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The content of this Open Briefing reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Wednesday November 5, 2003.

General corporate issues

corporatefile.com.au
Can Wesfarmers maintain the double digit earnings growth it has achieved over recent times?

Michael Chaney, CEO Wesfarmers
It is a possibility but one of the difficulties in making forecasts is that so many of the variables are unpredictable and as soon as you've made a forecast a key element in the equation changes. We run the company to achieve acceptable long-term returns for shareholders and the company is in good shape to achieve those. Over the last 20 years we've had periods when the EPS has surged and other periods where it was flatter or where it has actually fallen but over that whole period we have achieved TSR of close to 30% per annum compound return.

corporatefile.com.au
Can you outline the divisions which have greatest scope for growth in ROC?

Michael Chaney, CEO Wesfarmers
As you know, we regularly report ROC numbers by division. The division with the best ROC at the moment is Energy with percentage returns in the 30s and within the Energy portfolio there are investments like Curragh which are returning more than 35% ROC.

The ROC for Bunnings was depressed after acquiring Howard Smith because of the increased amount of capital. We're confident that the ROC for Bunnings over the next five years will move through 18%.

WFI gives us a ROC in excess of 20% and we expect to keep it at least at those levels. Kleenheat is giving us a ROC above 18%. Industrial and Safety is achieving 14% but that's post-goodwill and pre-goodwill returns are closer to 40%. Notwithstanding that goodwill issue, Industrial and Safety's corporate plan has them moving through 18% over the next few years.

CSBP is an interesting case because its ROC used to be around 40% in the late 1980s and it even caused us to question whether ROC was a sensible approach. Since then, capital expenditure and competition issues have reduced the ROC to about 16% and it was below 10% at one stage.

What is powerful in this whole performance measurement exercise is having people focused on ROC and not on sales growth, or EBIT to sales ratio, as a primary outcome. The fact that some division is currently at 14% might be an excellent performance in the circumstances. However, each division has a strategy to take it to 18% through the cycle and if it doesn't achieve that over the longer term then it would be divested.

For the next five year plan, we're going to increase our divisional ROC targets to 20%, pre-goodwill amortisation.

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Is increasing Wesfarmers' payout ratio temporarily to over 100% an option to increase gearing?

Michael Chaney, CEO Wesfarmers
Not really because we don't have enough franking credits. If our gearing falls again after the capital return, then we'll look at other alternatives. Also, we still have the buy back program in place until February 2004, which we'll review then, as well as the DRP, as capital management tools.

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When do you expect to retire as CEO?

Michael Chaney, CEO Wesfarmers
The likelihood is that I'll retire in July 2005. My original contract was due to expire in 2002 but that was extended in 1999. Every year I go through a succession planning exercise with the board. We talk about who's coming up through the ranks and in May this year we agreed that things are going to plan.

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To what extent are you involved personally in originating acquisitions and investments?

Michael Chaney, CEO Wesfarmers
The deals eventuate in any number of ways but they have involved several Wesfarmers executives or teams. We have a very broad skill set that enables us to seek, or receive, and evaluate new investments. Many deals are brought to us because of our reputation. That was the case with Western Colleries, Bengalla and Bunnings, whereas our Business Development department brought Curragh to us

through their normal monitoring process. Business Development was working on Howard Smith for a number of years and through that time I was involved in an overview sort of way, making suggestions and so on. In the case of IAMA, Gresham came up with the specific proposal, although Richard Goyder as head of Landmark was monitoring it and pushing it. So I think it's one of our great strengths that we have several avenues for tapping into deals and we don't rely on any individual.

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How much management influence does Wesfarmers have with ARG?

Michael Chaney, CEO Wesfarmers
We actually have quite a bit of influence with ARG. For example, the Chief Operating Officer and the head accountant were both seconded from Wesfarmers so that the accounting systems and management information systems are in the form we want them. ARG has developed a return on capital mentality which didn't exist previously.

Wesfarmers has been directly involved with ARG in major contract renegotiations, new projects, legal issues and risk management. Unfortunately the hurdle rate for ROC hasn't been achieved but we certainly expect that we'll get better returns. We had the same situation when we took over IAMA but we eventually achieved acceptable returns.

Wesfarmers Energy

corporatefile.com.au
Can you talk about the future of Kleenheat within the Wesfarmers' Group, particularly with excise (possibly) being introduced in 2005 and with reference to extending the LPG supply contracts beyond 2005?

