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The content of this Open Briefing reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Thursday November 11, 2004.

General Corporate Issues

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Wesfarmers seems to be a little more conservative than other companies on the macro outlook for some of its industries. BHP, for example, seems a lot more bullish. Is there a risk Wesfarmers misses out on some good projects if you are too conservative?

Michael Chaney, CEO Wesfarmers
We often think about this issue and we're continually reviewing our assumptions but I'm confident that we haven't been too conservative. I believe that our assumptions are broadly similar to companies such as BHP for example. Projects or companies are often valued differently by different parties because of strategic considerations rather than different pricing assumptions. Although we have missed opportunities over the years, we've still recorded the highest TSR on the ASX over 20 years. Investors should be confident with our management team because we have entrenched and strict valuation disciplines and methodologies. We'll miss out on more opportunities but enough opportunities should come up to maintain our shareholder returns.

corporatefile.com.au
Coal prices will fall at some stage. Will that influence you to take a more conservative stance on dividends in the next couple of years in order to avoid the possibility of having to cut dividends after coking prices fall?

Michael Chaney
I don't think so because that would be inconsistent with our dividend policy which is to always pay out 100% of our franking credits. We will continue to set the level of dividends with reference to the amount of franking credits available. If coal prices come off in the next couple of years, either our profits and dividends will fall or other business units will make up for the fall in coal prices. There have been times, like in 1991 and 1996, when our profits and dividends fell because we stuck to the policy of paying out all our franking credits.

corporatefile.com.au
Can you comment on your investment in the Crane Group?

Michael Chaney
It would be inappropriate to talk specifically about an investment like that but we've held a number of minority stakes over the years which we've later sold and, in IAMA's case, we owned 5%, then sold it and a couple of years later we ended up taking over the company.

corporatefile.com.au
What options are you considering for capital management?

Michael Chaney
That's an interesting challenge. You can't make ad hoc capital returns because the tax office won't allow you to. They sometimes classify them as unfranked dividends and we don't want to pay unfranked dividends. An on-market share buy-back could be possible if we felt that was a good investment. We're unlikely to pay a special dividend unless we've got enough franking credits. In the absence of a rational solution we'll just sit on the cash and wait and see if an appropriate acquisition comes along.

The proposed introduction of a new standard on leasing as part of IFRS may have an impact on our gearing. For example, operating leases will probably come onto the balance sheet and that would increase our gearing. We don't have the final details on the impact of this proposed new standard and we also don't know how share market investors and ratings agencies will react to its impact on our balance sheet.

corporatefile.com.au
Have you thought more about offshore investments or are there still enough opportunities in Australia?

Michael Chaney
We've looked at several potential overseas investments over the years in gas and fertilisers in India, Malaysia and the US but we haven't taken them for economic reasons. We haven't been proactive on overseas investments for quite a while. We appointed someone once as General Manager Business Development Asia to look at country and industry analyses but it didn't come to anything. Similarly in Australia we have never been very successful doing that proactive sort of work but we're well equipped to analyse reactive opportunities.

We've found that there have been plenty of opportunities in Australia over the last 10 years. We're kept busy by them and they are a lot easier to manage.

corporatefile.com.au
Can you explain the various coal tenders Collie is involved in?

Michael Chaney
There are a number of them. Most of the volumes that we're producing will be up for tender. Firstly, we're tendering for Worsley's business, some of which is up to the end of this decade and then beyond. Then there's a power procurement process where we are one of three contenders, two coal-based and one gas-based, to build a new power station in which we'd have equity (with J-POWER, and with the balance project financed) and also supply the million tonnes of coal to it. We're bidding with J-POWER of Japan and that's for beyond 2008.

One of our contracts with Western Power concludes in 2006 and the other in 2010. We expect to be negotiating with them to extend these contracts over the next 12 months.

corporatefile.com.au
So you'd have equity in the power station as well?

Michael Chaney
Yes we would but it wouldn't be over 50%.

corporatefile.com.au
Can you give some detail on J-POWER?

Michael Chaney
We've been involved with J-POWER for a couple years. They are Japan's largest power generator and their total generating capacity is several times the total system in Western Australia. They have a lot of experience and the best available technology in coal-fired power generation which we think is an essential ingredient for winning a tender in Western Australia.

