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The content of this Open Briefing® reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Tuesday, 27 November 2007.

General Corporate Issues

corporatefile.com.au
Why is it taking a long time to get a CEO for Food, Liquor and Convenience?

Richard Goyder, Managing Director Wesfarmers
We've had a search on for sometime. I have been involved in some discussions and this will continue.

This position is not the only globally available retail opportunity. Some of the people that we are talking to are also talking to other parties. We do however have a comprehensive list of quality candidates. This is just in case our preferred candidate is enticed elsewhere, given how far Australia is from Europe and the US.

It is a fairly complex process as it is really important for us and the candidate. They have to be the right person to run Coles for the next five years or more. Therefore, we're prepared to take a couple more months if required to make the right decision.

Archie Norman has been helping me in the process. Search firms in the UK are working on it and Spencer Stuart is working globally. I'm comfortable that this process will take time.

corporatefile.com.au
The Wesfarmers businesses overall look to be going pretty well. Does that change your attitude to Coles? Does it give you more time to get things right?

Richard Goyder
The way the businesses have run this year is a tribute to the way the Group is structured as autonomous business units and the people who are running those businesses. It says a lot because much of my time this year has been devoted to the Coles transaction and we also pulled people out of the other divisions to get involved.

We're never really satisfied with how our businesses are going. Bunnings is performing well, but the good news is they're not totally satisfied and they'd like to get better customer engagement. Industrial and Safety has improved, but there's a lot more to be done. CSBP likewise is going well, but has some challenges. We're disappointed with Lumley and the New Zealand insurance business. Some of that is industry-wide, but we think we can do better. Some parts of the Energy business are running well, but some parts could run better. Coal I think we're on top of. So generally, the businesses are running okay but they can all do better and they've all got growth prospects we need to deliver on.

With three new divisions in the Group and the sort of effort required to get to know them, and to get the focus right, the reality is Gene and I and others will spread ourselves too thinly if we try to cover all those businesses. So, we'll share a few things this year.

The Wesfarmers corporate model works and we have enormous confidence in the people running our businesses. We also have good feedback systems to monitor performance and we haven't yet missed a divisional board meeting during the process. We'll also have a big focus in making the Coles acquisition work for our shareholders.

corporatefile.com.au
What is the key issue that needs to be fixed at Coles? How can you get the right culture through that organisation given that it has five times as many people as Wesfarmers?

Richard Goyder
It's all about people and having the right people in the right roles. It will be a focus on customers and a focus on all the stores in each of the businesses. In three to five years, we want our customers to have a better experience in the supermarkets. We want all the stores to improve. That will be delivered through good management and people, and good systems and processes. We need to re-energise the business.

Archie recently said to the Coles team that we've actually got to break it apart and then put it back together again. We're not going to tinker at the edges.

corporatefile.com.au
Will you be taking a different attitude to property ownership with the Coles business?

Richard Goyder
Our approach to property across the Group is really going to be important. We're obviously a very big tenant around retailing in Australia and we'll work with our landlords to our joint benefit.

Bunnings has had some success over some years in terms of developing and selling properties. We'll have a look at that in Coles. It has a much more extensive portfolio of stores obviously. We'll put the property activities into each business and each business will be ultimately responsible for what it wants to do. We'll also have strong coordination across the businesses to get benefits.

corporatefile.com.au
Has property ownership for Bunnings been value adding?

Richard Goyder
Yes it has, but it works for Bunnings and for its scale. We've been able to put some resources into that because the business has been travelling well. That may not be the case in some of the new businesses.

Gene Tilbrook
The models of standalone properties versus those in shopping centres are quite different. Most of the Coles businesses are in major shopping centres and there are clearly some strong and capable property developers in that sector. We'll be working with them to get the best outcomes.

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How long will it take to boost the management capability in key areas like merchandising?

Richard Goyder
It's a leadership function. We'll have internal and external people in place in the short term. A key part of their role will be to develop their teams. That will take a bit of time, but it will start pretty quickly.

We're doing a thorough assessment of the senior ranks of around 150 people in Coles about what they do and what opportunities they see. They're being encouraged to write a note to me about the opportunities for the business.

corporatefile.com.au
You're looking at rolling out about 100 new stores across all the retail brands. I'm wondering where you can get the appropriate managers? That seems to be a huge challenge?

Richard Goyder
Yes it is, but it is not across one brand. We try and train future managers within the store network. Bunnings and Target have been successful with that approach although there will be some recruitment.

I'm not underestimating this as a challenge. In fact, I've said recently that the biggest challenge for public companies for the next ten years in Australia will be to attract, retain and develop good people because the demographics are working against us. We're now a significant employer, so we'll need a major focus in this area.

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What is a manageable number of Managing Directors to report to you?

Richard Goyder
We'll see how it works over the next 12 months. I have a huge amount of confidence in the people running the businesses and that has been strengthened by the acquisition. Next year will be simpler in the sense that we won't have to deal with this major acquisition and we'll devote more time to managing the businesses.

corporatefile.com.au
Is it possible that your store rollout program will suffer as a result of the focus on the acquisition?

Richard Goyder
It may have slowed during the Coles' process but we will be very focussed on rolling out good stores and there is a pipeline of developments. As you'd expect, there will also be a strong focus on fixing the existing businesses.

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Coles indicated in the scheme booklet that it had 34% market share in supermarkets in February 2007. Where is that now? What market share is needed for some of the supply chain initiatives to be worthwhile, particularly taking into account the level of fixed costs?