David Robb, MD Wesfarmers Energy
Kleenheat on a stand-alone basis significantly exceeds the Group's target return on capital. So in deciding whether to retain it within the Wesfarmers' portfolio, while it might not be a large size relative to some other assets, it certainly meets our return on capital requirement. Kleenheat also helps provide a natural hedge for our LPG production because two thirds of Wesfarmers LPG's production is exported and one third is sold into the domestic market via Kleenheat.

I remain confident that we'll still operate an LPG production facility post 2005. It might mean having a smaller LPG content in the gas supply to the extraction plant but there are companies like Apache tendering for ten year LPG supply contracts - so there are other players in the mix than just the North West Shelf. One possible outcome is that we settle on a type of one or two year rolling contract. To that extent we'll maintain some element of the natural hedge for a time, but even if we lost the plant totally and it became an import terminal, then Kleenheat's returns would warrant retention in the Wesfarmers Group.

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Can you talk a little bit about the power supply-demand situation generally in WA and coal versus gas? What's happening in those areas?

David Robb, MD Wesfarmers Energy
We're bidding together with J-Power, the largest power generator in Japan, for the right to build the next base load, coal fired power station. We're very happy with our partner - they've got all the technical expertise we need and, who knows, they might have some cost of capital advantages.

Our analysis suggests that coal fired generation in the south west is competitive in terms of costs, including versus the Alinta/Alcoa co-generation project, and it's certainly neutral versus gas from the North West Shelf in our analysis in terms of environmental impact. The cost of fuel is a large operating cost item for a generator and we can provide the coal at a competitive cost from Collie. Coal mines have a large portion of fixed costs and incremental production is produced quite cheaply.

There have been some delays in Western Power formally issuing its statement of requirements for bidders. The timing of the project is problematic but it looks like it has slipped a year.

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You forecast lower earnings from Energy this year. Would that be the case if you excluded the dragline expense and particularly if there is a price rise from 1 April 2004?

David Robb, MD Wesfarmers Energy
I'm not sure our Energy earnings would be up this year if we excluded the dragline expense. It depends on sales performance and how large the coal price increase might be in the fourth quarter. $14 million for the dragline is a large expense but industry practice is not to capitalise such items. We have four draglines in operation and will have one undergoing a planned shutdown in most years, so that's another reason to expense it.

corporatefile.com.au
Are there any implications for Wesfarmers Energy with Australian Magnesium Corporation's magnesium project falling over?

David Robb, MD Wesfarmers Energy
No.

corporatefile.com.au
Do you have any plans to get involved in coal seam methane projects?

David Robb, MD Wesfarmers Energy
I guess it's logical given we have investments in both gas and coal but coal seam methane projects are fairly problematic in my assessment and I don't see much in it for us. There aren't any strong coal seam methane opportunities at Premier, Bengalla or Curragh so it would be a complete step-out rather than an expansion of

existing projects and we're also not a natural gas retailer in the regions where it's being developed. I see it in the 'too hard' basket at the moment.

corporatefile.com.au
What opportunities are there for synergy benefits between Bengalla and Mt Pleasant next door and indeed would you even want to increase your exposures to thermal coal in the Hunter Valley if there was an opportunity?

David Robb, MD Wesfarmers Energy
Bengalla remains profitable and is a very good asset in its own right with a very low cost structure. That said, both Bengalla and Mt Pleasant would benefit from sharing some services and infrastructure. However, that topic is not just a Wesfarmers/Coal and Allied discussion because there are two other partners in the Bengalla Joint Venture as well.

If a deal can be done we'd certainly look at increasing our exposure to thermal coal. It's probably not bad timing in terms of the price cycle, although in general terms I prefer the customer relationship that exists in coking coal. Once a coking coal customer optimises their blast furnace to take a certain coking coal specification, they are reluctant to change coals and that probably leads to better price outcomes for the coal producer over time.

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Do you sell much coal into Europe?

David Robb, MD Wesfarmers Energy
No, we sell very little to Europe because freight rates mean that we need to target other markets. Our sales contracts are typically FOB and the freight rate changes are usually, initially at least, paid by the customer. Over time of course, customers expect some of that freight cost movement to be shared in terms of price negotiations.

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What sort of wage outcomes would you expect next year and what sort of productivity growth would you look for in your EBAs?

