Attention ASX Company Announcements Platform.
Lodgement of Open Briefing®.

Wesfarmers Limited
Wesfarmers House
40 The Esplanade
Perth Western Australia 6000

Date of Lodgement: 17-May-2007

Title: Open Briefing®. Wesfarmers. Briefing Day Discussion

The content of this Open Briefing® reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Tuesday, 15 May 2007.

General Corporate Issues

corporatefile.com.au
Can you give a couple of reasons why you think Coles is underperforming and how you might fix those problems at Coles?

Richard Goyder, Managing Director Wesfarmers
I don't want to talk about what we think might be wrong in the Coles business. There is a multitude of areas where improvements could be made and we'd be looking to execute on those in a reasonable timeframe. In addition to the problems within the group they have also had ownership uncertainties and that kills businesses. We'd expect to provide certainty and clear direction and we would do a lot of work on cultural programs, supply chain systems and in-store offer.

corporatefile.com.au
In observing Wesfarmers over several years, I've noticed when you make an acquisition that you always have a management solution. The management solution is not clear for the 'everyday needs' business. Can you explain how you might go about fixing that?

Richard Goyder
That question on management is spot on. You can do a lot of work in valuing a business, but it's very important to have a management strategy in place or you won't get these acquisitions right. How we handle the management strategy from here will depend on the management meetings we have during the due

diligence process. We are well underway in terms of planning our management strategies for the business going forward. This is a world class opportunity for world class operators and I think it would look good on anyone's CV to be involved in the sort of turnaround we would want.

The joint venture structure with private equity partners will enable us to offer the appropriate incentives to the key people in the management team. The names I mentioned this morning, including Archie Norman, will be able to bring very good people with them and we have other processes underway. We'll give you more detail on Officeworks and Target later, but we expect there to be a stronger Bunnings element, in terms of people, across those businesses.

corporatefile.com.au
Can you demonstrate the value that might accrue in the Leveraged buy-out vehicle? Can you provide some benchmarks?

Richard Goyder
The transaction is likely to be earnings per share dilutive certainly in the short term and depending on how the deal is finally structured. The benefit would come in one big leap in performance in terms of the everyday needs business. We'll have to consider how best we reflect what we think is the carrying value of the investment. We don't have the final answer to that yet other than we're very cognizant of it. As I mentioned, we do think there are a lot of other benefits in making the investment through that sort of vehicle. We'll look at ensuring that our shareholders aren't disadvantaged in the short term from that sort of impact as best we can.

corporatefile.com.au
I understand Coles has several hundred million in franking credits available. Have you factored that into your acquisition strategy? Will you stick to your policy of paying out 100% of franking credits, assuming you get access to all those, because that would equate to a fairly large dividend?

Richard Goyder
We'll have to determine that number when we get access to the data rooms and then we'll develop our strategy accordingly. However, it wouldn't make sense to pay it out all in one go.

corporatefile.com.au
You're saying that in maybe 3 to 5 years you'll make a decision about buying the "everyday needs" business. Given your partners are likely to be looking for an IRR of 15-20% at least, I'm assuming that it would leave you in a good position if you would accept something lower than that? What is the likelihood that you would eventually end up owning 100% of that business?

Richard Goyder
It's a long way down the track. It's a possibility we might own 100%, but then again, so might a total exit be possible. It might depend on how much more work has to be done to improve the business and how we feel about the longer term outlook of the retail sector. It's way too early to call.

corporatefile.com.au
It's a common opinion that there aren't too many synergies between the Wesfarmers businesses, but if there is one it may be in purchasing with Bunnings and industrial and safety. Is that something you might be able to leverage off in Coles with their large team in Asia?

Richard Goyder
It is certainly a strength of the business. Bunnings and Industrial and Safety both do a lot of offshore sourcing. If we can improve those practices and make them more efficient then that would be a benefit. I do think there are other benefits that are hard to quantify that we can bring to the businesses, particularly the ones that we would own 100%, including our integrated systems approach to all our businesses. Over time, we would be looking to build the Bunnings culture in all the retail businesses.

corporatefile.com.au
I can understand you saying that you can accept a short term dilution to earnings through this deal. However, I can't understand why you would do it if it hurts the investment returns for the group? Isn't it true that, unless you can pretty quickly lift profits, the dilution to returns is going to be too severe?