Richard Goyder
Market share numbers depend on how you define the market, but it's clear that Coles' supermarkets have been losing market share. We want to reverse that market share decline. We can also improve the cost structure and we're looking at whether supply chain and IT systems are the right scale for the business.

corporatefile.com.au
Do you feel in the supermarket sector there will be increased competition from new entries? Do you think there will be increased scrutiny from regulators on pricing or margins?

Richard Goyder
I think the second part of the question is certain. An increasing focus of ours will be relationships with regulators, consumers and other groups. The incoming

Federal Government has indicated that it may do a pricing review, so we have to make sure everything we do is justified. The scrutiny on businesses like ours will only intensify.

The industry structure is attractive, but the deal won't just work because of that. It's a competitive sector. It's not a duopoly. ALDI now has 150 stores and Metcash is established. One reason we can't afford to sit still is we don't want others taking good new sites. We will be endeavouring to make sure our footprint continues to be as good as anybody's and we will drive a good outcome for customers and shareholders.

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To what extent will you tolerate a decrease in your market share as you change the culture at Coles over the next 18 months? Do you expect you will continue to see a loss of customers over that period, or an improvement?

Richard Goyder
Until our store on store sales are growing at market rates, we'll be losing market share. Obviously the shorter time to change that the better, but we're not expecting to reverse it overnight. We'll tolerate some deterioration in market share in the timeframe we've set to cement our strategies. However, we won't tolerate a lack of urgency, focus, energy or commitment. We don't tolerate those in any of our businesses.

corporatefile.com.au
What expectations does the Wesfarmers' Board have for your performance?

Richard Goyder
The Board knows that improving Coles will take some time, but they'll want to see the return on equity measure improving. We'll put in place targets for each of the businesses to improve return on capital, but we want to do that over the long term. Our targets for each of the businesses change depending on where they are at. If we ran this business for the short term, we wouldn't extract maximum value for our shareholders. We want to make this a much more valuable business in five years.

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What is your promise to shareholders?

Richard Goyder
We want to deliver a satisfactory return to our shareholders and we define what that means each year. We'll set targets after we've completed the current 5 year planning process. There is a link between ROE and shareholder returns so we will measure ourselves against those types of metrics. We're very confident our shareholders will do well as we improve our return on equity.

corporatefile.com.au
Is there room for the Bi-Lo format in the market? Is it a distraction to leave it as Bi-Lo? What is the proportion of standalone stores versus in shopping centres?

Archie Norman, Advisor
It would be preferable to have a single format after 3-5 years. That has many advantages such as making the business more straightforward and economies of scale. The Bi-Lo conversions have not worked very well and being able to trade across demographics requires much more flexible range and pricing than Coles has had to date. We know what is ideal, but it's a question of what's achievable.

corporatefile.com.au
Archie said that you have to break Coles apart and then put it back together. Should we therefore expect Food, Liquor and Convenience earnings to fall from the 2007 level before they go up?

Richard Goyder
By that comment, we mean the scale of change that needs to happen. It's not just slight tinkering. We will assess what we want to achieve and how best we can achieve it. Part of that is putting the divisional structure in place, putting management capacity in place and then best delivering what the customers want.

There will be some financial impact and we will specify the underlying earnings and the one-offs charges. It will require some significant decisions over the next couple of years. That'll cost some money I'm sure. I don't think underlying earnings will get significantly worse, but it's going to get a lot better when we sort things out.

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Will you make accounting provisions for the acquisition?

Richard Goyder
There are already some provisions for restructuring costs. We'll make appropriate provisions as we identify them, but I think in the overall scheme they won't be big. We'll keep you informed. We are doing completion accounts at the moment. There may be some things we discover in the business that we think are uncommercial. Once we find them, we'll obviously inform the market about how we've handled them. We'll report on the one-offs and also the ongoing operational costs.

Retail Philosophy

corporatefile.com.au
Where is the excitement in changing organisations? Are there any limitations in replicating what you achieved in the UK? Is Australia limited in what it can provide? And can you comment on the fresh offering?

Archie Norman
My interest is in management and helping organisations perform as they should, for their consumers and for the people who work in them. I think Coles has not achieved that.

Coles has scale and huge scope for change. The industry structure here is attractive, along with a growing economy and dedicated consumers that want something this is not currently provided by the supermarket chains. I think this is an exciting project.

Importantly, I think there is a great opportunity for the people who work in Coles. And the whole point of this project is to make it exciting and reward shareholders, which I strongly believe we can achieve.

I don’t think we can replicate what occurred at ASDA. I’d like to think we implemented some great changes there that people can learn from. We had fewer, larger stores with formidably greater volume than what we are dealing with at Coles.

The Australian supermarket economy has a lower density of sales compared with the UK. The UK has a totally integrated supply chain formula that is harder to replicate here.

In retail the challenge is that every business is different, every market is different. I recognise that. So please don’t think I can simply pick up here as I left off in the UK.

As far as the fresh offering is concerned, being able to work in the same way we did in the UK is difficult. With ASDA’s integrated supply chain for example, you could take produce from the field and have it in the store in 24 hours. There is no reason why we can’t adopt much of those efficiencies here. Consumers want everything fresh and it’s up to the supermarkets to provide that service through an integrated supply chain with lower cost sourcing

The important thing about fresh is that there is a huge opportunity for us to improve the basic operating performance and to develop and exploit consumer trends that are stronger here than anywhere in the world.

corporatefile.com.au
How would you judge the success of Wesfarmers’ acquisition of Coles over the next year?