David Robb, MD Wesfarmers Energy
The wage increase will be very modest on an underlying basis and whatever productivity gains we get we'll be looking for a net benefit. I wouldn't want to put a figure on the productivity gain we're seeking at this stage.

Chemicals and Fertilisers

corporatefile.com.au
What is your market share in fertilisers? What recent gains have you made and can you outline the main competitors?

John Gillam, MD Chemicals and Fertilisers
Over the past few years we think we have lifted our market share in the Western Australian market by a couple of percentage points to around the 65% to 68%

level. We have two major competitors in the WA market, Summit Fertilisers and United Farmers. Summit is 50% owned by the Sumitomo Group and United Farmers are a local farmers' cooperative. A smaller competitor, SuperFert which has South African links, is trading more aggressively this year and WA remains a very competitive market.

corporatefile.com.au
Australian Gold Reagents has been 75% owned by Wesfarmers for quite a while. Is there any desire to take it to 100%?

John Gillam, MD Chemicals and Fertilisers
We would like to take our share up to 100% but I don't think our partner has any desire to sell. In any event, the joint venture works very well and our partner shares our focus on the opportunity to expand AGR's sodium cyanide production above 55,000 tonnes per annum, possibly over 60,000 tonnes, which we are able to do fairly easily and at a relatively low cost if sales volumes at acceptable margins can be secured.

corporatefile.com.au
Have you any sales contracts in place for the increased sodium cyanide production and if you can't deliver that production, what happens?

John Gillam, MD Chemicals and Fertilisers
At present we have a good volume of contracted customers in place mainly in Africa and South America. We did not pursue more contracted volumes until we were confident we had the production capacity to fulfill them. We are now pushing our sales effort harder because we have confidence in our production. Most of the current contract volumes kick-in in the second half of this financial year.

corporatefile.com.au
When Summit's new liquid fertiliser project comes online what sort of impact will it have in terms of product range and market share impact?

John Gillam, MD Chemicals and Fertilisers
We see Summit's attempt to move into liquid fertiliser production as defensive on their part and it is not certain at this stage that they will secure the permits they need to operate. We understand that the volume of the plant they're looking at is quite small at around 10,000 to 15,000 tonnes per annum and we see it as an attempt by them to maintain their customers by offering them a liquid alternative to urea. We are looking to push liquid fertiliser volumes up through 100,000 tonnes plus this year. Market uptake for the product may actually accelerate on the back of news of Summit's plan.

corporatefile.com.au
In view of the consolidation of the eastern states markets, what sort of opportunities do you see in terms of gaining market share in east coast fertilisers?

John Gillam, MD Chemicals and Fertilisers
We would prefer to work with the number one or the number two nutrient suppliers on the east coast by supplying them with product that we manufacture.

From our perspective, that provides the best opportunity for us to participate on the east coast and it lifts our production which lowers the unit cost of our manufacturing overhead.

corporatefile.com.au
What sort of growth rate do you expect in the liquid fertiliser markets in WA?

John Gillam, MD Chemicals and Fertilisers
We expect growth rates for liquid fertilisers to be ahead of the total fertiliser market growth rate which we think will be about 3% or 4% annually for several years. Hopefully it will not just be a case of our existing customers swapping from solid to liquid fertiliser but rather we will pick up a good proportion of new customers seeking to switch to liquids as has been the case to date.

corporatefile.com.au
What's the expected growth rate in demand for ammonium nitrate that you're expecting from the mining industry over the next few years?

John Gillam, MD Chemicals and Fertilisers
It's not really appropriate for me to comment on the expected demand rates of miners who use our product. What I can say is that they're currently asking for more ammonium nitrate than we can produce and that imports are meeting their needs. We're confident that there's good growth in ammonium nitrate as we look forward and we're seeking to participate in that.

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When do you expect Chemicals and Fertilisers to reach the Group's hurdle rate of a return on capital of 18%?

John Gillam, MD Chemicals and Fertilisers
As I have commented previously, we are hopeful of performing at the group hurdle rates in the short-term rather than the long-term. That will obviously depend upon whether or not we have any new significant capital expenditure opportunities that change our current landscape but, as we're currently configured, we'd hope to reach the hurdle rate in the near term.

Industrial and Safety

corporatefile.com.au
Can you explain the primary reasons for staff turnover and what you're doing to address it? Is it in a particular area of the business or is it across the board?

