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Wesfarmers Limited is supplied gas from the Varanus Island facilities operated by Apache. What is the impact on Wesfarmers' businesses of the gas explosion on Varanus Island on 3 June 2008?

Managing Director Richard Goyder

The gas shortage has most impact on our Chemicals & Fertilisers division and our Energy division.

CSBP's Kwinana operations are supplied gas by Apache and Alinta. Natural gas is a feedstock in the production of ammonia and sodium cyanide. Since the gas supply disruption, CSBP has suspended ammonia and sodium cyanide production. CSBP has secured an ammonia shipment of approximately 23,000 tonnes arriving late in June, which will allow CSBP to continue to supply its ammonia customers and to continue manufacturing ammonium nitrate and Flexi-N fertiliser through to the end of July. With the 23,000 tonne ammonia importation, CSBP should be able to produce sufficient ammonium nitrate for the mining sector throughout July and into early August. Should more ammonia be required, CSBP will move to secure additional imported product.

Based on existing stock and current consumption levels, CSBP should have sufficient sodium cyanide stock to supply customers for several weeks. We remain hopeful that sufficient gas will become available in the next couple of weeks to enable production of sodium cyanide for the domestic market.

Commissioning of the new ammonium nitrate prill plant at Kwinana continues despite the gas shortage and it's expected that we'll commence manufacturing product from this plant within the next week or so. Both the new nitric acid and ammonium nitrate plants were commissioned some months ago and have run well since then.

A small amount of gas is being provided by Alinta to operate the fertiliser granulating plant. The supply of this gas is inconsistent as it is based on the gas allocation advised on a daily basis by Alinta. Impact on fertiliser manufacture has been minimal to date and CSBP has sufficient stock to meet existing fertiliser sales agreement customer commitments.

Production of carbon dioxide, which is a by-product of ammonia production, has ceased and is affecting supply to downstream industries.

Maintenance work has been brought forward and staff training is being undertaken at CSBP.

In the Energy division, the Kwinana LPG extraction plant is operating at much lower output with one train shut down due to reduced gas flows and loss of high LPG content gas from Apache. Wesfarmers LPG may import product to ensure ongoing LPG supplies to domestic markets. Kleenheat Gas has access to sufficient stocks to last for several weeks and thereafter expects to access imported product to support local supply.

Commissioning of the \$138 million, 175 tonne per day Kwinana LNG plant, together with distribution and storage equipment, has been delayed. enGen has demobilized teams from two sites scheduled to use LNG and at other gas-fired power stations has increased the use of diesel generation where available.

Air Liquide WA has extremely limited availability of carbon dioxide due to lack of raw gas supply from CSBP.

Quickly going through our other businesses. The impact on Wesfarmers Insurance division is being assessed, but we expect it to be minor as we have relatively little exposure to large industrial operations. Premier Coal has temporarily lost coal sales to Iluka which has shut one of its two kilns, but Premier Coal expects to benefit in the coming months from recommissioning of coal-fired capacity at Muja. Wespine, which is 50% owned, has been forced to cut back its pine timber production to one shift for a maximum of 5 days per week.

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What is the financial impact of these disruptions?

Richard Goyder

There are a number of impacts on our profits. At this stage, our best estimate is that the pre-tax impact on Group profit will be up to \$20 million per month at the current level of gas supply. A portion of that loss is expected to be recovered from insurance.

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What is the impact on your labour force? Have you had to stand down employees or do you expect to?

Richard Goyder

We have not had to stand down employees, however we will continue to monitor the situation by business, particularly if shutdowns are protracted.

Where possible we are bringing forward maintenance activities and undertaking employee training. Wespine has around a quarter of its 130 person workforce taking annual leave.

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What are you doing to try and mitigate the impact on your businesses?

Richard Goyder

As previously discussed, CSBP has arranged to import ammonia to continue to supply its ammonia customers and to manufacture ammonium nitrate and Flexi-N fertiliser. We are also attempting to secure some additional gas supplies for production of sodium cyanide and it is expected we will import LPG to meet domestic demand. We continue to work with our customers to determine how best to meet their demands in the short term.

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When do you expect normal production levels to return?

Richard Goyder

According to the Chamber of Commerce and Industry WA, the State looks like it will continue to face gas shortages until August. By then, as I understand, Apache will have restored supply of some 200 Tj per day of the 350 Tj per day lost from Varanus Island with full production expected to occur in December. Verve Energy, the local electricity utility, is planning to restart some coal-fired power stations, which were shut for maintenance, as well as recommissioning mothballed capacity in June/July. It is also seeking to increase diesel supply to replace natural gas where possible.

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Thank you Richard.

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