Archie Norman
As an advisor I am here to coach and guide in a leadership role. When the business was considered by private equity, the task wasn’t to worry about next year’s results, but to create a valuable business for an IPO or to sell at the end of 3-5 years. Under Wesfarmers’ ownership, the task is the same; to create a valuable business in 3-5 years. Five years is a good benchmark and by three years you should be able to form a very good view as to whether the outcome is achievable. After 12 months it will be difficult to tell quantitatively where it is headed.

corporatefile.com.au
Do you think an improvement in Coles necessitates a poor performance by Woolworths?

Archie Norman
Woolworths is our nearest and most important competitor. There is a lot we can achieve in the market, which is not a zero-sum game. I mentioned fresh and think there is a huge opportunity there and a great deal of that volume won't be coming from Woolworths.

Great retailers focus on their operations and their customers. There is a lot to do with this business. There's no point focusing on Woolworths. What Woolworths does is up to them. That is the mentality we need to have.

corporatefile.com.au
Can you provide some information on the store shelf availability? What is your perception of what's wrong there? Can the IT system and supply chain system deliver you what you need in the interim?

Archie Norman
Availability is unacceptably low. We all agree that this is the case. This however, can be improved without the supply chain and IT. Real availability is worse than just the measured availability. Real availability is about what the customer finds or doesn't find on their list. The issue is not only whether it is on the shelf, but also whether I can find it on the shelf.

Solutions are many – supply chain will work in time. It is a big project with expected teething problems with implementation and that is part of what Keith's team is working on.

corporatefile.com.au
How will you entice the shopper to buy fresh products given the competition against the independent specialist store?

Archie Norman
This is a very good question. If we can get that right, then everything else we are striving for will follow through.

It starts from the fact that we have a huge scale business, with huge scale procurement and we need to translate that to provide some advantage to the consumer. It's no good having great presentation, if we don't have the product. This is where we will get our supply chain to source the best products and get them in the stores quicker than anybody else can. That's the challenge. It's not what happens today, but it's what we're aiming for.

We should be able to leverage on the scale and procurement capability, we should be able to have a competitive advantage. We should be able to supply quality products cheaper than the independents. A fresh product should sell itself. Notwithstanding the above, Coles in Australia does have its limitations because the volume per store is not as high as elsewhere in the world.

Business Engagement & Integration

corporatefile.com.au
How will you go from Coles, a very top heavy company, to a Wesfarmers autonomous business unit? How will you achieve cost savings?

Keith Gordon, Business Integration Director
We will implement this change quickly and decisively. I have no doubt we will achieve the level of cost savings planned. Importantly, we will be going through an organisational design process to ensure that we have a clear end point for the structural changes we are planning. It is possible that in some support areas, the move to divisional autonomy will not result in cost savings, but overall we are comfortable with the cost saving projections.

Home Improvement

corporatefile.com.au
What will be the impact on EBIT margin from your initiative to improve sales service? Will it create wages pressure?

John Gillam, Home Improvement
We don't think lifting service levels will have any negative impact on EBIT margins because it will drive stronger average sales and repeat business. In terms of wages pressure, late last year we had a 90% vote in favour of our fifth enterprise bargaining agreement covering our Australian warehouse store team members. We work hard at looking after our team well and it's not just about what you pay.

Our investment in training will be an added cost so we have challenged ourselves to take costs out of the business to fund this. We look at our total selling costs and overhead costs and we'll make changes as needed. We don't want to get lazy during good trading conditions and end up with an inefficient cost base. There are examples of DIY businesses elsewhere in the world whose cost bases have blown out and have then been unable to cope when new competition emerges or trading conditions tighten.

corporatefile.com.au
How quickly can you turnover stock within new product ranges such as flooring? What sort of flow-on impact would that have on ROC?

John Gillam
We don't talk publicly about the specific performance traits of any product line or range. From an overall perspective, stockturns in our business have lifted pleasingly and we've been getting around a 15% lift in stock productivity year-on-year for the last couple of years. The stock productivity measure we really focus on is the gross margin return on inventory. What I can say about new ranges is that we won't put a product in unless it gives us the selling area returns and the gross margin on inventory returns that we want.

corporatefile.com.au
It seems the new concepts such as kitchen, lighting and flooring are really going well. How many more new concepts do you have in the pipeline? Will they be as successful as the recent new concepts?

John Gillam
In the next few years there's at least a handful to come in and I'm happy to mention a couple of these. Firstly there is landscaping, which we don't do all that well in at the moment. We are developing that concept in our New Zealand stores and we are seeing better results. Then there is pool care. We've had a good look at this area including work during a study tour to the US. We want to become a much stronger player in pool care as it's a natural flow on from what we are already doing in the outdoor leisure and garden areas.

We prioritise all these opportunities and we are not developing new concepts unless they will result in an over $100 million per annum increase in sales over time. We're quite excited by the new ranges we can introduce to our existing stores by using space better.

corporatefile.com.au
A few years ago there seemed to be some trepidation with the new format stores such as those with multi stories and car parks underground. Now there seems to be genuine excitement and they seem to be going well. What's changed? Why are consumers more comfortable with these new formats – or is it still early days?

John Gillam
It is still early days for the new store format that involves both a multi-level store and a multi-level car park. Simplistically, a store of this nature will cost a lot more than the normal format store and since we can't run different pricing in one store in a city, they will generate lower, albeit still acceptable, returns. The fact is for some inner urban areas we are faced with this or having nothing which is why we are trialling this format.