Daryn Deiley, Acting MD Industrial & Safety
As the market leader, our employees have long been targeted by our opposition because of our superior training and development programmes. We continue to develop and implement strategies to counter this and other staff turnover. We've made progress in a number of areas as well as benefiting from Wesfarmers ownership, as an employer of choice. Other initiatives like inductions, learning and development programmes, employee benefits such as share schemes have helped and we're certainly offering a lot more personal development opportunities.

Staff turnover occurs across all areas of the business but we tend to have higher churn in the lower end of our employee ranks and in the early stages of employment. So we lose more staff in the first 12 months but not so many after that.

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Can you outline your expectations for margins and the likely impact on gross profit this year? Can you talk about your pricing capabilities?

Daryn Deiley, Acting MD Industrial & Safety
Our net margin was strong last year so we always expected margins this year to be slightly down. The margin has dropped back a little although it's not substantial. We see margins continuing to increase to a level somewhere around where we finished last year.

One of the major areas we've improved is inventory management. We've beefed up the capabilities within our distribution centres to allow us to deliver more efficiently and to a wider area. Our typical shop front now keeps less than $100,000 of inventory whereas a traditional small branch would hold closer to $400,000.

Another area of focus is developing an export business. We have a number of export business development managers based in Perth, Brisbane and Sydney and a national export manager based in Sydney to oversee that strategy. We're showing some good growth in the South African market, we're maintaining a strong market in South East Asia and we're starting to penetrate markets in South America.

On the pricing front, we work very hard at keeping our expenses under control so that we can offer our customers a competitive price plus deliver some return to our bottom line. We also do a lot of work on the supply end of our business to ensure that we're buying at the best rate.

corporatefile.com.au
You mentioned that you expected margins to improve to last year's level and then level off. Would you expect that to occur during the course of the current financial year or will it take longer than that?

Daryn Deiley, Acting MD Industrial & Safety
It's always difficult coming off a flatter first quarter. We will see some improvement over this financial year, certainly in the second half as a number of the initiatives underway start to have an impact. We will be approaching last year's levels towards the end of this financial year.

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You mentioned how the Blackwood business over time has been commoditised and how you've got some opportunities in some of the more specialised areas of your business. How quickly are you expecting the specialised businesses to commoditise and will there be any pricing pressure?

Daryn Deiley, Acting MD Industrial & Safety
There are price pressures in all markets we operate in but there are certainly opportunities to deliver a better margin in the specialised businesses. It's the products rather than the businesses which become commoditised. We have a number of new brands in the specialist areas which aren't well known in the market place. That's where the opportunities lie but it could take some time to alter market loyalties. We need to expand into new segments to deliver growth over the long term and an improved brand positioning strategy is in place to do that.

Blackwoods already delivers a good margin as a result of its good spread of businesses across a number of customer demographics. Blackwoods is not a commoditised business, parts of our product range are commoditised. Blackwoods is a strong, well performing business which contributes a large share of revenue and earnings within the Industrial & Safety division.

corporatefile.com.au
You seem to have a couple of major developments on the distribution centre side. When will they be completed and when do you think you'll see some significant earnings benefits?

Daryn Deiley, Acting MD Industrial & Safety
One in Sydney is a major operation being redeveloped on the existing Smithfield site, which is the distribution centre site for Blackwoods in Sydney. That will encompass a larger and more efficient import warehouse to enable an extension to our import range. It should be completed by March next year and I expect it to deliver some inventory and margin benefits in the first quarter of next financial year.

The distribution centre in New Zealand is scheduled to be operational from 1 June 2004, as is the new Protector Alsafe distribution centre in Brisbane. The Mt Waverley relocation is to occur over the Christmas/January period and should be fully operational from 1 February 2004.

Business Development, ARG, Gresham Private Equity Fund

corporatefile.com.au
What value is Wesfarmers adding for shareholders by giving money to Gresham Private Equity fund, for someone else to manage, when we could do that ourselves?

Gene Tilbrook, Executive Director Business Development
Successful private equity funds are not necessarily available to every individual investor but the reason we went into the first Gresham fund and possibly the second if it eventuates is we see it as a way of achieving satisfactory shareholder returns. There are additional benefits such as it being a very useful part of the Gresham portfolio of funds management and our business development team being able to work with the Gresham team. We've traded ideas on investment philosophies and methodologies.

