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**Lodgement of Open Briefing.**

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**Title:** Open Briefing. Wesfarmers. Briefing Day Discussion

The content of this Open Briefing reflects management and analyst discussion at the Wesfarmers Briefing Day held in Sydney on Friday May 7, 2004.

**General Corporate Issues**

**corporatefile.com.au**
You recently announced that you're discontinuing quarterly reporting of financial results. How do you weigh up the issue of disclosure versus protecting shareholders' interests?

**Michael Chaney, CEO Wesfarmers**
We're here to perform in the interests of our shareholders and if we don't think that more detailed disclosure is in their interests then we won't do it. An example is where insurance companies give quite a bit more detail than we do. We've thought about adopting that approach but decided it wasn't a good idea because it would give competitors detail about our business that they can use against us. Nevertheless, we have disclosed more and more information over recent years.

**corporatefile.com.au**
If profit fell in the next year or so, would you adjust you payout ratio to maintain the level of dividends?

**Michael Chaney, CEO Wesfarmers**
Our dividend policy is determined by our ability to pay out franking credits rather than maintaining a certain payout ratio. Franking credits are more valuable in the hands of shareholders. In the past, we've paid out 100% of our profit as dividends but that was done to transfer franking credits to shareholders rather than wanting to achieve a certain payout ratio.

**corporatefile.com.au**
In the future, would you hesitate to invest in a business where you're not the manager, given your experience with ARG and Bengalla?

**Michael Chaney, CEO Wesfarmers**
We've always been more reluctant to invest where we don't manage the business. We maintain that view, although we'd still enter JVs if the returns were there. In that case, we'd apply a discount for management control.

**corporatefile.com.au**
Richard, to what extent does a CEO have the capacity to change the direction of the company? How could you do things differently?

**Richard Goyder, Finance Director Wesfarmers**
We've had a successful business model but that doesn't mean we don't challenge it from time to time. The CEO has a couple of very important tasks; one is to set direction and the second is to ensure that good people are in place. However, I think it will be business as usual and the same objectives and the way we set internal targets will remain in place. From an external viewpoint, I don't think investors will see much difference.

**corporatefile.com.au**
Can you give guidance on capex for 2005?

**Michael Chaney, CEO Wesfarmers**
We haven't finalised it yet but it will be up to $500 million. Curragh North will be a significant proportion of that. It is several hundred million dollars. After Curragh North, our annual capex will fall.

**corporatefile.com.au**
What do you regard as satisfactory EPS growth?

**Michael Chaney, CEO Wesfarmers**
We try to avoid statements on EPS targets and instead say that we want to achieve total shareholder returns (TSR) in the top 20% of Australian companies on a rolling 10 year basis. A good surrogate for TSR is ROE. If we achieve a high ROE then we're likely to achieve a high TSR. So we monitor ROEs to benchmark against other companies.

EPS targets are inconsistent with ROE targets. For example, if a company pays out all its profits as dividends and doesn't raise any capital, it will have zero EPS growth unless it has eternally increasing ROE. It's for that reason that we discontinued the practice of disclosing an EPS target. However, we have internal targets for EPS because the PE of a company is a function of growth rate perceptions and I expect our current share price will be vindicated by our future EPS growth.

**corporatefile.com.au**
Opportunities for acquisitions, how's that looking at the moment?

**CEO Michael Chaney**
We continue to sift through opportunities.  It's fair to say that most of the listed companies that we analyse seem to be highly priced and you could hardly justify paying the prices even after factoring growth potential.  We have a couple under fairly serious consideration and basically it's business as usual in that regard.

**corporatefile.com.au**
What will be the impact of the new accounting standards?

**Richard Goyder, Finance Director Wesfarmers**
We don't see any major impact apart from accounting for goodwill.  We've initiated a fairly comprehensive review to identify any areas where there will be an impact and I think we're required to list those in our next annual report.  Our current goodwill amortisation is around $80 million per annum.

**Wesfarmers Energy**

**corporatefile.com.au**
You have received a large increase in coking coal contract prices from 1 April 2004.  What caused that increase?  What is the outlook?

**David Robb, MD Wesfarmers Energy**
It was a large increase but I really don't know what future prices will do. However, the fundamentals are positive.  China has been a large influence on demand, although it's not the only influence because demand from countries such as India has also been strong.  I think we're seeing a genuine recovery in Japan and we received strong encouragement from our customers when we visited a few weeks ago.

To some extent, the short term spike in coking coal prices is a result of panic.  A number of steel mills adopted a strategy in recent times of reducing the proportion of contracted supply and were prepared to take the exposure to price shocks. That policy served them well until the market really tightened in the last year or so. Our long run view is for a real price decline.  That might not be the case in the next year or two but it's a reasonable assumption for the long term.

Curragh coal is highly regarded by customers because we're independent of the major producers and we're an open cut operation.  Many other Australian coking coal operations will go underground in the next five to ten years and that brings a greater mining risk.

**corporatefile.com.au**
What percentage of your contracted coal is not subject to the price increases from 1 April?

**Wesfarmers Energy MD David Robb**
Most of our contracts have a 1 April price reset.  However, one of our largest customers has a 1 July reset.  I'm not sure of the exact volumes but those customers (with price resets other than 1 April) would account for roughly a third of our coking coal volume.

A significant amount of Bengalla's production is contracted for the 2004 calendar year so we won't get a change in price until next year. That was contracted at a time when thermal coal prices were in the low US$20s per tonne. They're a good deal higher now.