Another format variation involves a single level store with car parking across multi levels and we have a handful of these in the network and all are performing well. These are a slightly higher capital spend, but the varied layout enables us to get a good sized warehouse store offer onto a smaller site. We're quite comfortable with how these work for customers and we have more in the development pipeline.

corporatefile.com.au
Doing business with home builders has never really kicked off, has it? Do you think you'll ever get that concept right where Bunnings can be a trade brand to home builders and also be a great retail brand?

John Gillam
The fact is that going back 20 or so years, our business was built from success on the trade side. And for a long time in Western Australia a significant proportion of our turnover came from business we did with larger home builders. Likewise the BBC business was very trade focussed when we acquired it in 2001. The

focus on the retail prize in BBC and the growth of Bunnings Warehouse generally did come at a cost in terms of how we played in the trade segment. We recognised that a few years ago and what we've done with trade across the last 24 months or so is clearly now working. Our results are credible when compared with the broader market. We have a settled trade team who are working hard driving stronger performance. We're very well leveraged to any upswing in the housing construction sector and our investment in further developing our trade business will continue.

corporatefile.com.au
You're continuing to roll out more warehouse stores and now more trade distribution centres. How do the retail and trade sites work together in the trade sector? What is the trade and retail revenue split per store? Are trade sales lower margin?

John Gillam
The trade distribution centres are focussed on servicing delivered-to-site business – this involves heavy, bulky items and volumes. Our store network plays an important part in servicing the pick-up and consumable needs of tradies and sub-contractors.

In our warehouse stores, a rough guide is that around 10% of revenue is trade and 90% is retail. And as we've discussed before, we estimate that 80% of our trading revenue is retail and 20% is trade. Within the 20% that is trade, around two thirds of this is generated through our store network and one third is from the trade DC's and frames and trusses. We are actively looking to grow all parts of our trade business and the changes we've made in establishing the trade DCs have us well positioned.

I've noted before that trade sales generate lower EBIT margin, but in any housing market upswing EBIT margins may well improve.

corporatefile.com.au
With Kmart under review, would you consider putting a softer Bunnings format into a shopping centre?

John Gillam
Probably not.

corporatefile.com.au
What are the implications for the gross margin from the higher A$? Are there any plans to increase sourcing from China? What lift in sales do you get from store refresh and refurbishment work?

John Gillam
Movements in the currency have less impact on the business than some people might expect. In broad terms, 40% or so of the products we sell come from Australia or New Zealand – that is they are grown or made here. 50% or so of our range comes from locally based businesses that import product with varying degrees of value add. We like dealing with these businesses because it lowers our

risk and it gets us many more people scouring the world for products. A little under 10% of our products are sourced directly by ourselves and we don't expect this to increase markedly beyond the current level.

That rough 40/50/10 split has been steady for a while and it's one reason why we are able to keep sourcing new products and ideas. Sometimes we pay a little bit more than if we sourced direct, but we are not in the business of product R&D so we think the trade-offs are acceptable.

Within our refurbishment program, we talk about upgrades and refreshes. Upgrades involve an expansion to an existing store and the trading uplifts here can be quite significant depending on the scale of the work. Where we are simply working to refresh the offer within the existing store space, we like to see a 10% lift or better for our efforts. This does change quite a bit by site. Capital costs for the latter can be in the $2m to $3m range, but we are getting far better at how we complete the work and this is lowering the capital and disruption costs we incur.

Wesfarmers Insurance

corporatefile.com.au
You've indicated that competition for talent remains an industry issue. What retention arrangements do you put in place when you take on people through acquisition, and do those arrangements include guarantees?

Rob Scott, Wesfarmers Insurance
When we acquire a broking business, it's fairly standard to lock in five-year non-compete arrangements with the principals or shareholders of the business. If one of the brokers isn't receiving consideration as part of the deal, it's tougher to maintain a non-compete arrangement beyond about 13 months.

Our due diligence when we buy a broker is 95 percent about the people – it involves assessing our ability to retain the team, their alignment with our culture and determining the extent to which relationships lie with individuals or the firm.

Remuneration structure is clearly important, but we don't pay guarantees to retain people.

corporatefile.com.au
What's the level of tied underwriting business going through your broking businesses and is there an opportunity to increase it?

Rob Scott
The business flowing from OAMPS into Lumley, and from Crombie Lockwood into Lumley New Zealand, is broadly in line with Lumley's market share. We've folded OAMPS' underwriting business, where there has been historical broker-underwriter relationships within OAMPS, into Lumley Australia so that's increased the proportion of tied business.

Otherwise, we've deliberately not sought to encourage the brokers to move business into Lumley. We think there are more than enough opportunities for us to drive value in the broking business without seeking to do that. To do so could cause concerns in the market.

corporatefile.com.au
At the previous results briefing, you were confident you'd get your combined ratio back to 90 percent. Given insurance profit margins of 10 to 12 percent, to what extent does that assume a reduction in expenses?

Rob Scott
At the full-year results briefing we said that after the weather events in Australia and other one-off events we were hoping to move the combined ratio down to the low 90 percent range. That will be hard to achieve this year given the weather events in New Zealand and Australia and given commercial rates have remained soft.

corporatefile.com.au
With one-off weather events continuing in 2008 and premiums under pressure, are you confident you're pricing risk adequately?

Rob Scott
Lumley has had a reputation for being a conservative underwriter. We deliberately haven't competed on price, and that remains the case. There's no doubt there's been greater volatility in Lumley's results over the last 12 months than those of some of our listed competitors. A big reason for that is the difference in short-tail/long-tail business mix – we don't have the benefit of significant releases from long-tail classes to prop up accounting profits.