Michael Chaney, CEO Wesfarmers
We see the Gresham Private Equity Fund investment no differently to other investments such as Bengalla or ARG. These are investments where we make a financial input but which we don't control and in the case of Bengalla our share and involvement is less than in Gresham Private Equity. We are quite actively involved in the Gresham Fund through the investment committee and seconding people to them. It is a very good mix of their financial engineering skills and our evaluation skills. At a corporate level we think of everything in financial terms rather than operational terms. We are entrusted with a certain amount of funds by shareholders and our aim is simply to achieve superior TSR over time. So when we look at an opportunity like Bengalla or Gresham Private equity we ask whether this is a sensible way to use our shareholders' funds. We will make more than 25% IRR on the Gresham Private Equity investment and as a shareholder I can only say I'm glad Wesfarmers made it.

corporatefile.com.au
Could you clarify the level of commitment to and investment in Fund 1?

Gene Tilbrook, Executive Director Business Development
Wesfarmers initially committed $100 million as foundation investor; at the second close about another $100 million commitment was committed by other investors. The Fund has invested about $170 million gross, and after capital returns the net is around $145 million – so Wesfarmers' 50% is a $72 million investment. It is a closed fund with all realised funds being repaid so Fund 2 would be its successor.

corporatefile.com.au
It's been a fairly ordinary start to the ownership of the Australian Railroad Group. Is that business still experiencing problems?

Gene Tilbrook, Executive Director Business Development
We're certainly much happier than we were. The first year was encouraging but the second was unfortunate on a lot of fronts including a lack of management continuity. However, the current Chief Executive, who has extensive experience in the industry in the States, took up the role in March this year and has been doing a very good job. He is focused on achieving good returns and if the safety team and programmes can continue as successfully as they have recently, then that will take away a costly distraction for the business. So we think the business is on a much better footing and has significant potential to improve.

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What's the total tonnage hauled by ARG in an average year, split by commodity?

Gene Tilbrook, Executive Director Business Development
It's about 40 million tonnes per year in total, of which over 10 million tonnes would be grain. The next largest commodities, in the 5 to 10 million tonnes range, would be iron ore and alumina plus its related products. Next would be nickel, coal and steel.

corporatefile.com.au
With respect to ARG can you comment on the current operations on the east coast and the strategy for that area?

Gene Tilbrook, Executive Director Business Development
Operations on the east coast are limited to some inter-modal transport, with a couple of services per week by ARG through to Sydney. We could potentially lift that service if we could secure more appropriate access to loading and unloading facilities. There has also been speculation about a potential sale of Freight Australia, a Victorian rail group owned by Rail America, and we'd be interested at the right price.

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Under what circumstances would Wesfarmers make new investments offshore?

Gene Tilbrook, Executive Director Business Development
We've looked at a lot of opportunities offshore so it hasn't been for a lack of trying that we haven't made many investments. We have the gas investment in Bangladesh, in New Zealand we have industrial and safety and Lumley. We have previously looked at a major industrial chemicals investment and from time to time we've thought about taking some of our existing businesses offshore. I think a likely way that offshore activities could come about would be an acquisition that has some offshore and onshore activities. We wouldn't go offshore - it wouldn't be logically incremental - in any business where we didn't already have a good understanding in Australia.

Wesfarmers Insurance

corporatefile.com.au
Can you outline Lumley General's market share for its products within Australia and can you talk a little about the competition?

Bob Buckley, CEO Wesfarmers Insurance
In terms of market share, I don't know the actual numbers but Lumley are the leaders in commercial motor fleet management. That business is more than just an insurance product because it's the total management of fleets, which includes driver training, accident record keeping, repairs etc. I think Lumley is also the leader in engineering although that's not a particularly big part of the insurance industry.

In terms of the competition, we've found that motor vehicle insurance has been very profitable recently because of the dry roads and that has attracted competitors. The main competitors include Zurich, who is number two in the motor management field, Royal Sun Alliance, National Transport Insurance and CGU.

corporatefile.com.au
You made a comment that you're reviewing your re-insurance levels. Can you give us an idea where it may come down to?

Bob Buckley, CEO Wesfarmers Insurance
I really don't know yet because the Lumley and WFI books are very different. For example, last year WFI's re-insurance placements were lower than the previous

year because we re-insure about 60% of our exposure to crops and that product was impacted by the drought last year. So it all depends on the mix of business. I mean you could argue that Lumley General and WFI don't need any re-insurance with combined operating ratios where they are but we don't know how much premium will be ceded and we'll do some thorough modeling before we get that answer.