Industrial & Safety

corporatefile.com.au
One of your major objectives is to increase the amount of imported products from 7% to 14%. How do you currently compare with competitors in that area?

Bob Denby, Managing Director Wesfarmers Industrial & Safety
In dollar terms we probably already import more than our next biggest competitor although some competitors would import close to 100% of their total product range.

corporatefile.com.au
Will you be able to offer more competitive prices if competitors are already importing a lot of their product range? In other words, won't you just move into line with your competitors?

Bob Denby
That's not an easy question to answer because our product range is so much larger than our nearest competitor. Our range is probably around 400,000 Stock Keeping Units (SKUs) and our nearest competitor might only have around 100,000 SKUs. So we believe there is scope for large savings by importing more products.

We recently visited China with Bunnings and found several cheaper, non-branded products. For example, we can purchase banister brushes in China for less than 50 cents each and I think we're currently paying about $4.50. It's unlikely any of our competitors would be importing banister brushes because they only sell them in the hundreds rather than the thousands like us. There's a host of examples I could mention where we should be able to purchase cheaper, non-branded products and pick up some margin. However, we won't change the supplier for products that have brand-names demanded by our customers.

corporatefile.com.au
Over what period do you aim to move from 7% to 14%?

Bob Denby
That's in our five year plan, so we'll be progressively ramping-up over that time.

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One of the key issues of concern about Wesfarmers Industrial & Safety (WIS) is the lack of pricing power despite being much larger than your nearest competitor. How can you use your size to leverage a better operating performance?

Bob Denby
Don't forget that the EBITA/Sales margin for Industrial and Safety is pretty healthy. In answer to your question, IT is one area which can help us improve our margins. We have in excess of 100,000 smaller customers as active accounts on our computer and we now have a new software data mining tool called COGNOS which allows us to better understand the profiles of our customers.

We've also made some additional appointments to our team and have access to the Wesfarmers Business Development group to help us with analysis and planning.

It's harder to improve our margins on the larger contracts. We work closely with a number of our large customers like BHP Billiton, Rio Tinto and WMC. Large customers provide at least 30% of our business and are obviously very professional negotiators. These negotiations are often very frank and open because they already have a good idea of the margins we make.

corporatefile.com.au
You mentioned you have around 400,000 SKUs. Could that be too many? Would it improve your working capital and stock turn numbers if you reduced the number of SKUs?

Bob Denby
We think there is an opportunity although it's a constant challenge to balance getting our level of SKUs right with being able to provide customers with all the products that they need. We try and benchmark ourselves globally and Grainger, a publicly listed company in the US, keeps about a million SKUs. So they've gone even further than we have in terms of product range.

We've engaged an external party to help us review the structure of WIS and we might change aspects of the business as a result of that review including, potentially, the level of SKUs.

corporatefile.com.au
You said that the first quarter operating performance was slightly below the previous corresponding period. Can we extrapolate that to the full year?

Bob Denby
No. We expect to be in a similar position to last year by the time we complete the half year.

corporatefile.com.au
If you take Safety out, what's the underlying growth for the business at the moment?

Bob Denby
Industrial Products has been going along very well.

CSBP

corporatefile.com.au
There have been a lot of possible ammonium nitrate plant expansions and new plants spoken about. How important is it that you complete your expansion before your competitors do?

Keith Gordon, Managing Director CSBP
It's critical that we move quickly. First mover advantage is quite important, particularly as we're potentially moving into a phase of under supply. And one of the attractions of being based at Kwinana is that we believe we can complete an expansion at least 12 months earlier than at the Burrup Peninsula.

corporatefile.com.au
Do you expect demand for ammonium nitrate to be sufficient to support all the proposed supply expansions?

Keith Gordon
There's an opportunity for one expansion in Western Australia in the immediate term but not two expansions.

corporatefile.com.au
The word debottlenecking is often referred to in presentations by CSBP. Can you give an idea of the typical investment to debottleneck a plant and the amount of additional volume it might deliver? Is that one of the reasons why your return on capital employed is improving rapidly?