We've done a lot of work with our actuaries to review our pricing approach in different classes of business. We don't believe we're doing any worse than our competitors in underperforming classes. However, there is a need across the industry for rates in some classes of business to increase and we are acting on this.

corporatefile.com.au
Your slide on broker benchmarking suggests the EBITA margin of OAMPS is about half that of Crombie Lockwood. What's the reason for that and how are you looking to increase OAMPS's margin?

Rob Scott
Moving the margin up toward best practice isn't something that happens overnight. OAMPS was formed through a large number of acquisitions over a short period of time in the listed company environment, whereas Crombie Lockwood undertook a number of acquisitions, they also invested heavily in systems and people to drive a performance culture and one approach to business. It's also been a lot more successful cross-selling additional products, for example income protection products, to its general insurance customer base, and that enhances its margin. Crombie Lockwood is a lot more productive on a per person basis; we're not quite there yet with OAMPS.

corporatefile.com.au
You've indicated you've ring fenced the balance sheet of the insurance businesses to preserve their A- credit rating, but need to put in more capital. Can you quantify how much you'll have to put in?

Rob Scott
It's difficult to be precise because as part of the transfer of the AIIL portfolio to Lumley we have to reassess all the actuarial provisions around the businesses, but it will probably be of the order of $50 million this financial year. We can also modify the dividend distributions we make to Wesfarmers to help improve the capital position.

corporatefile.com.au
To what extent has there been a negative reaction from the major insurance broking groups to Wesfarmers' acquisition of a broking business?

Rob Scott
We've had no adverse reaction and Lumley continues to receive the support of all major brokers since they have demonstrated their independence from OAMPS. This is easy to maintain under our business model since we have a range of different brands and businesses with separate management teams. We've heard more grumbles from our underwriting competitors than from brokers. Around the world we're seeing brokers setting up underwriting agencies and starting to compete with underwriters in many respects. We're also seeing insurers invest in brokers. There is clearly a blurring of the boundaries across the industry but it is important to be able to manage the potential conflicts.

Chemicals & Fertilisers

corporatefile.com.au
How keen are you to be a part of any merger between Dyno Nobel and Incitec Pivot?

Ian Hansen, Chemicals and Fertilisers
I do not believe it would be appropriate to speculate on any rumoured industry mergers or acquisitions.

corporatefile.com.au
I'm interested in your comments on the fertilisers business moving from fixed costs more to variable. Can you provide us more detail on that? I can see why it's a good thing during a drought, but you might miss out on an upswing?

Ian Hansen
I'm hoping we wouldn't miss out on any significant upswing by moving to more variable costs. Moving to more variable from fixed costs means that our costs will more accurately reflect our volumes, such that as our volumes increase, so will our costs, but similarly they will reduce if there is a downturn in volumes, however there will continue to be a component of our cost structure which is fixed.

corporatefile.com.au
Is that labour? Or is it capacity in terms of production that you will vary?

Ian Hansen
Some of it is to do with labour; some of it is to do with just being more flexible on our expense management, costs incurred due to our marketing programs, research and a range of other costs in our business.

corporatefile.com.au
Can you give us a view on how tight the ammonium nitrate market is at the moment in terms of pricing in WA?

Ian Hansen
In WA, the 235,000 tonnes we're producing is all going into explosives. In addition to this material, we believe there is approximately 50-70,000 tonnes being imported into WA either from interstate or overseas. Therefore the current WA ammonium nitrate market for explosives is about 300,000 tonnes, however we expect this to grow significantly due to current investments in the WA resource sector.

corporatefile.com.au
What have ammonium nitrate prices done over the last twelve months?

Ian Hansen
I can't talk about what the end user, that is the mining sector, is charged as CSBP sells to the explosive manufacturers under contract.

corporatefile.com.au
What about fertiliser prices?

Ian Hansen
International fertiliser prices have escalated significantly. For example, in early 2005 Urea prices were around US$220/t FOB and are currently US$400/t FOB. Similarly, DAP, the base phosphate fertiliser traded around the world, has gone from around US$250/t FOB two and a half years ago to around US$500/t FOB in the last week. It should be noted that CSBP imports its phosphate as raw material and converts it to super phosphate and compound fertiliser. We also sell blends of traded fertilisers such as DAP, which we purchase on the global market.

corporatefile.com.au
With the resources boom, are you envisaging more capacity increases for ammonium nitrate?

Ian Hansen
Following the expansion of the new ammonium nitrate facility, the additional production will be used both in the explosives market and to produce liquid fertilisers. We expect the demand for ammonium nitrate in the explosives industry to grow and CSBP will be able to move product from its liquid fertiliser production to the explosives sector, supplementing the local manufacture of liquid fertiliser with imports, as we do now. Also, we believe we can supply further

demand beyond current projections having identified de-bottleneck paths in our existing and new nitric acid/ammonium nitrate plants.

corporatefile.com.au
Are you still vulnerable to gas curtailment even though you have locked in fixed contracts?

Ian Hansen
As the DBNGP goes through its upgrade process, yes. We don't expect the reduction in gas transmission availability to be as significant as last year based on projected expansion work on the pipeline. We have had some impact in the first quarter, but we'd expect much less going forward.

corporatefile.com.au
I'm still struggling to understand how Australian Vinyls can be considered a part of this business from the point of view of synergies and expertise when gas is the major input into chemicals and fertilisers and PVC is petroleum-based?

