

Title : Open Briefing. Wesfarmers. CEO Chaney on Outlook

Date of lodgment: 8 November 2001

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Wesfarmers Limited announced an 86% increase in profit after tax to \$79.3 million for the quarter to September 30, 2001 (EPS of 29.3 cents per share, up 74 per cent). The September quarter has traditionally been the weakest. Is that still the case and what is your profit expectation for the full year?

CEO Michael Chaney

Yes, September is still the lowest profit quarter because fertiliser sales are skewed to the second half and the strongest quarter for our hardware operations is the December quarter with the run up to Christmas.

It's too early to modify our full year profit expectation. Our most recent comment on the 2001/02 profit was released in the Howard Smith Bidder's Statement, where we forecast a net profit of \$379 million on the basis of a July 1 acquisition and a full year of synergies. The Howard Smith acquisition was actually completed in August and some of the synergies do not start flowing until November or December.

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As at 30 June 2001, net borrowings were just above \$1 billion. To what extent have falling interest rates been reflected in your borrowing costs?

CEO Michael Chaney

Our borrowing costs fell by about 40 basis points for the September quarter, compared with our average borrowing costs last year. That is across our total borrowings.

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Wesfarmers' Energy business achieved a 27% increase in EBIT to \$61 million, due mainly to strong coal results. Wesfarmers is due to conclude contract price negotiations in about six weeks for coal prices effective from April 1, 2002. What are current market conditions for export steaming and coking coal?

CEO Michael Chaney

The market conditions for coking coal are reasonable. The next couple of months will determine our coking coal prices for next year. At this stage we believe our strong customer relationships should give us a reasonably favourable outcome.

The steaming coal market is softer but it's too early to say what contract prices might do because those negotiations are finalised in about 4-5 months. Spot steaming prices to Japan have been falling and we expect them to remain under pressure.

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What amount of thermal coal does Wesfarmers produce at Curragh?

CEO Michael Chaney

About 2.5 million tonnes but it's sold domestically under long-term contractual pricing arrangements. In fact, about 60 percent of our coal is domestic and not subject to international price fluctuations.

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Wesfarmers has investments in three coal mines - Curragh in Queensland, Premier in Western Australia and Bengalla (40%) in NSW. What percentage of Wesfarmers' total EBIT does coal currently contribute?

CEO Michael Chaney

We don't break down earnings within the energy business between our coal and gas activities but, in our revised (post Howard Smith) 2001/02 budget, energy will contribute about 30% of Group EBIT and coal makes up a large part of that.

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Sales volumes at Bengalla (WES 40%) were lower than the previous corresponding period and earnings were below budget. Has the Bengalla investment met your expectations and how can the operation be improved?

CEO Michael Chaney

In relation to our original feasibility study, it has exceeded our expectations in almost all respects. The ramp up is about 1.5 million tonnes ahead of schedule. We've achieved a faster ramp up by selling some coal domestically at lower prices and we aim to switch that to higher value export coal, subject to demand.

Sales for the September quarter were below budget but ahead of the feasibility study.

Bengalla is running extremely well. The employees have a very good work ethic and high productivity. We don't think there's potential for significant improvements.

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What export LPG prices did you achieve over the quarter and what are the current market conditions?

CEO Michael Chaney

The international contract price for LPG fell and the price we received on exports for the quarter was A\$450 per tonne, which is about 13% below last year's price. The current market conditions are similar to those experienced in oil markets and LPG is mirroring the fall in oil prices.

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EBIT from the Bunnings hardware merchandising business increased by 74 percent over the same period last year to \$42.3 million. You've maintained your expectation of synergy benefits of \$40 million in 2001/02 from the integration of the Howard Smith operations, mainly through better supply purchasing terms, improving the performance of Hardwarehouse stores and reducing duplicated costs including advertising. What synergy benefits did you achieve in the September quarter and can you achieve greater synergy benefits than \$40 million in future years?

CEO Michael Chaney

It's hard to quantify what we achieved in the first quarter but it wasn't much as it's still early days. Better purchasing terms make up a good part of the estimated savings but won't come through until November/December. We are confident that the \$40 million we estimated for this year can be exceeded in a full year.

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When do you hope to convert all BBC Hardwarehouse stores to the Bunnings' format?

CEO Michael Chaney

Within about 12 months.

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You expect strong revenue and earnings growth to continue in 2001/02. Ignoring growth from the Howard Smith integration, why does the outlook for the Bunnings hardware merchandising business continue to be positive?

CEO Michael Chaney

We will continue the roll out program for Bunnings warehouse stores, although it will be modified as we go forward. The new stores will generate increased sales but we are still achieving quite healthy store on store sales growth and margins are also quite healthy.

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You were reported in the press as saying that the industrial and safety product distribution business was a bit of a sleeper in the Howard Smith acquisition and, as a division earning a \$100 million profit, would be one of Wesfarmers' largest. Do you expect that level of profitability in the first year?

CEO Michael Chaney

No. The point I was making was about the relative size of the division and the figure was illustrative. The actual budget for 2001/02 is for EBIT, before goodwill, of around \$90 million or about \$65 million post goodwill. That is for an 11-month period.

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Wesfarmers CSBP, your fertilisers and chemicals business, achieved an increase in EBIT to \$4.4 million mainly because of increased ammonia demand from nickel producers and ammonium nitrate sales. To what extent do you expect that demand for your chemicals to continue?

CEO Michael Chaney

We expect the positive variance of the first quarter for chemicals to continue over the full year. We are also budgeting for an increase in earnings from fertiliser but that depends on how the season starts next year. Recent rain in Western Australia has removed concerns of a drought and it looks like the wheat crop will be a little above last year. That's still well below normal levels but is a much better result than we were expecting a few months ago. So there will be more cash in the farming system and hopefully our fertiliser sales budgets will be achieved.

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Why else do you forecast ongoing difficult fertiliser market conditions and what might turn this market around?

CEO Michael Chaney

Market conditions won't be as difficult as we thought a few months ago but competition is still fairly strong and is unlikely to diminish. Competition is a permanent feature of the landscape.

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So there needs to be rationalisation in the industry for competition to diminish?

CEO Michael Chaney

I don't think that will occur in Western Australia.

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Wesfarmers Landmark, your agribusiness products and services subsidiary, achieved a 27% increase in EBIT to \$10 million, with most activities improving. Since the IAMA merger with Wesfarmers Dalgety in the March 2001 quarter you've said that the integration plans are being successfully implemented. You originally expected to achieve \$40 million per annum in synergies, that the merger would be EPS positive this year and that you would continue to improve the returns from IAMA for three to four years after the merger. Is that still the case?

CEO Michael Chaney

Yes, in general terms. We have had a little help this year through higher than budgeted livestock prices but wool has been suffering with lower volume. The rationalisation program is going well and we believe we can achieve earnings growth in the next few years.

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The earnings contribution from the Australian Railroad Group (Wesfarmers 50%) - comprising the South Australian and Western Australian rail freight businesses acquired in mid-December 2000 - were slightly below budget after providing for retrenchment payments. How do you plan to add value to this investment?

CEO Michael Chaney

The business is going well and is actually operating a little above budget before providing for the retrenchment payments. Obviously the reduction in employee numbers will help with profit growth and there's a number of areas where volume growth is occurring. When we made this investment we said we expected it to be a steady and increasing EBIT performer. That view hasn't changed.

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Thank you Michael.