Richard Goyder
We looked at discounted cash flow returns for Target and Officeworks using our hurdle rates. That tells us what we can pay for those businesses. On the "everyday needs" business we've evaluated the level of return we think we'll get on our equity investment over a period of time. We've also done a discounted cash flow calculation to make sure we're not kidding ourselves by paying sole attention to an IRR generated through the leveraged vehicle. The financial discipline, that has been a hallmark of Wesfarmers for 23 years, is very much in place here. If we proceed we'll be confident that the investment will more than meet our hurdle rates.

On the return issue – one of the concerns we've got with return on equity and return on capital calculations is that goodwill is no longer amortised. Every time we made an acquisition before that accounting change, the return on investment would suddenly grow after about 4 years as the goodwill is amortised. Now, as we grow through acquisition, we will no longer get that kick in investment return after investments have been written off. It's therefore not appropriate just to look at return on equity and return on capital as the sole benchmark for investment returns. It's the key focus internally in terms of how we manage the business because they are the factors which we can control. Return on capital is still the bible within the Group.

As long as investments stack up in terms of exceeding our weighted average cost of capital, then we will be adding value for shareholders. All I can do is assure you that the investments meet our hurdles in terms of what we are prepared to pay.

corporatefile.com.au
What weighted average cost of capital are you using?

Richard Goyder
I won't go into specifics, but we are consistent. I don't want to tell our competitors what we are using.

corporatefile.com.au
Is there any merit in spinning off Bunnings as a separately listed vehicle given it is a mature and successful business?

Richard Goyder
I can't see any merit in that whatsoever. Bunnings is a brilliant part of the Group and it has benefited from being part of the Group during periods when it has required significant amounts of capital. Nobody has ever been able to give me any good reason to spin off any of our businesses. One of the great benefits of being a conglomerate is that each of the businesses has enjoyed strong performances at different periods and we've used the cash generated on a range of growth investments across the Group.

corporatefile.com.au
Do you expect the Coles Board to ask for bids on individual businesses?

Richard Goyder
We've always felt that a 'whole of business' outcome is the best outcome. That depends a bit on our assumptions on IT systems across their group. Also, there might be tax issues if you sold the businesses separately because some of the Coles businesses might have low tax cost bases.

corporatefile.com.au
Apart from meeting your hurdle rates, can you give more detail on why Target is an attractive business?

Richard Goyder
It has a good geographic footprint and it has a good name and position in the market. It's a pretty well run business that fits well alongside ours, but it's not a business we want to pay over the odds for.

corporatefile.com.au
Do you think its margins are sustainable?

Richard Goyder
Things like currency, purchasing and fashion trends all influence the business so it's hard to say. Management of that business is pretty important. It's had good growth for a while, but we think there are things we can do to maintain that growth.

corporatefile.com.au
What's the opportunity cost in looking at a deal as big as Coles?

Richard Goyder
We continue to look at other opportunities although with the number of people we've got tied up on this it's hard to do other major projects, but we're still looking at a number of things on a divisional level. If the Coles deal fell

through we have many other things we could turn our attention to on a corporate level.

corporatefile.com.au
How do you like your chances with Coles – better than 50/50?

Richard Goyder
I think we're in a strong position because of our current shareholding.

corporatefile.com.au
Would you proceed with a bid without being able to do proper due diligence?

Richard Goyder
I'm not going to comment on that.

corporatefile.com.au
Bunnings is performing well, but most of your other businesses are operating in tough conditions. Can you give some more detail on the other businesses?

Richard Goyder
Yes, we're very happy with how Bunnings is performing. We've got much stronger growth numbers so it will be a challenge to maintain that rate of improvement. The Bunnings offer is good and there are some great initiatives. Industrial and safety is strong on the mining and infrastructure services side, particularly in Western Australia and Queensland, while it is tough on the manufacturing and automotive side. The industrial and safety business is meeting or exceeding our internal expectations.

Chemicals and fertilisers has been affected by the drought last year and the ammonia plants issues. Markets are looking good, but we'll need some rain across Western Australia to fulfil the optimism about the cropping season. We're happy with CSBP and it's about where we thought it would be. There are a couple of things happening in insurance including integrating the two new businesses. WFI continues to perform well in a competitive situation. The higher claims in Lumley might be to do with, for example, less experienced truck drivers leaving the industry to work in higher paid industries with the result that the accident rate has gone up. Insurance is a competitive business, but we're happy with how we're positioned in the insurance market and the division is not far off achieving our internal targets.