Keith Gordon
Debottlenecking is certainly one of the reasons our return on capital is improving. The first part of the question is difficult to answer because all plants are different. However, to give you examples, we expect to spend around $4-5 million debottlenecking the solid and solution sodium cyanide plants. When we debottlenecked the ammonia plant we spent closer to $10 million but that included a range of other capital improvement projects not associated with a capacity increase. We added ammonia production of around 45 tonnes per day to the previous 700 tonnes per day capacity. We believe that we can lift production at the sodium cyanide plant to somewhere in the high 20,000 tonnes in the short term with potential for further expansion beyond this in the future.

corporatefile.com.au
What sort of cost do you expect for the debottlenecking exercise at Queensland Nitrates at Moura?

Keith Gordon
That process will happen in a couple of stages. One of the challenges in the current market is deciding when to debottleneck because you obviously have to take the plant offline. That has obvious implications for customers in the current tight market. We expect to complete the full debottleneck towards the end of next calendar year and for it to cost around $20 million.

corporatefile.com.au
Do you have sufficient ammonia resources to support the ammonium nitrate expansions?

Keith Gordon
We actually plan to bring in the additional ammonia at Moura and Kwinana rather than expand our ammonia plants.

corporatefile.com.au
Until recently, the solid sodium cyanide plant was not operating at capacity. What changed?

Keith Gordon
Both the market and the operation of the plant have improved. A competitor's plant in Queensland with a capacity of about 28,000 tonnes per annum closed recently and we picked up some of their customers. However, the main limitation

with our sodium cyanide business has actually been plant operation and our team has done a fantastic job over the past six months in getting the plant to operating at above nameplate capacity. We've now got the confidence in the plant to grow our customer base.

corporatefile.com.au
I think Orica made the comment that there has been some competitive pricing in the sodium cyanide market. Can you explain who is driving that and why, particularly when a competitor has exited the market?

Keith Gordon
In the African business there has been a number of new mines open and competition for this business is keen. I don't think anyone in particular is driving the price – it's just a competitive market.

corporatefile.com.au
What is the current sales volume for the Flexi-N liquid fertiliser and what sort of growth have you achieved over the last few years?

Keith Gordon
The growth over the last few years has been phenomenal although it has come off a very low base. I'm reluctant to give too much information on tonnages but sales of Flexi-N have contributed substantially to the overall volume growth in our fertiliser business. It really has been a great success story and we're keen to invest in it further.

Insurance

corporatefile.com.au
Some of the other general insurers have indicated that they're operating above what they call their long-term insurance margin. They've indicated that there is at least 12 to 18 months before margins will come back to that long-term level. What is Wesfarmers' view?

Bob Buckley, Managing Director Wesfarmers Insurance
We take whatever is going. We set our budgets according to the market at the time and we're ahead of what we expected at the moment. Most insurers would be looking at a combined operating ratio of 95-96% and, if they could lock that in for the long-term, they would be very happy.

It's hard to say how quickly the market conditions will adjust. All we can say is that they will adjust eventually. We only need one major event like the Sydney hailstorm which cost the industry $1.9 billion. That would quickly reduce the current excess capital. A signal for increased competitive pressure is when the major insurers start saying they are struggling to meet growth targets or that they can't put rate increases through. I think these signals could start to emerge in the next four or five months.

corporatefile.com.au
You've stated that the reinsurance expense (excluding AMO) for Wesfarmers Insurance Division is 32.0 versus QBE at 21.8. Is an objective to reduce that ratio? Is it simply a case of injecting more capital to reduce that ratio?

Bob Buckley
It's not really important to have a higher or lower target for reinsurance expense. What is important is to model the volatility of your business properly, to understand your appetite for risk and then to have the appropriate business mix. In the past, if your expense ratios were around 28% and you could get a 32% exchange commission from a reinsurer, it was obviously best to pass on the risk and pick up some margin on the way through. More recently, reinsurers have dropped their exchange commissions and it forces you to look more carefully at whether or not you keep the underwriting profit. In any case, it's only a smoothing exercise because, whatever the reinsurers pay out in claims, we'll eventually have to reimburse them over time.

corporatefile.com.au
Your reserves are currently invested in bank bills while some of your competitors have invested reserves in the share market. Is that a disadvantage for you, given that competitors could offer lower pricing on the back of their higher returns from the share market?