Ian Hansen
The acquisition of Australian Vinyls was an EBIT growth opportunity which met our investment criteria. The Australian Vinyls business has many similar characteristics to our other chemicals businesses. For example, its manufacturing process is very similar to a number of our other chemicals plants. It is classified by the regulator as a Major Hazard Facility plant and involves dangerous goods management, areas which CSBP has significant expertise. The product is distributed generally in bulk and marketing and sales are at the business-to-business level, which is a similar model to many of our other chemicals businesses. Australian Vinyls also trades some chemicals which are traded by CSBP in Western Australia.

corporatefile.com.au
Will we see more of these acquisitions going forward?

Ian Hansen
We have a business development team looking at a range of opportunities.

corporatefile.com.au
How can you improve plant reliability, particularly given the skills shortages, so you don't have to import product?

Ian Hansen
We have recently established a new Reliability Department which will focus its efforts on improving plant reliability, particularly in the ammonia plant. It will also target improved shutdown management with the objective of increasing the length of time between planned shutdowns and minimising the duration of these shutdowns. This should result in higher volumes of production.

corporatefile.com.au
But the trend is going the other way?

Ian Hansen
I wouldn't say that the reliability trend is heading the wrong way. We have had a problem with the reliability of our Kwinana ammonia plant over the last few years, but in most of our manufacturing plants the reliability and utilisation is improving year-on-year and a number, including our nitric acid and ammonium nitrate plants, are at world's best practice.

corporatefile.com.au
How many shutdowns have you got planned this year for the ammonia and the ammonium nitrate plant?

Ian Hansen
The ammonia plant had a planned shutdown in July, in order to make some modifications to improve the production rate, and I'm pleased to say we're producing up to an additional 10 tonnes per day of ammonia as a result. Unfortunately, we also had a couple of unplanned shutdowns in the first quarter. We do not have further planned shutdowns of either the ammonia plant or the existing nitric acid and ammonium nitrate plants, apart from gauze (catalyst) changes in the nitric acid plant, which are approximately 3 day outages every 4 months.

corporatefile.com.au
As a general comment, do higher prices favourably impact the fertilisers and chemicals business? Which ones?

Ian Hansen
Going forward, higher pricing in the resource sector will assist the ammonium nitrate business because our contractual arrangements have changed with the new ammonium nitrate plant and not all of our production capacity is contracted. Prices for ammonia are locked in for some time and sodium cyanide prices are likely to reflect the higher gold prices as demand increases. PVC prices fluctuate on a monthly basis.

corporatefile.com.au
Will there be any more merchant ammonia sales?

Ian Hansen
We have ongoing contractual arrangements for merchant ammonia sales however any further sales would be based on import parity plus margin. We will be importing approximately 100,000 tonnes per annum of ammonia to supply the new ammonium nitrate project. We do have contractual arrangements for merchant ammonia sales which are ongoing.

corporatefile.com.au
The guys in Western Australia said you issued two price lists within two weeks for fertilisers. What is that saying?

Ian Hansen
World fertiliser prices are moving up very quickly.

corporatefile.com.au
So we could expect more price rises?

Ian Hansen
That is highly likely if we see continued movement in global fertiliser prices.

Wesfarmers Coal

corporatefile.com.au
You're doing a great job with costs – only up 7%. Is that a function of the overland conveyor?

Stewart Butel, Wesfarmers Coal
Several things impact costs and it varies from quarter to quarter. In general, there is a very strong focus on containing costs at all our operations. The commissioning and start up of the conveyor system at Curragh certainly helped reduce costs at the mine. As we continue to ramp up volume, we will see a volume benefit in costs as well. We're doing everything we can to focus on the key items that impact costs. Some areas we can't control such as fuel.

corporatefile.com.au
You're running at 7% for the twelve months. Where do you think the industry might be?

Stewart Butel
The latest figures we have show that costs for the industry increased by around 15-20% from 2005 to 2006 calendar years. Updated numbers are released around February or March next year.

It's a dynamic market with companies continuing to ramp up production. The new production tends to be higher cost production through truck and shovel versus dragline, but we're travelling as well as, if not better than, our competitors on costs.

corporatefile.com.au
In a weaker market, it's typically semi-soft and PCI prices that really drop off more quickly. That's what we saw last cycle. Is the opposite true in an upswing?

Stewart Butel
The market is very strong, but it's too early to speculate on price outcomes. All we can go on is evidence from spot markets.

When the coking coal price increased to US$125/t in 2004, the price gap narrowed between the lower and higher ranking brands. It's probably too early to say whether that will happen this time. BHP will largely determine this.

corporatefile.com.au
Is it a fair assumption that thermal coal will increase to around US$100/t?

Stewart Butel
Annual price outcome for thermal coal is yet to be determined. Current spot price for thermal coal sits in the mid US$90's/tonne. I would expect all the other brands to be above thermal.

corporatefile.com.au
Where's PCI at the moment?

Stewart Butel
It's about US$10/t above the benchmark thermal price – so it's in that US$65-$70/t region.

corporatefile.com.au
How much future US$ revenue have you hedged?

Stewart Butel
We don't disclose that. We usually review our hedging on a quarterly basis, but at the moment we are reviewing it almost monthly. We have some exposure to an increasing A$.

corporatefile.com.au
What is the utilisation rate for the conveyor?

Stewart Butel
It has capacity of around 12-13 million tonnes per annum and we're running at about half that.

corporatefile.com.au
Are there any positive or negative implications for you from the possible BHP and Rio merger?

Stewart Butel
Industry consolidation is continuing to happen. Whether the BHP and Rio merger will take place is not for me to comment. However, as industry consolidation continues, Wesfarmers Coal and the mid-size, independent coal companies will gain a strategic advantage in the marketplace. Our customers want independent suppliers to remain.

corporatefile.com.au
Can you give us a ballpark estimate on capital for the expansions you're considering?