If we didn't have the infrastructure issues we would have been expecting a higher full year profit for coal. You get a double whammy with delayed shipping and higher demurrage costs. The best way to mitigate it is to make sure we have the right cost structure at our coal operations and that we're doing the work so that we can operate at higher output levels when the infrastructure issues are solved. The flip side is it will keep supply tight. Energy is going well and is well ahead of internal expectations. And our other businesses are fine.

Operationally we're pleased with how each business is going. There are some challenging markets, but it's normal for a diversified group to experience that.

We have excellent leadership teams within each business unit and each division has growth projects on the go.

corporatefile.com.au
Would a Labor victory impact any of the Wesfarmers businesses if they put their industrial relations policy in place?

Richard Goyder
I just think it would be really negative for the economy rather than Wesfarmers. I think it would be a real backward step for all the reforms that have been put in place over recent years. It's not necessary. The team at CSBP has done a terrific job under difficult circumstances with a very lengthy EBA process. It would have an impact at Curragh and possibly other businesses.

Wesfarmers Industrial & Safety

corporatefile.com.au
You have reduced your SKUs from 217,000 last November to 196,000 in April and have identified another 50,000 units for elimination. Should we expect further reductions in the next six months or is the reduction in SKUs going to slow?

Terry Bowen, Managing Director Wesfarmers Industrial & Safety
We currently have inventory remaining of the 50,000 SKUs to be deleted, however, will not be ordering new product here. We are working through selling this product as quickly as we can but it is likely deletions will be at a slower rate than previously.

corporatefile.com.au
You opened your office in Shanghai in October and you noted previously that some of your competitors import some 70% of their product in specialty areas. How much do you plan to import?

Terry Bowen
We do not publicly disclose target level of imports.

corporatefile.com.au
What was your stock turn two years ago and what will it be going forward?

Terry Bowen
Collectively our stock turn was below 4 times and it has now increased to around 5 times or a 20% reduction in inventory levels.

corporatefile.com.au
You appear to have reached the position where you want to "leverage the platform" into driving profitable growth. Your long term top 20 to 50 customers account for a high proportion of your total sales with which you already have a strong relationship. How are you going to get meaningful sales growth without bolt-on acquisitions?

Terry Bowen
It is fair to say that it may be difficult to achieve major growth in sales with our top customers, although we continue to work closely with them looking for sales opportunities and servicing them well.

We believe that with greater attention there is opportunity in mid-market customers. Collectively they are a very large segment of our business and in many cases do not buy everything they could from us. A small increase in sales per customer here adds up to a large figure.

corporatefile.com.au
Do you have the cost and inventory base to service that mid-to smaller customer market?
Will you have to increase your costs to go and get those sales?

Terry Bowen
Our range simplification initiatives mean it is more possible now to hold inventory across our product range. Couple this with an existing large Branch footprint, as well as better distribution centres, and we believe we can service more customers well without large additional cost. We would instead leverage our scale better.

corporatefile.com.au
Is your cash flow still well above EBIT?

Terry Bowen
Yes.

corporatefile.com.au
How big is the mid-market opportunity and what is your share of it at the moment?

Terry Bowen
It is difficult to be precise here. There is an opportunity but this is a tough market, highly fragmented with aggressive pricing from competition. It is unlikely that you will build significant market share overnight and given our size expected growth is not double digit.

corporatefile.com.au
You mentioned that you are trying to get a greater share of your customers' wallet. Can you give us some metrics of your share of wallet and what you might be able to get it to?

Terry Bowen
This is also difficult to measure as it depends on the scope of products and services that you consider. We are largely talking about Blackwoods with its full product range and while we do well in some product categories we supply less in others. For example, our recent Industrial Hose product launch and sales campaign is aimed at increasing penetration in this category.

corporatefile.com.au
This business has struggled over a number of years to meet the group return on capital targets. When do you see the business meeting those hurdles?

Terry Bowen
Last June our ROC was around mid-12s while now it is slightly above 15%.

We'll continue to strive to increase our return on capital but balance this with also a focus on profitable growth.

Our five year plan has us achieving the corporate hurdle rate over the period of the plan.

corporatefile.com.au
What should we expect for revenue and profit growth in the medium to longer term?

