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Lodgement of Open Briefing.**



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**Title :** Open Briefing. Wesfarmers. CEO Chaney on 28% Profit Rise

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Wesfarmers Limited announced a 28 per cent increase in net profit after tax to \$101.4 million for the quarter to September 30, 2002 (eps before goodwill amortisation of 33 cents per share, up 13 per cent). Revenue was up 9 per cent to \$1.81 billion. How did you achieve another increase in earnings?

**CEO Michael Chaney**

We had a good performance from all our 100 per cent-owned operations with healthy increases in hardware, industrial and safety and rural and insurance.

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Is the September quarter still the weakest profit quarter?

**CEO Michael Chaney**

Yes it is. The remaining three quarters generate larger profits but seasonality varies within divisions. Bunnings has a strong December quarter leading into Christmas, while industrial and safety has a quieter time then and in January as people go on holidays.

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Cash flow per share of 46.1 cents was three per cent higher than last year's. Can you maintain earnings and cash flow growth?

**CEO Michael Chaney**

We think so. One thing's for sure and that is that our recent profit and cash flow growth won't continue on a linear path. Growth comes in spurts but our five year corporate plan indicates reasonable earnings growth, albeit in a lumpy way.

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Why maintain a dividend reinvestment program (DRP) when gearing is falling and cash flow remains strong?

**CEO Michael Chaney**

We considered suspending the DRP for the final dividend last financial year but decided to keep it because we feel it's a good time to be cashed up. Assets prices have been falling and we have a number of potential acquisitions under consideration. It may well be that we suspend the DRP at the next dividend, though.

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What impact is the drought having on your business units?

**CEO Michael Chaney**

It is having an impact although the group businesses impacted by the rural economy contribute less than 15 per cent of the group's budgeted earnings for the year and of that, a significant proportion is unlikely to be directly affected.

It's obviously having a direct impact on Wesfarmers Landmark and we'll see that reflected in earnings for the remaining quarters when livestock turn-off falls and we don't make the budgeted sales of farm chemicals.

Sales in some areas of the industrial and safety division are quieter as a result of the drought. In the Australian Railroad Group joint venture, wheat cartage will be down on budget this year. In the fertiliser operations sales will be dependant on the seasonal break in cropping regions in Western Australia next year.

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Earnings before interest, tax and goodwill amortisation (EBITA) from the Bunnings hardware merchandising business increased by 56 per cent over the same period last year to \$78.1 million. What synergy benefit per annum do you now believe is possible from the integration of the Howard Smith operations?

**CEO Michael Chaney**

We've said in the past that the synergy benefits will be at least \$60 million per annum and we're still happy with that number. We're pleased with the way the integration has gone. However, we recently stopped counting the synergy benefits because it's harder to distinguish between synergies and normal improvements as time goes on.

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Is Bunnings on track with its store roll out and rationalisation program this financial year and what do you expect in future years?

**CEO Michael Chaney**

It is on track. We opened one warehouse store in the quarter. We expect to open at least eight warehouse stores this year and an average of ten stores each year beyond that.

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What trend in EBITA/Sales margins did you experience in hardware over the quarter and what do you expect going forward?

**CEO Michael Chaney**

EBITA/Sales margins improved over the quarter compared to last year partly because of economies of scale and we expect further improvement in the margins. Margins appeared higher in the June 2002 quarter but that was affected by some positive year-end stock adjustments.

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How do you expect the Australian hardware market to grow and what trend in market share do you expect for Bunnings?

**CEO Michael Chaney**

The Australian hardware market has grown a couple of per cent per annum, in real terms, in recent years. It would be good to see that continue but time will tell. In the meantime, we expect to increase our market share as we roll out the new warehouses.

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Bunnings had large restructuring provisions recorded in the accounts at 30 June 2002. How quickly will these provisions be used?