Bob Buckley
We've always had a very conservative approach to our investments to force us to focus on the actual business of insurance. Also, if you invest in equities, APRA requires you to carry a larger amount of capital because equities are a riskier investment than bank bills. Investing in equities is fine at the moment but only a couple of years ago a lot of companies were announcing negative investment returns and so you run the risk of having to price those investments to market and also bring them to your balance sheet.

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In terms of market share, is your main focus defending your niche markets or is there some prospect of broadening your product range in the current strong market?

Bob Buckley
One aspect of the market at the moment is that most underwriters are trying to maintain their existing business by keeping rates steady while being a lot more aggressive, with a different pricing model, for new business. Our attitude is that we would prefer to maintain our margins and hold our current business while also going for some growth. We can't afford not to be competing but we also don't want to be a leader and aggressively seek new business. You've got to find a balance where you can comfortably achieve your targets and returns. It's no good being 50% larger but not making any money.

We offer most of the products of our competitors except for some specialised areas such as professional indemnity which we don't want to go into. We have broadened our product range with Lumley General Australia. For example, we've added builders warranty in Victoria which might amount to $10-20 million in five years or so.

corporatefile.com.au
Wesfarmers Federation Insurance has always had a Combined Operating Ratio of around 90. Why is that and how sustainable is it in the longer term?

Bob Buckley
WFI has been a great business and one of its secrets is that when everyone else was centralising their operations, pretty much like the banks did, we decided that we wouldn't do that. Our research told us that the farmers and small businesses in regional Australia wanted on-site service. They wanted someone who understood their needs and dealt with them directly. The client will then make the call on whether our price is fair for the services and cover we offer.

corporatefile.com.au
Has the sale of Wesfarmers Landmark made any difference to your access to the rural communities?

Bob Buckley
No because we have a five year agreement with AWB to provide insurance products to their customers. That arrangement is working well.

Business Development, ARG, Gresham

corporatefile.com.au
You mentioned a capital expenditure requirement for Australian Railroad Group (ARG – Wesfarmers 50%) of $100 million. Will that require any additional capital injection from Wesfarmers or is it all funded internally by the joint venture?

Gene Tilbrook, Executive Director Business Development
It's all funded internally. ARG has a debt facility of in excess of $500 million which is not fully utilised so, between that and internal cash flow, ARG will not require additional equity.

corporatefile.com.au
What sort of percentage of your business are you targeting to get over on the east coast?

Gene Tilbrook
We're not really targeting a percentage. It's very much as opportunities arise but it's a competitive environment and I think ARG will have relatively little business outside Western Australia and South Australia.

corporatefile.com.au
Can you talk through the additional costs you're incurring from higher fuel prices?

Gene Tilbrook
ARG's annual consumption of fuel is around 100 million litres and recently prices have been more than 10 cents per litre above those prior to May. Under our long term contracts, price changes are only passed on each six or twelve months, so in recent months, ARG has carried the shortfall. This will correct over the next few months – at current fuel prices – with resets on 1 November and 1 January.

corporatefile.com.au
Road transport companies seem to manage rising fuel costs more effectively than ARG. Why is that? Can ARG improve in that area?

Gene Tilbrook
I understand that fuel price changes in the road transport industry are passed on more rapidly. In long-term rail contracts, six or twelve monthly resets are typical – they would apply for coal contracts in other states. There may be some potential to shorten when contracts are renegotiated. In any case, it is a timing issue rather than an overall shortfall.

corporatefile.com.au
I think at the AGM Wesfarmers said that ARG is not making its hurdle return. Why continue with an investment in ARG?

Gene Tilbrook
Its performance has improved substantially in the last 18 months and we expect that will continue. In the long-term someone might offer us an amount to exit that we can't refuse.

Bunnings

corporatefile.com.au
Wesfarmers mentioned at the AGM that cash sales were up 8% pcp for the first four months but made no comment about trade sales. Can you give a comparative figure for the overall business?