Terry Bowen
Again, we are aiming to deliver profitable growth to achieve a 20% return on capital over the plan period.

Chemicals and Fertilisers

corporatefile.com.au
You've indicated that in April there was an unplanned shut-down of the Kwinana ammonia plant due to threatened strike action. Can you quantify the impact of the shut-down on second-half earnings?

Keith Gordon, Managing Director Chemicals and Fertilisers
The direct cost to the business during April was several million dollars. However, this doesn't include costs associated with lost production. We are working on options to recover damages to the business through the legal system.

corporatefile.com.au
You talked about the issues associated with expanding the Kwinana ammonium nitrate (AN) plant, including labour costs and availability, materials costs, and quality issues with off-site fabrication. How confident are you that these issues won't impact the plant operationally?

Keith Gordon
We have extensive resources focused on quality assurance (QA) in the project. We've got people focused on QA of materials and equipment coming onto the site and we're very confident that what we're putting into the plant is good quality. We would delay the project rather than put sub-standard equipment into it.

We are seeing additional costs from the QA and rectification work but we are confident that this plant will be as reliable as the existing AN plant.

corporatefile.com.au
Given the cost overruns at Kwinana and that the contracts for its production are already written, why are you so confident you can get better returns on the investment than originally expected?

Keith Gordon
We achieved better commercial outcomes than we originally modelled. Additionally, we had originally assumed that we would be exporting AN for the first few years after commissioning the plant. We now think that all available product will go into the domestic market at better prices than we would have achieved for exports.

corporatefile.com.au
What will be the ammonia source for the AN capacity expansion at Kwinana and will there be an impact on contract arrangements with customers?

Keith Gordon
Our existing ammonia plant is fully committed to both internal use and external sales. For the expansion we'll import about 100,000 tonnes of ammonia a year through our import terminal at Kwinana, and we have ammonia pass-through clauses in our AN contracts. Our existing ammonia customers will not be impacted

corporatefile.com.au
You've talked about increased regulatory oversight of the Kwinana expansion. To what extent is that related to the performance of the plant itself?

Keith Gordon
We are seeing regulators taking a keen interest in new projects which is appropriate. This interest is not related to any current plant performance issues. Through discussions with regulators, we have made some design and scope changes, particularly to AN storage, and this has resulted in increased capital cost. However, we are confident that we will have a world class facility.

Wesfarmers Insurance

corporatefile.com.au
How important is the A- credit rating to the Wesfarmers Insurance business and if the rating was at risk as a result of a transaction such as the potential Coles acquisition, would you be able to structurally separate the business?

Rob Scott, Managing Director Wesfarmers Insurance
The A- credit rating is very important to the Lumley business, particularly for its large corporate clients, and some of the brokers who place larger corporate business are very focused on an underwriter having an A- rating.

The insurance businesses within Wesfarmers have their own credit rating, but there is currently a link to the Wesfarmers Limited rating. For some years, irrespective of potential transactions, we've been evaluating the ways in which

we could quarantine the rating of the insurance businesses. Such ring-fencing of rating is not uncommon within financial services groups. To ring-fence the credit rating we would need to meet a number of tests such as having a majority of independent directors, which we currently have. We are also likely to require some additional capital to increase capital ratios.

corporatefile.com.au
In insurance broking, you've highlighted the opportunity to participate in further industry consolidation. What is the size of the opportunity?

Rob Scott
The market is very fragmented. No individual broker controls more than 10% of the market for insurance placed through brokers and we'd estimate there are in the order of 300 or more smaller brokers, around half of whom could be looking to exit the industry over the next few years.

We believe we're strongly placed versus other potential acquirers and we'll continue to be highly selective in our approach, targeting only successful businesses.

corporatefile.com.au
Will the higher incidence of claims and weather related events in the last year prompt you to re-evaluate your reinsurance strategy, under which you've reduced reinsurance cover in recent periods?

Rob Scott
We feel comfortable with the reinsurance cover we now have and the higher retentions, albeit the outcome will hurt the business this financial year. In designing our reinsurance program we looked very carefully at our business mix and took a medium term view. We also run models in conjunction with our international reinsurance brokers to design a strategy that suits our risk profile.