**CEO Michael Chaney**

The provision will be used over several years as we close over 100 stores in the Bunnings and industrial and safety businesses. Bunnings utilised \$3 million of the provision in the September quarter.

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Wesfarmers' energy businesses achieved a 2 per cent increase in EBITA to \$62.3 million. What trend do you expect for coal sales at each of your mines?

**CEO Michael Chaney**

At Curragh we expect to sell around an extra 0.5 million tonnes per annum of export coal, each year, for the next few years. At Bengalla (Wesfarmers 40 per cent) we expect profits to increase as we substitute at least a million of the two million tonnes of domestic coal with exports over the next few years.

Sales at Premier mine in Western Australia will remain at the current levels for the next couple of years. There's some potential for winning new contracts in the order of a few hundred thousand tonnes in a couple of years' time and we hope that the next base load power station will be Collie B in about 2007 which should use another 1.2 million tonnes.

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Why do you forecast full year earnings from coal to be in line with last year when you've forecast increased coal sales and coking contract prices have increased strongly?

**CEO Michael Chaney**

The benefits we will gain at Curragh will be offset by a significant negative at Premier where the 600,000 tonnes we sold to Worsley ceased on 1 July 2002. Prices at Bengalla are softer than last year.

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The industrial and safety businesses achieved a 82 per cent increase in EBITA to \$31.8 million (14 per cent after adjusting for the Howard Smith acquisition, which was consolidated from 1 August 2001). What year-on-year sales growth have you achieved since purchasing the industrial and safety businesses?

**CEO Michael Chaney**

We haven't reported a figure on that but it's less than 5 per cent on a normalised basis. We sold the metals business in July so that affects the gross figures.

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How are you achieving success in this business?

**CEO Michael Chaney**

We've implemented some successful cost reduction programs in logistics improvements for example and some revenue growth initiatives. There are rationalisation activities taking place in combining the various safety and distribution businesses acquired over recent years.

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Rural services and insurance businesses achieved a 61 per cent increase in EBITA to \$19.7 million despite revenue being down 12 per cent. Why do you expect earnings for the year not materially different to last year's, particularly after such a good first quarter?

**CEO Michael Chaney**

The drought will start impacting earnings more significantly in the coming months so we'll be doing well to maintain profits around last year's level. One additional factor is that the higher employer superannuation payments in FY03 fall disproportionately on Landmark.

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Fertilisers and chemicals achieved a 35 per cent increase in EBITA to \$6.0 million after a solid performance in both businesses. Why do you expect an improved performance from fertiliser and chemicals for the year despite the nationwide drought?

**CEO Michael Chaney**

In Western Australia we're expecting a crop which will be about 20 per cent below budget. However, it's only the north and the east of the state where the

situation is more devastating and the south-western and southern areas will, in fact, produce record crops. Demand for chemicals from the mining sector is strong and our plants are now running well.

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The Queensland ammonium nitrate joint venture has recorded losses in the last couple of years but the plant operated at or above nameplate capacity over the quarter. What earnings contribution do you expect this year?

**CEO Michael Chaney**

The joint venture will operate profitably this year but it will be a couple of years before we record a positive earnings contribution. That's because, under the equity arrangements, the losses in prior years have to be reversed against future profits before we can record positive earnings in the Wesfarmers' accounts. Our profit and loss account will benefit, of course, by not having to bring any losses to account, which we've had to do until this year.

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The Australian Railroad Group (Wesfarmers 50 per cent) announced in late October 2002 that it was entering stage two of the restructuring it commenced after acquiring the South Australian and Western Australian rail freight businesses in mid-December 2000. What were the benefits of stage one and what are the objectives of stage two?

**CEO Michael Chaney**

Under the sale agreements we weren't able to make any retrenchments in the first two years of owning the business. Last year we did however make some retrenchments in which the employees were paid their full entitlements. We've now entered the second phase of the restructure and that will not only achieve cost savings going forward but it should really help in terms of culture enhancement.

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Thank you Michael.

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