

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



Wesfarmers Limited  
Wesfarmers House  
40 The Esplanade  
Perth Western Australia 6000

---

**Date of Lodgement** : 13-Feb-2003

**Title** : Open Briefing. Wesfarmers. CEO Chaney on 25% Profit Rise

**corporatefile.com.au**

Wesfarmers Limited announced a 25 per cent increase in profit after tax to \$224.9 million for the half year ended 31 December 2002 (eps before goodwill amortisation of 71.4 cents per share, up 12 per cent). Which areas contributed most to the profit growth and what are the major performance variations from budget?

**CEO Michael Chaney**

A number of divisions were a little above budget including hardware, energy and chemicals and fertilisers. We experienced quite large negative variances from budget in rural operations and Australian Railroad Group (Wesfarmers 50 per cent) and a smaller negative variation in industrial and safety, which still put in a good performance.

**corporatefile.com.au**

What's the profit outlook for the full year? Can you meet budget?

**CEO Michael Chaney**

We'll find it difficult to make our budget but current expectations are that the negative variance will not be of too great magnitude. In November 2002, when we made our first quarter release, we thought that positive variances in other businesses could make up for the negatives variances flowing from the drought. However, that's now unlikely with the drought have a larger impact than first thought.

**corporatefile.com.au**

At the time of the September 2002 quarterly announcement you indicated that the rural business would be down around \$10 million in EBIT against budget for the full year due to the drought and that the Australian Railroad Group would also experience some impact. Can you give a revised estimate of the impact the drought might have against budgeted EBIT for the rural services, ARG and industrial and safety businesses?

**CEO Michael Chaney**

For rural services we expect it to be a negative variance of about \$15 million to \$20 million, at the EBIT level, compared to budget. In ARG it will depend upon the performance of the business going forward (for example improving the derailment performance) and on whether all grain is shipped from farms. The negative variance will be \$10 million to \$15 million at the EBIT level for our share. For Industrial and safety, the likely impact will be much smaller and we're still expecting to come in pretty close to budget.

**corporatefile.com.au**

The net debt to equity ratio fell to 35.2 per cent as at December 31, 2002, down from 54.9 per cent pcp and below your target range of 40 to 65 per cent. Wesfarmers has just announced a share buy-back scheme plus the suspension of the Wesfarmers Dividend Investment Plan due to the company's low level of debt and strong cash flows. Does it also signal that Wesfarmers has few attractive investment opportunities?

**CEO Michael Chaney**

Not at all. The best way of illustrating that is to look back at the period 1999 to 2001 where we bought back shares at \$12 per share, then made a placement about a year later at \$19 per share and through all that we embarked on a very aggressive acquisitions programme. We simply believe that it would be irresponsible not to manage the balance sheet actively, given our very low level of debt. Doing so is simply part of our focus on shareholder returns.

**corporatefile.com.au**

Earnings before interest, tax and goodwill amortisation (EBITA) from the Bunnings hardware merchandising business increased by 35 per cent over the same period last year to \$196 million. That was boosted by an extra month's trading from the inclusion of BBC. What's the sales outlook for the retail and trade sectors?

**CEO Michael Chaney**

There has been some softening in December and January in the retail hardware sector but it's too early to decipher a trend. The numbers vary widely for individual months. For example, the monthly, year-on-year growth rate was low in August, high in September, low in October, high in November, low in December and so on. The actual raw sales growth for August to September was the same as October to December. There seems to be some softening in the retail sector but time will tell how much of a softening.

For the trade sector, we expect activity to quieten from the middle of this calendar year.

**corporatefile.com.au**

Gross margins were in line with budget and ahead of those pcp as a result of buying benefits and controlling expenses. To what extent are you budgeting for further growth in gross margins?

**CEO Michael Chaney**

We expect to achieve a small increase over the next year.

**corporatefile.com.au**

Four new warehouse openings in the period have you on track to meet your warehouse rollout schedule of eight for this financial year. During the half, you closed 12 stores including 2 warehouse stores and plan another warehouse closure this financial year. Why have you closed warehouse stores?

**CEO Michael Chaney**

We closed warehouse stores where they were poorly sited in the first place (in the case of some Hardware stores) and also where warehouse stores were next door to each other.