Stewart Butel
It is too early to comment because we're still doing the detailed work. Capital cost structures were different when we did the feasibility study for the Curragh North expansion in 2003/2004. When it becomes clearer, we'll update you. That will probably be about the middle of next year. Higher capital costs are being experienced across the industry so I can't imagine that our expansion will be any different.

Wesfarmers Industrial & Safety

corporatefile.com.au
You have mentioned that while sales year to date are up in all of your businesses you are also experiencing cost pressure. What does it mean for the bottom line of each business?

Olivier Chretien, Wesfarmers Industrial & Safety
We won't give any guidance today, however despite wages pressures the bottom line is up in most businesses. We also face margin pressure in our safety businesses, especially in New Zealand.

corporatefile.com.au
What percentage increase in wages are you experiencing at the moment?

Terry Bowen, Wesfarmers Industrial & Safety
While we won't be specific, the increase is no more than most businesses are experiencing. The rises tend to be location specific, and the wage pressure increases as you move away from the metropolitan areas and closer to the remote mining areas where it is difficult to find staff. However, it doesn't mean that our cost base is blowing out.

Olivier Chretien
Additionally, an important point is that we tend to face wage pressures specifically when we have to replace people, but our employee turnover has decreased significantly across our businesses over the past two years.

corporatefile.com.au
Can you quantify your exposure to the economy by sector? What is your exposure to the mining sector compared with agriculture or manufacturing?

Terry Bowen
We have a reasonably good spread across the economy. As you would expect in Australia over the last two years, we have seen a shift away from manufacturing towards mining and infrastructure. Our business still has a very good spread of sector exposure from industrial sectors through to government. Our exposure to manufacturing is the most challenging area of our business now, as it has been for the past two years.

corporatefile.com.au
Are you actively reducing your exposure to manufacturing?

Terry Bowen
We don't have a stated objective to get out of manufacturing. Our sales to those customers are important to us.

Olivier Chretien
It is also important to note that as we aim to increase our penetration of small and medium size businesses, we target many small manufacturing shops. While sales

to large manufacturing customers are decreasing overall they tend to grow at the smaller end.

corporatefile.com.au
A major focus of your growth strategy for some time has been to get a greater share of the wallet of your existing customers. What is the stumbling block to getting your large customers to buy more from you? What are the key products where you are not getting the penetration and where do you expect a breakthrough?

Terry Bowen
The reality is that it differs customer by customer. We can struggle more in some segments because of our current product and service offering. For example, we had a low market share in the heavy lifting and rigging business, hence we acquired Bullivants. There are segments such as electrical where we are competing against well known specialists. Industrial supply is very competitive so we need customer-specific strategies. A one size fits all strategy would cause us to lose more sales than we would gain.

Olivier Chretien
We have faced significant price competition and 12 months ago, while we had the scale, our value proposition was still not significantly better than the competition in areas such as value-added services or delivery performance. We have been focusing on the back end of the business as well as on creating a value proposition which is significantly better than the competition. I believe that we now have a better offer to the market, including strong delivery performance, breadth of product range, technical support, Business to Business and value added services; not just providing product and price to the market.

corporatefile.com.au
Product commoditisation is one of your key challenges. Is that business-wide or in specific areas?

Olivier Chretien
This commoditisation occurs mostly in safety.

corporatefile.com.au
You have done a good job in improving the Return on Capital Employed (ROCE). While we are assuming that EBIT will be up on last year, can we also assume that you will still focus on supply chain and reducing Stock Keeping Units, and hence continue to improve ROCE?

Terry Bowen
We are continuing to see some good results in terms of ROCE.

Olivier Chretien
Our ROCE has continued to improve in the first quarter.

corporatefile.com.au
What is your level of direct sourcing?

Olivier Chretien
We do not publicly disclose our level of imports. We know that some of our competitors import large percentages – more than 50 per cent - of their product ranges. However we have a balanced approach and are certainly looking to continue to work with our preferred domestic suppliers, to provide both branded quality products - where their products add great value - and, in some cases, directly sourced product. We remain close to our partner suppliers who share a joint commitment to growing our business as well as their own.

corporatefile.com.au
From a longer term strategy prospective, have you looked to set up in Asia or is it too far down the track at this stage?

Olivier Chretien
This has been in our five year plan for a while, but will not be in the first year. We still have many opportunities to improve our value position in Australia beforehand.

Wesfarmers Energy

corporatefile.com.au
When you acquired Coregas you stated that industry sales growth was around 7%. You've indicated today that it has slowed. What can we assume that it is at now?

Tim Bult, Energy
Industry growth has seen up to those rates over the long-term in key products. We also anticipate good long-term growth for the business going forward. Those levels of growth have not been achieved in the year to date, particularly in NSW and the Coregas sales revenue in the year to date is only slightly above last year.

corporatefile.com.au
Can you explain what is happening in NSW? Isn't your main customer BlueScope Steel?

Tim Bult
We have a great relationship with BlueScope as our customer. The subdued growth is being experienced in the NSW merchant business. This has been softer than other states because of the economy. We have also seen increased competitor activity, which is often the case when a business is sold. We will counter this by increasing our sales staff appointments and we've already started that process.

corporatefile.com.au
How is the Coregas acquisition tracking against your financial expectations?

Tim Bult
We are only ten months into the acquisition. We evaluated this business on its long-term potential and we calculated an NPV for the business using long-term

growth rates. None of these long-term parameters have changed despite the soft performance in NSW this year so far.

corporatefile.com.au
With the change of ownership of the DBNGP, will you be able to buy more LPG from the new owners?