We're working to analyse the OAMPS' underwriting portfolio that's being merged into Lumley and how it might affect our reinsurance requirements, but we'd expect our current reinsurance ratio in the mid 20% range to be maintained going forward.

corporatefile.com.au
What's your ultimate strategy in broking and with OAMPS in particular? Will you eventually seek to convert all your brokers to business underwritten by Wesfarmers?

Rob Scott
That's not part of our business strategy. Indeed, our broking and underwriting businesses are managed separately with different management teams. We believe that to have a strong insurance broking business you need access to a lot of different markets and underwriters and to be a strong underwriter, particularly in commercial lines, you need the support of a lot of different brokers.

In OAMPS we see a significant organic growth opportunity in terms of improving the margin of the broking business, and we expect synergies to flow through from the integration of the underwriting business. We see broking as a growth platform, with additional acquisitions of small brokers also driving returns. We're confident OAMPS will move towards our ROCE target in the medium term.

corporatefile.com.au
Can you comment on the amount of capital that might be released following the transfer of the OAMPS underwriting portfolio to Lumley?

Rob Scott
It will be in the order of $10 to $20 million but is yet to be exactly determined. It will depend on working through a process with APRA and our credit rating strategy going forward.

Wesfarmers Coal

corporatefile.com.au
Your outlook statement is for "Ongoing industry cost pressures". What do you understand industry cost pressures to be?

Stewart Butel, Managing Director Wesfarmers Coal
We subscribe to a number of independent studies that track and predict industry cost curves, including individual mine costs. As a result we have a reasonable understanding of where our costs sit versus our competitors, especially for Australian export metallurgical coal mines.

These indicators have shown that 2005 versus 2006 saw a jump in costs of around 20% for Australian export metallurgical mines. In the year ending March 2007 ours costs were up 9%. We expect this cost pressure to be ongoing, but we will manage our costs aggressively in order to minimise the impact. Our challenge is to introduce cost reduction strategies quicker than the general increase in industry costs.

corporatefile.com.au
What are the total transportation cost savings, both with and without depreciation, on the new conveyor at Curragh?

Stewart Butel
Including depreciation the cost of operating the conveyor is around half that of truck haulage, and without depreciation it is about a quarter.

corporatefile.com.au
How much did you spend in total on the new conveyor?

Stewart Butel
We haven't disclosed the specific cost of the conveyor, but it is a significant part of the A$360 million Curragh North development project.

corporatefile.com.au
What production trends do you expect to see at Bengalla in the near term?

Stewart Butel
Coal and Allied has recently announced a 20% reduction from its Hunter Valley production to match infrastructure constraints. At Bengalla, which is part owned by Coal and Allied (40%), production levels will also be down. The mine is reducing its dragline from seven days a week to a five days per week operation. We are also managing our cost by reducing our contractor number by around 25.

corporatefile.com.au
What profitability impact will this have?

Stewart Butel
Whilst volumes will be down in the coming year, this will be at least partially offset by higher export coal prices. We are yet to set budgets for next year, but overall we expect a negative impact.

corporatefile.com.au
What is your mix of fixed and variable cost at your wholly owned mines?

Stewart Butel
Roughly 60-80% of our costs are fixed, leaving 20-40% as variable.

corporatefile.com.au
What infrastructure constraints do you expect at Curragh in the medium term?

Stewart Butel
From July to December of 2007 we expect to be constrained at 89% of contract volume and for January to June 2008 we expect to operate around 93%, a similar level to what we've had this year.

corporatefile.com.au
Looking forward, what are the main infrastructure bottlenecks you are facing at Curragh?

Stewart Butel
Through till the middle of 2008 below track availability is the limiting factor on our export capacity. Port capacity is not the constraining factor. We expect congestion to ease from about mid 2008.

corporatefile.com.au
How much do you expect the Stanwell rebate to be this year? Given that the semi hard coking coal price is going to drop by around 15% next year, by what amount will the Stanwell royalty drop?

Stewart Butel
We expect the Stanwell royalty to be $120-$130 million this year, and the royalty next financial year will be significantly lower. Further guidance will be given once carry over tonnage at year end is known.

corporatefile.com.au
What escalator clauses are built into the Stanwell royalty formula?

Stewart Butel
The Stanwell price rebate shares with Stanwell 25% of the difference between the average semi hard coal price over the last 12 months and $60/tonne, escalated at part CPI. The agreement signed with Stanwell back in 2003 enabled Curragh to double its reserve base and extend mine life from 2015 to 2025. Exports have also increased by 2-3 million tonnes per year. Separately, Wesfarmers divested the Girrah deposit for approximately $80 million. The Curragh mine is a great asset for Wesfarmers.