John Gillam, Managing Director Bunnings
The information provided at the AGM was guidance on our underlying retail trading and we aren't prepared to release any more data at this time. What I can say though is that the current performance in the trade area of our business is flat.

corporatefile.com.au
The trade segment is an area that has deteriorated for Bunnings but you plan to improve it. How long do you think that will take and what business mix do you expect between trade and cash?

John Gillam
We don't have a specific target for the mix of retail and trade. With a successful trade approach it will support and strengthen our retail strategy and we would be comfortable to see trade grow as much as was possible in that circumstance. We do see a lot of opportunity in this area and we are looking for quick improvement.

corporatefile.com.au
What capital expenditure do you expect for the IT systems upgrade?

John Gillam
I think we've previously talked about this work costing around $40 million. Until we complete the implementation planning study, we won't have more precise costings, but we aren't keen on spending significantly greater than that amount.

corporatefile.com.au
What sort of sales uplift would you typically expect from doing a store refurbishment?

John Gillam
It varies widely across stores. For some of the older Bunnings Warehouses, we'd get a one-off sales uplift percentage around the high single digits and for some of the ex-Hardwarehouse stores, where we do more work, we expect to get a better uplift. The process itself is disruptive and our programme avoids peak selling periods such as Christmas and Easter.

corporatefile.com.au
Does Bunnings have any targets for importing product?

John Gillam
We don't have set targets for imported product volumes, although volumes have grown recently with the appreciation of the Australian dollar. Our objective is to have products that will enhance our offer. We're certainly not going to fill our shelves with "home brand" style labels.

corporatefile.com.au
If you start to see some serious downstream benefits at the store level from a shift in your supply chain to cross-docking, would you move towards centralising the distribution network on a larger scale?

John Gillam
If the cross-docking trials for in-bound store product prove financially feasible, we would move to roll out a cross-docking distribution network in our major trading areas, probably with a third party logistics provider operating the facilities for at least an initial period.

corporatefile.com.au
A central theme in Bunnings' presentations recently has been that, over the last two or three years, the business has been restricted by issues such as integrating the BBC network and rationalising and refurbishing stores and that management wasn't really focussed on growing the business. Are you through that integration phase? Can you now start focussing on growing the business?

John Gillam
The successful integration of the BBC network into Bunnings was of critical importance and there was a great deal of work involved in every aspect of the

business to complete this task over the past couple of years. I think our team has done a fantastic job tackling this challenge and keeping the business growing. The fact that the EBITA/Sales ratio has come up to 10% indicates the success of the efforts. With the integration task essentially complete, however, we now have a much stronger operational focus.

corporatefile.com.au
You've articulated a strategy guided by the productivity loop that will lower costs. How much of these savings will be passed onto the consumer and how much may be retained to improve margins?

John Gillam
We don't have a specific target in terms of how savings generated will be treated but we are strongly committed to "owning" the lowest prices position in our markets. We have a price guarantee supporting that and we'll continue to drive prices hard, relative to the market. We're actually fairly conservative when it comes to forecasting margins and we assume that in the longer term, our margins will reduce.

corporatefile.com.au
You've opened two new warehouse stores in the financial year to date. What is your target and timing for new warehouses for the full year?

John Gillam
Seven new Bunnings Warehouses are presently under construction and we have a number of other sites where planning and development approvals are being pursued. At least one more warehouse should open this half and others will follow in the third and fourth quarters. We're targeting to open at least ten warehouses as well as two of the smaller format series 3000 warehouses for the full year.

corporatefile.com.au
Can you comment on where you're at with improving the levels of stock turn and stock leakages? How will the upgraded IT system help?

John Gillam
We're seeing some improvement in the level of stock turns but it's not yet near what we're trying to achieve. I think we're on record as saying that our stock turn is in the low threes and we'd prefer to see it in the high threes and pushing into the fours. We want to lift inventory productivity quite markedly, but we want to do it in a way that avoids poor in-store experiences, such as stock outs, for our customers.

One of the benefits of improved IT systems is that we will be better able to monitor supplier performance and ensure that agreed trading terms are met at every store.

Energy

corporatefile.com.au
Other PCI producers have stated that their low volatile PCI product might break its historic price relationship with thermal coal. What trends are you seeing in the pricing of Curragh North's PCI coal?