Tim Bult
It's irrelevant who owns the pipeline; it all depends on how much LPG is resident in the gas streams that gas producers supply into the pipeline. Commercially it may be difficult for us to reach agreement to increase the LPG content from producers who have export alternatives, as export LPG prices are higher than can be achieved through supply into the pipeline.

corporatefile.com.au
How much cheaper is it running a truck on LNG compared to diesel, from a transport company's viewpoint?

Tim Bult
LNG is significantly cheaper than diesel at current oil prices. It also provides transport companies with cost stability because the LNG supply contracts are linked to CPI rather than to the volatile world oil price.

corporatefile.com.au
Can you provide some detail on where you earn revenue from your LNG business?

Tim Bult
The capacity of the LNG plant is 175t/day. Nominally 100t/day will go to the power generation sector and the remaining 75t/day is earmarked for the heavy duty vehicle market. Of the 75t/day, we've committed about two thirds, so we still have a small amount of uncommitted capacity available for new customers.

corporatefile.com.au
On the autogas business, how many independent service stations are you supplying? Are you the sole supplier? Do you have long-term purchase contracts for LPG?

Tim Bult
We are supplying around 340 customers outside Western Australia, some with multiple sites. Yes, Unigas is the sole supplier to such customers. Following the sale of our interest in Unigas, we will explore other opportunities such as the possibility of supplying any of the Coles Express service stations.

LPG purchase contracts with the refineries are normally set around this time of the year for the next 12 months.

corporatefile.com.au
Is there a possibility for LNG plant expansion at Kwinana?

Tim Bult
We have room for a second 175 t/day train at the Kwinana site. However, we will have to undertake a risk assessment to determine whether such an expansion would be possible.

Other Business / Capital Management

corporatefile.com.au
Can you clarify that the capital expenditure pre-Coles for FY08 was $700 million? Is that inclusive of your growth capex?

Gene Tilbrook, Other Business/Capital Management
Yes in the $700 millions, including growth capex.

corporatefile.com.au
Is it a reasonable number to assume for the years beyond? Are acquisitions included in that? What do acquisitions total this year?

Gene Tilbrook
There isn't a 'right' number for capex. Year to year we continue to seek capex opportunities that meet our hurdle rates, because we like investing capital for the long term.

Acquisitions are not included in that number. Acquisitions so far this year total $130 million.

corporatefile.com.au
Will you underwrite the dividend for the second half of 2008 and the first half of 2009? It seems to me that you will have to in order to keep gearing to an acceptable level? Will you use hybrids?

Gene Tilbrook
We haven't decided, but it's quite possible we will underwrite the dividend to some extent. As a central case, and assuming no major acquisitions or divestments, you could expect us to issue some hybrids.

corporatefile.com.au
What net debt to equity targets do you have?

Gene Tilbrook
We will focus less on the net debt to equity ratio and more on cash flow cover. We're expecting an EBITDA to interest cover in the 4s and will be more comfortable when it is in the high 4s rather than the low 4s.

corporatefile.com.au
Does it come into discussions with banks that you're running at close to a negative NTA position?

Gene Tilbrook
The NTA position after the acquisition of Coles is significantly negative. We are no longer monitoring the net debt to NTA ratio.

corporatefile.com.au
Why do you bother with Wesfarmers' relatively small investments in Gresham Private Equity when Wesfarmers is a large company with a company-transforming acquisition in Coles to get right?

Gene Tilbrook
It doesn't take up much of our time. Gresham has a very strong team now and has generated good returns for us.

There is also a less tangible, but important reason. We've learnt a lot about various investment evaluation techniques, about market liquidity and ways of managing capital effectively. We wouldn't have been as well equipped to understand the dynamics of capital markets in the last 12 months without our experience in private equity investments.

corporatefile.com.au
The Coles transaction consists of $400 million in transaction costs. Does that include their defence costs?

Gene Tilbrook
Yes, and also the debt establishment costs. It includes all costs for both companies.

corporatefile.com.au
I think around 6 months ago you flagged there was some prospect of raising further equity post completion of the Coles deal. Can you clarify that in relation to your earlier comment on raising hybrids? Have you seen anything of concern regarding the Coles balance sheet or off-balance sheet items such as operating leases or non-performing assets?

Gene Tilbrook
There have been no major surprises in going into Coles in relation to off-balance sheet items or non-performing balance sheet items. There are some properties that we may sell and lease back. Our thinking on land banking will develop. We might develop standalone sites, but it is unlikely we will become developers of big shopping centres to place Coles stores in. There are a lot of peripheral matters to sort out in the balance sheet, as you would expect in a business of this complexity.

In relation to possible equity raisings, the important thing to keep in mind with the Wesfarmers Group, is that we aim to always be in a flexible position to move in whatever direction is appropriate. We want to be completely objective about shareholder value in making acquisitions or divestments. Looking forward, if we don't make any major acquisitions and we don't have significant new capital expenditure, then the guidance I gave previously on equity raisings around hybrids is the direction we are thinking. I wouldn't rule out other means of capital management because of that need to be flexible.

corporatefile.com.au
What's your view on being a coal producer in the current environment and the issues of sustainability?

Gene Tilbrook
It's certainly a good time to be a coal producer; we expect to generate strong cash flows in the next few years, and beyond. We have good growth prospects, a strong price outlook and costs are more under control. There are sustainability issues in the longer term and they are clearly issues we will consider.

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