**corporatefile.com.au**

Wesfarmers' energy business achieved a 16 per cent increase in EBITA to \$123.6 million. Sales volumes from Curragh for the half were below expectations, due mainly to shipping timing, planned shutdowns of the plant and unscheduled maintenance of the draglines. Are your expansion plans on track at Curragh?

**CEO Michael Chaney**

Very much so. We've had some unscheduled maintenance activities but the mine expansion is going well. We've been a little frustrated by delays at the port and it'll be a challenge to make sure we ship our forecast volumes over the next six months.

**corporatefile.com.au**

You've said that earnings in the fourth quarter will be impacted by annual price re-negotiations. What trends are emerging in negotiations so far?

**CEO Michael Chaney**

It's too early to tell really and it's not helpful commercially to discuss it at the moment but it's fair to say that producers are a little more optimistic now than they were a couple of months ago.

**corporatefile.com.au**

What did LPG prices do over the half, what volumes did you ship from your LPG extraction plant in WA (Wesfarmers 50 per cent) and what volumes do you expect for the second half?

**CEO Michael Chaney**

In the first half we missed a shipment and exported only about 85,000 tonnes. We have budgeted to ship around 230,000 tonnes in the full year. Prices have risen significantly in recent months, in parallel with oil prices, so we should also gain some benefit from that in the second half. Of course, AlintaGas gets two thirds of the benefit from high international prices under our gas purchase arrangements.

**corporatefile.com.au**

The industrial and safety business achieved a 42 per cent increase in EBITA to \$55.5 million, although the current period benefited from an additional month's trading after the Howard Smith takeover. You've forecast improved revenue and earnings for the business from the commencement of a number of larger infrastructure projects. Can you give some detail please?

**CEO Michael Chaney**

There's a range of projects across the country both government and private. Bob Denby will describe them in his analyst presentation in Sydney today and that will be posted on the web.

**corporatefile.com.au**

The rural services and insurance businesses returned a 2 per cent fall in EBITA to \$33.9 million. How well is this division operating after allowing for issues associated with the drought?

**CEO Michael Chaney**

In my view, very well. We've really tackled the cost side and in spite of the external difficulties, the EBITA in the half year is only down marginally on last year. That's also after absorbing a superannuation charge quite a bit higher than last year.

Nevertheless, earnings are well below budget and we expect that trend to continue. The third quarter will be particularly lean.

**corporatefile.com.au**

The rural and insurance operations now have 450 branches across Australia. What change in store numbers have occurred after the IAMA merger and what changes are planned?

**CEO Michael Chaney**

There were about 40 overlapping stores when we took over IAMA and we have eliminated those. No material changes in current store numbers are planned.

**corporatefile.com.au**

The fertilisers and chemicals businesses achieved a 59 per cent increase in EBITA to \$15.7 million. To what extent was the EBITA increase due to the chemicals or fertilisers businesses?

**CEO Michael Chaney**

We're talking about pretty small numbers here because most of the fertiliser sales are in the second half. For the full year, we're expecting an equal contribution from the two businesses to the overall increase in EBITA.

**corporatefile.com.au**

Historically over 70 per cent of fertiliser sales occurs in the second half. Can you comment on volumes you expect to sell interstate and within your traditional market of Western Australia, which is less drought affected? By when do you need good rain in southern Australia?

**CEO Michael Chaney**

It's hard to predict the level of interstate sales. Historically they've been limited, although last year we did sell some super phosphate to the eastern suppliers. This year we don't expect it would be very much and, in any event, the margins are not high.

We need good rains to come between April and June to ensure a good cropping season.

**corporatefile.com.au**

Earnings from ARG were well below budget because of reduced revenue from grain and iron ore volumes, restructuring costs & derailments. Can you quantify the fall in freight volume, do you expect any more restructuring costs and when will we see the benefit of the restructuring?

**CEO Michael Chaney**

Volumes of grain in Western Australian and South Australia this year will be about half of what they were last year. For Western Australia, that was considerably lower than what we expected three months before the harvest.

There will inevitably be additional restructuring costs at ARG in future years but we should start to see the benefits of restructuring from the 2004 financial year.

**corporatefile.com.au**

Thank you Michael.

---

For previous Wesfarmers Open Briefings visit [www.corporatefile.com.au](http://www.corporatefile.com.au)

For further information on Wesfarmers Limited visit [www.wesfarmers.com.au](http://www.wesfarmers.com.au)