Wesfarmers Energy

corporatefile.com.au
Is there any change in your capex expectations for the WA LNG project?

Tim Bult, Managing Director Energy
To date our capital spend is on track. We've used a portion of our contingency as the project has progressed to date, but it is still relatively early days. As we stand now though, we are on time and on budget.

corporatefile.com.au
Were there any other competing bidders for Coregas?

Tim Bult
Our confidentiality arrangements preclude me from giving any specific details. However, this was a proactive initiative by Wesfarmers and an important move toward growing our energy business.

corporatefile.com.au
You mentioned that the second half divisional results from the LPG businesses would be lower than the first half. With the partial contribution of Coregas in the second half, does this mean, overall, the results will be broadly similar?

Tim Bult
If we excluded the contribution from Coregas in the second half, we anticipate the result would be lower than the first half, notwithstanding the improvement in earnings year to date compared to the previous corresponding period. This expectation is essentially driven by reduced export sales and seasonality impacts on the downstream LPG business.

However, we expect that the earnings impact of these two factors in the second half will be fully offset by the part-year contribution from Coregas.

corporatefile.com.au
When do you expect a solid earnings contribution from your LNG business?

Tim Bult
The plant won't be up and running until the end of the first quarter of calendar 2008. This means a part year contribution will be made in FY08 as plant production starts to ramp up, however the first full year contribution will not be until FY09.

corporatefile.com.au
In your presentation, Industrial Gases are outlined as being a 'mature' segment, yet you believe solid growth opportunities exist for the current business. Can you explain the difference?

Tim Bult
When we refer to the Industrial Gases segment as being 'mature', we are referring to the technology used and many of the standard product offerings.

What we see looking at the business and the industry itself are growth opportunities for various products for example, in some specialty gases.

Coregas is well positioned with its current product offering to be able to take advantage of the growth opportunities in this area over the long term.

corporatefile.com.au
What assumptions have you made regarding projected market share for Coregas? How will you pursue market share growth?

Tim Bult
Overall, we are assuming there will be growth in the market going forward and that Coregas will benefit from that. We also believe there are good prospects for Coregas to enhance its market share over the long term.

There is the opportunity, over time, to expand the existing Coregas product range and increase our supply self-sufficiency from its current position. This has the potential to improve overall cost performance and allow us to focus on product development within Coregas.

Home Improvement

corporatefile.com.au
Can you please provide an update on current trading conditions in each of the Australian states and other regions?

John Gillam, Managing Director Home Improvement
Although Western Australia has come off the boil a bit it's still tracking very positively. Queensland and the Northern Territory have gone up another notch and continue to trade very well for us. New Zealand is growing nicely. Victoria although positive, has been growing at a slower rate than other regions. There are good signs in South Australia and Tasmania. In New South

Wales and ACT our market position is lower relative to other regions, however we are seeing good market share gains and good growth although recent adverse property market trends have softened the rate of these gains.

As I have noted many times before, our business is very sensitive to property market trends, both value and churn. Provided the nationwide property markets continue to behave positively, then we'd expect our business to continue to do well.

corporatefile.com.au
You've mentioned a profit improvement of up to $39 million coming from your property business. Can you explain the source of this contribution to your divisional profits?

John Gillam
Profits from property development have historically contributed about 3% to 5% of our divisional EBIT, and in this year's second half we expect that contribution to increase by between $30 million to $39 million versus the second half last financial year; hopefully towards the top end of that range. In the first half results announcement we provided details of the sale and leaseback by tender of 11 of our warehouse store sites in keeping with our long standing capital management approach. The tender process has gone well and we are on track to secure improved lease terms and unlock development profits. In the coming week we hope to be able to release full details of the tender outcome when negotiations are finalised.

Our property team remain very active. For instance, at Rothwell in Queensland we have successfully developed up a 5 hectare site. 3 hectares have been used for a Bunnings Warehouse which opened last year and our property team have now finalised plans and approvals for an adjoining bulky goods precinct on the remaining land. We have signed up Harvey Norman as an anchor tenant for that project and we are now in the process of selling the 2 hectare site as a fully approved and pre-committed development opportunity. We are actively looking to do more of this style of development in the future.

corporatefile.com.au
Given your 8.8% cash store-on-store growth in cash sales for the last 4 months and your fixed cost leverage, one would expect further margin uplift in the second half of the financial year. Will you be reinvesting the benefits in your level of customer service?