David Robb
It's too early to tell. Taking AME's long run prices, the historical differential between hard coking and semi-soft coal is around US$10 per tonne. In recent years, Queensland low volatile PCI coal has been in strong demand and it has moved from maybe US$2-3 per tonne below the semi-soft price to perhaps US$2-3 per tonne above it. A critical issue for this year's price negotiations is whether the Queensland coal exporters can successfully argue that low volatile PCI coal prices should track coking coal prices rather than Hunter Valley semi-soft prices.

corporatefile.com.au
The senior executives at Wesfarmers have a more moderate view than many others on the outlook for coking coal prices. Isn't there a pretty good case for sustained higher prices given that the supply side response is likely to take time and that demand is unlikely to fall dramatically?

David Robb
You could argue that coking coal prices could remain strong for a considerable period. We know that some steel mills are shutting down or reducing output because they can't get coking coal. We know that Chinese steel consumption per capita is still low by world standards. However, we won't be doing any planning on the assumption that high coking coal prices will be sustained.

corporatefile.com.au
Do you see it as an ongoing trend for Australian producers to seek longer term, fixed price contracts? What about the development of forward coal markets?

David Robb
I think that a forward market for thermal coal will develop and that eventually the speculators will move in and increase trading volume to such an extent that it bears little relationship to the physical quantity being shipped around the world. On the other hand, the coking coal market is more relationship based and product specification more complex so it's unlikely that similar forward markets will develop for coking coal.

corporatefile.com.au
You mentioned that Canadian coking coal supplies were increasing. Do you think that will result in a long-term increase in the coking coal cost curve?

David Robb, Managing Director Wesfarmers Energy
Despite the fact that Canadian coking coal production is relatively high cost, I don't think we'll see a long term upwards shift in the cost curve because alternative lower cost producers like Australia will expand production in due

course. BHP and other Australian producers have made announcements about their intentions to lift production.

corporatefile.com.au
What impact is the tight labour market in the mining sector having on wage levels and staff turnover?

David Robb
We haven't seen much evidence of abnormal wages pressure or unusually high turnover levels at Curragh. EBAs typically run over about three years and we've just renewed all the agreements at Bengalla and we're close to doing so at Curragh. The majority of people who work at Curragh are Wesfarmers shareholders and they are quite happy with their investment in Wesfarmers. We have a very motivated workforce and they are excited about Curragh North because it's new, it will extend the life of the mine and thus provide increased employment opportunities - it is good news for the town.

corporatefile.com.au
Bengalla's EBIT is modest despite the fact it is supposed to be one of the lowest cost mines in the Hunter Valley and also when thermal coal export prices are considerably higher. Can you improve Bengalla and how?

David Robb
We think it can be improved. The mine management team has been grappling with mine planning issues. The Bengalla mine has a short strike length and there's not much room to manoeuvre the dragline. So if you don't get the mine planning right it has a significant impact on productivity and costs. We're pleased with the renewed focus on the performance of the asset and we believe it can be improved to build on its natural advantages like a low strip ratio. There are also some contracts which have significantly lagged the market price and they will work their way through in due course.

corporatefile.com.au
Your partner in the Wesfarmers LPG plant, Alinta, estimates that volumes could drop by about one third post June 2005. What impact will that have on depreciation?

David Robb
It will have a negligible impact because the plant was scheduled to be fully written off by mid 2005. It's hard to predict the production level post 2005. It will clearly be lower than the 333,000 to 350,000 tonnes a year we can produce now.

corporatefile.com.au
Is turning the LPG plant into an import terminal still a possibility?

David Robb
We've completed the modifications required to be able to import through the terminal but hopefully that'll just be a bit of insurance in case there are seasonal spikes or another problem with the Dampier to Bunbury pipeline.

corporatefile.com.au
Not long ago you made changes at Kleenheat to be able to pass LPG price rises to consumers more quickly. Does that mean you won't be impacted as much by these high prices?

David Robb
We are much better at managing our margins in Kleenheat and we can improve our ability to do so even more now that we've upgraded our IT systems. However, with LPG prices as high as US$460 per tonne it's difficult to pass on the full price rise to consumers. So, at the moment, there is some margin contraction in Kleenheat.

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Thank you.

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