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Lodgement of Open Briefing

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corporatefile.com.au

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Title: Open Briefing. Wesfarmers. Curragh Coal Site Visit

Record of interview:

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In 2000, Wesfarmers bought the Curragh Coal Mine for $200 million including working capital. What returns has the investment provided? What EBITDA does the mine currently provide for the Group?

David Robb, MD Wesfarmers Energy
We don't disclose results for individual business units within the Energy division, but Curragh returns well above Wesfarmers' minimum target return on capital of 20%.

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Wesfarmers is spending $290 million to develop the Curragh North operation. When do you expect to begin mining Curragh North? What is Curragh's forecast production including a split by coal type?

David Robb, MD Wesfarmers Energy
We expect to be mining Curragh North around the end of the first quarter of calendar year 2005 and we expect total sales in 2005/06 of around 9 million tonnes, comprising 7 million tonnes of metallurgical coal and approximately 2 million tonnes of thermal coal.

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Why have you been able to increase mining rates from that originally envisaged for Curragh North?

David Robb, MD Wesfarmers Energy
We identified a small increase in reserves that we're now confident about and we've revised our mine planning and we will upgrade the wash plant capacity to match. Coupled with the strong market demand, we're confident that we can sustain those higher rates.

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At what level of production would rail and port facilities be stretched?

David Robb, MD Wesfarmers Energy
We have in place firm capacity to match our current plans. Additional sales beyond those forecasts would require further discussions with Queensland Rail and the Gladstone Port Authority.

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What is Curragh's sales mix between export hard coking coal, export semi-hard coking coal, Pulverised Coal Injection (PCI) and domestic thermal? Do you expect any significant change in the future?

David Robb, MD Wesfarmers Energy
In 2005/06, the first year of full production from Curragh North, we expect approximately 7 million tonnes of metallurgical coal and 2 million tonnes of thermal. Of the metallurgical coal, 1.0-1.2 million tonnes will be PCI and the balance will be split 70% hard coking coal and 30% semi-hard. We expect these proportions to be quite stable going forward.

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Can you explain why the proportion of PCI production is increasing? Can you explain the pricing differential between Curragh's coal types?

David Robb, MD Wesfarmers Energy
We've not produced a PCI product from Curragh before but, based on our assessment and given its geology, Curragh North's optimum production mix includes the PCI product.

Long term pricing differentials show that semi-soft trades at approximately US$10 per tonne less than hard coking coal, while PCI currently sells at a US$2-3 per tonne premium to semi-soft.

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What is your current reserve base and what scope is there to add to it? What is the quality of those potential additional reserves compared with the current reserve base?

David Robb, MD Wesfarmers Energy
Our current total reserves are in excess of 220 million tonnes. There are potential opportunities to add to that in and around Curragh including Curragh West, which is an area that we're beginning to look at more closely, although we believe that Curragh West will produce a higher ash product. Our current focus is Curragh

North and we don't expect any significant development in areas other than Curragh North for some time.

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In FY04 you absorbed a significant dragline maintenance cost. What do you expect for this year and beyond? How will you account for this expense?

David Robb, MD Wesfarmers Energy
A major dragline rebuild, such as the mid-life rebuild we're doing now, costs approximately $18 million. Going forward we expect to capitalise approximately 75% of this, whereas under previous accounting treatment we would have capitalised only approximately 25%. We expect this change in accounting policy to have a positive impact of about $6 million in 2004/05 versus our previous approach.

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What significant cost influences do you expect in the next few years?

David Robb, MD Wesfarmers Energy
In terms of the mine fundamentals, stripping ratio for example, we don't see any significant change. However, most operating costs do come under pressure during boom periods because not only do shareholders expect to receive some benefits but so do employees, contractors and suppliers. There may well be some shortages of materials or labour, or longer lead times, all of which can put pressure on costs.

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Production at the mine was crippled in 1997 due to industrial action. How successful are the flexible workplace arrangements which were introduced since then? What is Curragh's productivity record?

David Robb, MD Wesfarmers Energy
The changes have been very successful. Curragh's current workplace arrangements and its productivity are at industry best practice levels. We have an extremely flexible, competent, skilled and dedicated work force that is strongly aligned to our business objectives.

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Have you scheduled any major replacement or upgrade programs for the mining equipment or wash plant? What is your ongoing capital budget?

David Robb, MD Wesfarmers Energy
The major dragline rebuilds are underway as I mentioned. We currently have four draglines, each of which will be rebuilt progressively over the next few years. The wash plant is being upgraded to match our increased production and sales targets at a cost of approximately $30 million. Other than these items, our ongoing capex is really not significant over the next two to three years as most of our energy and expenditure goes towards developing Curragh North.

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What's your view on coking coal prices going forward? To what extent will any further coking coal price increases flow through to your bottom line?

David Robb, MD Wesfarmers Energy
The majority of any benefits will flow through, but may be mitigated by the challenge of maintaining current cost structures. Also, at higher coal prices we pay higher royalties and, of course, there's the Stanwell value sharing arrangement, all of which will somewhat reduce the impact of any coal price increases.

The market fundamentals do appear robust. We expect our coal price negotiations to commence in the coming months but it's too early to comment on possible outcomes.

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Given the current robust market fundamentals, what supply side reaction is likely, or possible, from the major coking coal producers such as BHP Billiton? What impact could that have on the supply/demand balance?

David Robb, MD Wesfarmers Energy
Clearly the supply side will respond to a sustained imbalance, and some producers have recently announced their plans to expand. There has been a considerable consolidation of ownership on the supply side over recent years and you might expect therefore that there'd be a little bit more caution about bringing on additional capacity in the belief that the boom times would last, versus the belief that the market will eventually stabilise at a new equilibrium and that prices would inevitably reduce.

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Can you give more detail about your price contracts including major customers, contract lengths and the mechanism for annual price resets?

David Robb, MD Wesfarmers Energy
It's customary to fix coal prices on an annual basis. Our customers have preferred that cycle given it matches their ability to re-set prices with their major customers such as auto manufacturers. Our price negotiations are based on perceived supply and demand balance attributes at the time of the negotiations, but within the context of a longer term relationship which is clearly the norm in coking coal. We currently export approximately 50% of our sales to Japan, with the balance shared between North Asia, South Asia and Europe. We'd expect that mix to continue.

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What characteristics do the steel and power generation industries value about Curragh's coals and where are they lacking?

David Robb, MD Wesfarmers Energy
I think across both the steel and power industries they value the fact that Curragh has a long history, back to 1983, of reliable and competitive supply.

Our steel customers appreciate the fact that our coking coals are low volatile coking coals which is a benefit in ageing coke batteries. Our customers also tell us that they appreciate the fact that we're an independent producer that is 100%-owned by a company with a reputation like Wesfarmers. All our thermal coal is sold to Stanwell and they certainly appear to appreciate the fact that we've been a reliable and low cost supplier. That's supported by the fact that we believe Curragh represents approximately 50% of their requirements.

Curragh's coking coals are not the highest fluidity coals in the market but, on the other hand, they are low in contaminants such as sulphur. The value placed on the attributes of our coking coals really depends on the coal mix required by the steel mills - different steel mills have different requirements.

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Thank you David.