John Gillam
We're driven by our "productivity loop" thinking and we certainly don't like to be greedy on margins. We have been and will continue to drive pricing harder and as I mentioned in the presentation, we are determined to improve our service levels. Stronger pricing and better service will lift our competitive position and given this focus I don't expect our margins to pick up in the second half.

corporatefile.com.au
The Bunnings Warehouse brand is built on the three pillars of widest range, lowest prices and best service. Are you concerned that there are too many store formats now and that the Bunnings identity may become diluted?

John Gillam
Given the availability of appropriate property, I don't think we will be developing a warehouse store much larger than our largest stores at present. At the other end of the scale we are very conscious that the Bunnings Warehouse brand would be diluted if it were used on a warehouse store any smaller than the 3000 series. The 3000 series was specifically developed for regional locations with lower population levels where that size store is still very much one of the biggest operations in that town. We use our smaller format store layouts for opportunities in smaller locations and these stores are tagged Bunnings, not Bunnings Warehouse.

With respect to the inner urban metropolitan areas around the major Australia and New Zealand cities, we have a very low store representation. This is a significant growth opportunity for us but we aren't going to be able to access this opportunity through our existing type of warehouse store formats. That is why we have developed revised store formats for the Port Melbourne and Hawthorn sites. We are confident these sites will present the Bunnings Warehouse offer well, but we will wait until these stores are up and trading successfully before we look to develop similar stores in other inner urban regions.

corporatefile.com.au
Bunnings now has 153 warehouse stores, 66 small format stores and 3 HouseWorks stores. Can you detail the rest of the store rollout program for the remainder of this year? How are the series 3000 stores performing?

John Gillam
We're on track to open 13 new warehouse stores this year, with 2 of these coming via acquisition. We currently have 11 stores under development, 2 of which will open in the remainder of this financial year. We intend to continue to open between 10 and 14 new warehouse stores each year, for the foreseeable future, and there will also be a few smaller format stores opening from time to time.

We currently have three 3000 series stores open and they are all trading quite pleasingly. We had originally planned for more of these stores to be opened by now, but a number of sites originally earmarked for 3000 series stores have actually been developed as larger warehouse stores. The good thing about the series 3000 concept was that it made us focus a few years ago on regional opportunities and this work turned up a lot more potential sites.

corporatefile.com.au
What is the level of store salary costs and what gains do you expect from the new labour scheduling system?

John Gillam
We don't disclose individual cost components so I can't answer the first part of your question. In terms of the new labour scheduling system we have actually been too slow in addressing a pretty archaic tool that our store teams have to use for rostering work at the moment. We selected the Workbrain product after in-store trials late last year. Initially we will focus on improving the basic rostering and team management tasks which will release time for store managers to have a stronger presence on the shop floor. Hopefully this will be in place in our Australian warehouse store network by the end of this year. Once the base system is in, we will be able to explore additional efficiency gains from optimising the deployment of our team. We are not chasing cost savings per se, what we want to do is lift our service levels and through that achieve better sales outcomes.

corporatefile.com.au
In the first half of FY07 your EBIT margin improved to 10.4% versus 9.8% in the previous comparable period. Can you explain the margin improvement in the first half? How much of the improvement was driven by cost improvements, working capital improvements and fixed cost leverage?

John Gillam
We believe we've already gained $20 million to $25 million in savings from supply chain benefits at the back-door of our stores and in related stock handling activities. Much of this saving has already been reinvested into service related tasks. Things like the centralised returns claims centre have been very good for us and we've also optimised our stock refilling processes so that they take place either before or after peak trading periods.

Improvements in stock shrinkage and other working capital improvements have helped fund a lift in performance in pricing to drive stronger price leadership. Some of those gains have also gone to our bottom line.

corporatefile.com.au
To what extent have you already rolled out your merchandising range strategy referred to anecdotally as the diamond project?

