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Wesfarmers Limited recently settled on its acquisition of Edward Lumley Holdings Limited (ELH) and the Lumley Insurance Group's Australian and New Zealand operations for approximately \$320 million plus the assumption of \$55 million in debt. The final price is subject to adjustment to net assets between when the price was set and completion, and the impact of the sale by ELH of Lumley Life to a third party for \$84 million. How does the Wesfarmers' acquisition price compare with historical multiples paid for acquisitions within the Australian insurance sector?

Finance Director Richard Goyder

We valued the acquisition using a discounted cash flow analysis and we're comfortable with the price we're paying. We take a fairly conservative approach to acquisitions. The implied multiple on a price-to-book value basis is very competitive compared with recent transactions in the industry and on a price-to-premium multiple we're in the mid range of recent industry transactions.

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Wesfarmers has stated that it will operate Lumley General Insurance in parallel with Wesfarmers Federation Insurance (WFI), because of the largely complementary distribution channels and the different product offering. Nevertheless, what are the main tasks in bedding down the acquisition and how long do you expect to do so?

Finance Director Richard Goyder

We're forming a new insurance division that will include Lumley General Insurance and WFI. WFI was previously part of Wesfarmers' rural division. The CEO of the new insurance division is Bob Buckley, who previously headed WFI. We've appointed a new CFO to the division, David Goldsmith, who was the CFO of Industrial & Safety.

The main task in bedding down the acquisition is implementing Wesfarmers' systems, which include financial and management reporting, performance measurement, planning, treasury and HR. We're also reviewing the Lumley IT business and the IT needs of both Lumley and WFI.

Integration is an important part of any acquisition so we'll make sure it's done well. The nuts and bolts aspect of the integration should be completed within about 12 months. The broader integration issues centre around making sure the two cultures fit well and thrive together. We've got a strong sense of the culture of Lumley and we like what we've seen so far. It's a niche insurance business focussed on underwriting profits with a conservative investment strategy which fits in well with WFI.

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What earnings contribution might the new Wesfarmers insurance division make and where will it rank in size amongst Australia's insurance companies?

Finance Director Richard Goyder

Last financial year, WFI generated earnings of around \$25 million and the profit contribution from Lumley General Australia was just over \$55 million, excluding management fees of about \$7.5 million. In addition, the contribution from Lumley General New Zealand was around \$5 million. Adding those components gives a total of around \$85 million and that's the sort of earnings contribution we'd expect from the new division as a starting point. We believe the combined WFI/Lumley operation will be comfortably in the top 10 of Australian insurance companies but considerably smaller than the 2-3 largest players.

We'll account for the Lumley business from mid October. The numbers I've quoted above are full-year numbers.

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How will Standard & Poor's lowering of the credit rating of Lumley General Insurance to A- from A affect your assumptions regarding the cost of funds and returns of the business?

Finance Director Richard Goyder

It won't impact our assumptions on cost of funding because the Lumley acquisition will be funded through the Wesfarmers Group.

S&P has a policy of not giving a subsidiary a higher credit rating than its parent so it follows that Lumley's rating would reduce to the same rating of the Group. We do not expect the change in rating to have a material impact on the business.

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Apart from stating that you're buying ELH at an attractive price, you believe you will achieve some synergies in the area of reinsurance premiums and IT. Can you give more detail by type or magnitude and what impact will the abolition of fees currently paid by ELH to its UK parent have?

Finance Director Richard Goyder

As I said earlier, the fees paid by ELH to its UK parent were about \$7.5 million but that will be offset by around \$2 to \$3 million of new head office costs. The synergies aren't that significant but on the reinsurance side, we'll retain more risk by seeking less reinsurance which should have a positive impact on profit. Some IT benefits will be achieved by merging networks and data centres. Moving the Insurance Division to a common technology platform in the mid-term is a possibility.

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You believe that you can increase ELH's market share given the rationalisation that's taken place in the insurance industry. How will you go about increasing market share and in which product areas and geographical regions?

Finance Director Richard Goyder

The recent rationalisation in the industry has resulted in less choice for brokers and customers, and we believe our businesses are well positioned for growth through new business. We will remain focused in our niche areas, which for WFI is rural and SMEs in rural and regional Australia, whilst Lumley will continue its leading position in the commercial and fleet motor, marine and engineering classes. An increase in market share will be a secondary outcome as good quality business obtained at the correct price is our main focus.

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The gross written premium from ELH's Australian and New Zealand general insurance operations in FY2002 was around \$580 million. What has been the recent trend in premium inflows and to what extent has growth been driven by premium price rises?

Finance Director Richard Goyder

The recent trend has been quite strong. For the year ended June 2003, the gross written premium for Lumley General Australia was about \$540 million, which was up from \$420 million in the previous year. The gross written premium for Lumley General New Zealand was \$201 million. So the two general businesses had a combined gross written premium of around \$740 million in 2003.

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In FY2003, WFI had a combined operating ratio of 90.9 percent. What has been the recent history for ELH in terms of operating ratio and what do you expect in the future?

Finance Director Richard Goyder

Lumley General Australia has a history of very good combined ratios. Last year it was about 86 percent before the UK management fee, which is exceptionally good.

In the previous year, it was around 89 to 90 percent. Those numbers will increase a little when you add the corporate office costs but we expect both WFI and Lumley to maintain low combined ratios.

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Did the amount paid for Lumley Life by a third party affect the amount paid by Wesfarmers for Lumley General Insurance?

Finance Director Richard Goyder

It will only have a minor impact because the sale of Lumley Life to a third party was contemplated at the time of the original sale and purchase agreement. These small adjustments will be finalised over the next couple of months.

There will also be an upward adjustment in asset values because of the growth in the business experienced since the acquisition price was agreed. The completion accounts will be ruled off on October 31 and should be finalised by the end of December.

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Can you please outline the goodwill paid by Wesfarmers in the transaction and how that will be accounted for in future years?

Finance Director Richard Goyder

When we announced the transaction, we indicated that goodwill would be about \$110 million but is subject to finalisation of the completion accounts. We'll initially amortise goodwill over 20 years until we adopt the new international accounting standards, after which time there will no longer be a requirement to amortise goodwill.

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WFI uses a direct distribution model whereas ELH uses a broker distribution model. Are you likely to continue with these models for WFI and ELH?

Finance Director Richard Goyder

Yes, because each model works well for the respective business.

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Thank you Richard.

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