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What sort of revenue growth should we expect from these two insurance businesses over the next twelve months to two years?

Bob Buckley, CEO Wesfarmers Insurance
I'm not sure yet because we're still finalizing our budgets but generally I don't think you'll see a great deal of change in Lumley General Australia to the numbers they put together in their own budgets. I think Lumley will have modest growth. Revenue growth for WFI might be 10% to 12% per annum nominally and Lumley New Zealand might be 15%. Getting the businesses right is the main focus.

corporatefile.com.au
Can you describe any seasonality we could expect across the insurance division?

Bob Buckley, CEO Wesfarmers Insurance
The first quarter for WFI is normally pretty strong and the second quarter is normally variable because of our crop insurance. We don't know the results of the crop insurance until December. The final quarter is usually fairly strong.

Lumley General Australia usually has a big June because a lot of their accounts are corporate accounts with a June 30 balance date and these customers renew and pay for their premiums just before the end of the financial year. Lumley has a fairly quiet first quarter and normally the second half of the year is stronger.

Bunnings

corporatefile.com.au
You mentioned increased competition for Bunnings in the first quarter. Can you elaborate on where that's stemming from?

Peter Davis, MD Bunnings
It's mainly in the trade sector. Although we've traded off some margin to retain sales, we're not prepared to operate on significantly lower margins. I am confident that we can operate the trade area a lot more competitively.

corporatefile.com.au
Can you comment on where you are with store roll outs and whether you'll meet your target of 8 to 12 this year?

Peter Davis, MD Bunnings
I'm confident that we'll achieve a net 10 this year, after store closures. If we get to a higher level of openings it will be at the expense of another closure. Things are happening more quickly in New Zealand so I think a net 10 is very achievable.

corporatefile.com.au
Can you update progress with the BBC and Bunnings integration and why it hasn't been reflected in EBIT to the extent the market had expected? What are you doing to turn around the under-performing businesses?

Peter Davis, MD Bunnings
We have made progress in many areas. The EBIT to sales ratio has improved for the BBC stores. That's now in the 7.5% to 8% region. Our target is 10%, which is world's best practice. We should not take the first quarter results as an accurate indication for where Bunnings might end up for the full year. There were various adjustments to the business which have affected results in the first quarter and which will affect the first half results.

A number of integration issues are yet to be completed. For example, we haven't yet installed the full Bunnings range of products in the BBC stores. Bunnings and BBC were trading head to head in Victoria and there has been some transfer of sales. Within the south-eastern corridor of Melbourne, in particular, we had to make tough decisions on closing stores where they were trading only 5 kilometres apart.

Other retailers such as Woolworths and Coles Myer have commented that trading conditions in Victoria are difficult but we haven't identified a specific reason yet.

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What growth in cash sales and average transaction number did the BBC stores achieve in the first quarter?

Peter Davis, MD Bunnings
Average cash sale for the BBC stores grew by 2.1% in the first quarter, although the average transaction size for BBC stores remains $3 to $4 per transaction lower than Bunnings. We're working on improving these numbers through the refit program.

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How many of the former BBC stores have been refitted or upgraded?

Peter Davis, MD Bunnings
We have a five year plan to upgrade the stores and we're looking forward to seeing the results, particularly at Christmas. When we see those results we'll be looking at whether we should do more upgrades. We've so far refitted two BBC Hardwarehouse stores, about three traditional and about seven Bunnings stores.

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Can you comment on the strongest product category in terms of growth?

Peter Davis, MD Bunnings
Up until recently it was garden products but obviously the drought has had an impact with water restrictions. We're seeing competitively priced hand tools coming onto the market and that's a real growth area for us.

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How are you addressing the problem of shrinkage?

Peter Davis, MD Bunnings
Obviously the shrinkage numbers last year were unacceptable and we now have a significant management program to address that. We have put systems in place in a short time but it will take a couple of years to develop best practice in this area. We've visited major hardware retailers overseas to see how they cope with shrinkage and we came back with the view that we're not that far behind the market.

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Can you comment on the trend in stock turn?

Peter Davis, MD Bunnings
Stock turn this year is averaging in the low three's but it was closer to four before the Howard Smith acquisition. From an international best practice point of view we should be aiming towards low fours but it's going to take a while to get there. We've been pouring a lot of working capital into the business during this high growth stage but we recognise that we need to manage it differently now.

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Thank you.

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