John Gillam
Around two years ago we realised many of our core ranges were overweight, in terms of products offered, towards the lower end of pricing. Our core ranging philosophy is to offer the leading brands and provide customers with a choice across several price points from an entry point product through to a high end quality items. We are now delivering our ranging with a higher focus on mid level quality products. This has been successfully implemented across most of our core ranges now and continues to be an area of ongoing discipline. We've seen an improvement in our gross margin return on inventory and our gross margin return on space as a result of this work and pleasingly we are seeing really strong value offered to customers on better quality merchandise.

corporatefile.com.au
In the first half to end December 2006 store-on-store sales growth was 10.3%. In the four months to April cash store-on-store growth came in at 8.8%. Has

this figure been boosted by your trade business strategy, which has been shifted to trade distribution centres?

John Gillam
The number we consistently report is the store-on-store growth rate for our cash sales. These are sales made through our cash registers and they are the best proxy we have for retail sales. Trade sales are generally made on account and we refer to those internally as credit sales. When we reported our half year result I mentioned that we were aiming to match the 7.5% cash sales store-on-store growth we achieved in the second half last year and pleasingly so far we are tracking a little ahead of that mark.

Trade sales were up by 3% in the first half and trade market conditions generally continue to remain tight.

Other Business / Capital Management

corporatefile.com.au
You mentioned the return on the private equity fund, and I suspect you chose these words carefully. You said cash on cash yield of 20 or 30%, so you're saying that's undiscounted, that's not an IRR, that's basically cash in cash out over a number of years?

Gene Tilbrook, Finance Director
For clarity it's the IRR of the cash that's gone in and the cash that's come out from realised investments and it's a bit under 30%, but it's well over 20%.

corporatefile.com.au
Does that include Repco?

Gene Tilbrook
Yes. It includes all the divestments out of fund 1.

corporatefile.com.au
If you exclude Repco, what's the return on the fund?

Gene Tilbrook
I don't have a breakdown on it.

corporatefile.com.au
Can you get one offline and give it to us? I'd be surprised if it was positive because Repco was huge wasn't it?

Gene Tilbrook
It's strongly positive. If we excluded both the investment in, and the proceeds from Repco, the IRR would still be in the high 'teens or low twenties. We achieved very good returns out of Cashcard, the Virgin Active health club business and some other investments.

corporatefile.com.au
Unfair question. Repco, good sell for Wesfarmers, good buy for the buyers?

Gene Tilbrook
It's a business that's trading in an environment that has changed a lot. The competitors emerged shortly after the float. While it was owned in the private equity fund it was moving towards a pretty strong market position, not a "category killer" but it was moving in that direction. I think there were a couple of competitors who emerged and one has clearly surpassed it in pretty short order.

corporatefile.com.au
Did you improve Repco as a business while you were in there?

Gene Tilbrook
Yes. We rolled out a lot of new outlets, it was a very different looking business with much tighter systems, and a much more market oriented focus.

corporatefile.com.au
Wespine should be hitting the cover off the ball at the moment shouldn't it, with the WA economy and the building market. That should be doing really well?

Gene Tilbrook
Wespine is doing reasonably well but it's actually under strong market pressure. The problem is not the WA market which is very buoyant, it's the eastern states building markets which are depressed so there's a fair bit of timber finding its way across to the west at low prices.

corporatefile.com.au
What's the capex budget for 2008?

Gene Tilbrook
Yet to be advised.

corporatefile.com.au
Have you sorted the dividend out on the ARG profit in terms of where you sit?

Gene Tilbrook
No we haven't. It is taking a very long time to resolve these things with the ATO, unfortunately.

corporatefile.com.au
Do you expect that to be resolved in the second half, or is it hard to know?

Gene Tilbrook
We're not able to say when we expect to resolve it. We're continuing to work on it.

corporatefile.com.au
Just on your comments on the scrip regarding Coles, it sounds like it's possible it could go higher than 25% on remaining shares at the moment.

Gene Tilbrook
We're looking at ways to make it a bit higher, but can't say too much about it. There are a lot of issues around the structure and it will depend, among other things, on what we find when we get in the data room.

corporatefile.com.au
Thank you.

To read previous Wesfarmers Open Briefings, or to receive future Open Briefings by email, please visit www.corporatefile.com.au

For further information on Wesfarmers Limited visit www.wesfarmers.com.au

DISCLAIMER: Corporate File Pty Ltd has taken reasonable care in publishing the information contained in this Open Briefing®. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Corporate File Pty Ltd is not responsible for any consequences of the use.