial return criteria.

And finally, we expect that the Gresham Private Equity Fund will make at least one further asset realisation this year which will provide a useful contribution to the Group results.

### **Balance sheet**

The company's balance sheet remains in very good shape, with gearing at the lower end of our preferred range in spite of the return of nearly \$1 billion in capital last year and increased dividends.

Budgeted capital expenditure for the year is around \$450 million which includes approximately \$160 million for the initial stages of the Curragh North expansion.

The company is well placed to fund any additional investment opportunities if they arise.

So all in all, ladies and gentlemen, the outlook for the group remains very positive.

### **Chairman's address (continued)**

Ladies and gentlemen, I referred a little earlier to the significance of this year because of the anniversaries we are celebrating.

This meeting itself has a special place in our history in that it is the last such shareholder gathering to be attended by our Chief Executive Officer and Managing Director, Michael Chaney, in those capacities.

As you know, Michael has announced that he will retire in July next year and the Board has named Richard Goyder as his successor.

It is appropriate, therefore, to have something to say on this occasion about the great contribution made by Michael Chaney to the company he has so well served for more than 20 years.

He joined Wesfarmers in 1983 as Company Secretary and, in July 1992, became just the sixth person to be appointed Chief Executive in Wesfarmers' 90 year history.

The company he inherited, and I think I can say this with all due modesty, was a well performing organisation very much focused, as it is today, on providing satisfactory returns to shareholders. At that time our market capitalisation was \$1.1 billion.

Today, as I mentioned earlier, the company's market value is about \$13 billion and we sit at around 12<sup>th</sup> place on the ASX league table.

There have been a number of very significant developments on Michael Chaney's watch.

They include completion of the Bunnings acquisition in late 1994; the purchase of the Curragh coal mine in 2000; the ownership restructure in 2001; and, later that year, the takeover of Howard Smith Limited which effectively doubled the company's size and shareholder base. And, finally, the acquisition last year of the Lumley insurance interests in Australia and New Zealand.

The success of these acquisitions, in conjunction with the efficient operation of our existing businesses with a Best Practice philosophy, have resulted in Wesfarmers' shareholders receiving a compound return during Michael's term as Chief Executive of 26 per cent per annum.

As a result of that success, Michael is, rightly, regarded as a role model for those aspiring to success and respect in business leadership.

In terms of his personal standing, you may be aware that for the last three times it's been conducted, the Business Review Weekly magazine survey of Chief Executive Officers and Chief Financial Officers, has judged Michael as Australia's Most Admired CEO and, a fact that I know gives Mike great satisfaction, Wesfarmers has been voted the Most Admired Company.

In 2003 he was named Business Leader of the Year by the Institute of Chartered Accountants. His service to the arts and other community-benefiting activities has been acknowledged both here and nationally and his alma mater, the University of Western Australia, has awarded him an Honorary Doctorate of Laws. In June this year Mike's service to business and the community was recognised when he was made an Officer in the Order of Australia.

That's a brief resume of the public record, as it were, of Michael Chaney's achievements.

On a personal level, I have had a great opportunity to observe Mike's development, having worked with him, had him work for me and then handing over the job to him 12 years ago. Since rejoining the Board in 1994 I've followed his progress from yet another perspective.

If I had to summarise the things that lie behind his great success, I'd nominate the following – not necessarily in this order:

- an outstanding intellect;
- an instinctive and highly developed sense of commerciality;
- an ability to inspire confidence in those he leads because of the above and because of his capacity to remain calm, at least outwardly, and think clearly and concisely in very pressured environments; and
- a very strong commitment to ethical conduct and honesty – in other words, because he's an outstandingly decent bloke.

With respect to the last mentioned quality, it would be remiss of me not to give great credit to his parents, his mother Lady Chaney, whom I am delighted to see here, and his father, the late Sir Fred Chaney, for the values they imbued in Michael.

And any tribute to Michael's success would be sadly deficient if it did not include recognition of the enormous support and contribution from his wonderful wife, Rose, who also joins us here today.

Ladies and gentlemen, there'll be other opportunities for those of us involved more directly with Wesfarmers to say other things and to farewell Mike in the course of the next eight or so months. And, as we've always said, it will be very much business as usual until he walks out the door in mid July next year.

But, as I mentioned earlier, this is the last time he will appear at an annual general meeting in his current job and I have no doubt that shareholders would like to mark the occasion in an appropriate way. Ladies and gentlemen, please join me in expressing our appreciation of the magnificent service rendered to Wesfarmers, and to the broader community, by our CEO, Mr Michael Chaney.

And I think it's appropriate, also, for us to congratulate Richard Goyder on his appointment.

Well done Richard. We look forward very much to having you up here this time next year.

Before I conclude this presentation today, I would like to acknowledge the important role played by all of our employees.

The skills, loyalty and commitment of our people represents one of the major strengths of the Wesfarmers group.

I would like to take this opportunity to thank them publicly for their dedication and excellent performance.