**corporatefile.com.au**
You mentioned some additional capital costs at Curragh associated with the Curragh North mine development. Can you give some detail?

**Wesfarmers Energy MD David Robb**
I don't have an answer yet because we're still working through the numbers. For example, a conveyer is much more expensive than contractor road haulage. We'll provide the market with detail down the track.

**corporatefile.com.au**
Can you update us on the future of the LPG extraction plant post 30 June 2005? What amount of LPG will you produce in the future and what amount will you be importing to satisfy your contracts?

**Wesfarmers Energy MD David Robb**
The simple answer is I don't know. We don't really know what the future LPG content will be in the natural gas but I'm confident there'll be enough to run the extraction plant and, although the LPG content will be lower, the gas flow will be higher. We'll have enough LPG to supply the domestic market and export as we do today, however it's a seasonal or timing issue and there may be times when we have to import LPG.

There are alternative LPG sources to consider in Western Australia, including BP's Kwinana refinery. As soon as we complete all the negotiations we'll provide the market with more detail. However, it's my expectation that we will be producing post 2005, albeit at a lower level than in 2004.

**corporatefile.com.au**
Can you talk about the impact of inventory valuation movements in the third quarter and fourth quarter?

**Wesfarmers Energy MD David Robb**
Inventory valuation is multi stage and quite complex. For example, it's done when we drill, when we blast, when we remove overburden and when we have product coal in the pit, on stock piles or at the port. The first three stages are referred to as work in progress and the other three are referred to as coal stocks. We add up the movements in inventory at each of these stages to get the overall impact and that overall movement, positive or negative, is then taken to the P&L for that period. Inventory is valued by multiplying the physical amount, either bank cubic metres or tonnes, by the unit cost to produce it.

In the long run, inventory movements will balance out. So we're not overly concerned with short term inventory movements. The main game is to increase production and we've done that at Curragh and will continue to increase production by about 0.5 million tpa.

**corporatefile.com.au**
Can you give an update on your hedge book for Curragh?

**Wesfarmers Energy MD David Robb**
Our approach is to hedge about 90% of production for the current year falling to 70% in the next year, then 50%, 30% and 10% in subsequent years. The average hedge rate for Curragh in 2004/05 is 63.8¢.

**corporatefile.com.au**
What amount of coal can you produce at Premier Coal Mine if you're successful in winning new contracts for the base load power station? And what about HIsmelt?

**Wesfarmers Energy MD David Robb**
We're currently producing 3.3 to 3.4 mtpa and we can do five million tonnes with the current equipment. Additional contract tonnes will be very attractive for us if we can win new contracts.

Coal contracts with the existing HIsmelt facility would be around 700,000 tpa and that would potentially double if they did HIsmelt 2.

**CSBP**

**corporatefile.com.au**
In terms of the business overall, can you split out the return on capital employed for fertilisers and chemicals?

**John Gillam, MD CSBP**
We're not prepared to release that level of detail but our ROC for both businesses is broadly comparable and they are performing to our expectations.

**corporatefile.com.au**
Orica has announced a large expansion of its ammonium nitrate capacity and you're also looking at expanding. Can the market fully absorb the additional production?

**John Gillam, MD CSBP**
One could be excused from thinking that the market for ammonium nitrate will be lifting very dramatically given some of the recent hype surrounding the resource sector. At our JV operation with Dyno Nobel in Queensland, production is now sold out and that's a change from six months ago. Certainly, it appears that there will be good volume growth in ammonium nitrate demand as a result of the expansion projects that the major resource houses have committed to in both Western Australia and Queensland. On that front, it's an exciting time for us and we are working to determine the best option available to us to satisfy our customers by meeting this growth over the long term. In the short term we could perhaps squeeze out another 50,000 tpa of production from our WA plant but if we did that, we may leave ourselves unable to supply additional volumes down the track.

**corporatefile.com.au**
What about the ability of the NSW market to absorb the greater production of ammonium nitrate from Orica?

**John Gillam, MD CSBP**
I'm not as familiar with the NSW market as I am with Queensland and WA. Dyno Nobel currently supply around 20,000 tonnes of our WA ammonium nitrate into the Hunter Valley, but given Orica's manufacturing capabilities in NSW, Orica may be better placed to supply growth in the NSW market.

I'd just make the point that we've got a flat-ish outlook for volume growth in both our ammonium nitrate and sodium cyanide businesses until we can expand our production capacity. We would expect that to take around two years for ammonium nitrate but we are trying to position ourselves to do something early in 2005 for sodium cyanide. We will need to have major shutdowns of existing plants to complete any expansion work and these are likely to have an adverse short term impact on performance. Hopefully, we will be able to provide more details of our plans in the coming months.

**corporatefile.com.au**
You've turned the CSBP business around from two or three years ago. Has it been more an improvement in the market or is it really operational improvements? I'm trying to get a feel for whether you can sustain the current performance through the business cycle.

**John Gillam, MD CSBP**
I think it's fair to say that if we weren't able to perform well in the current business environment for chemicals then we don't deserve to be in business. Good improvements, however, have been made at the operational levels within CSBP and everyone in our business has really focussed on achieving that. We have set ambitious targets in both our commercial and operational areas and, to date, we have been hitting these targets. In terms of operational improvements an example is our Queensland JV operations where, a few years ago, it was difficult to see us producing the volumes we're now producing, but a lot of people have worked hard to lift the performance of that project. Similarly, we have worked hard to lift the performance across all of our fertilisers and chemicals operations.

**corporatefile.com.au**
One of your customers at Queensland Nitrates commented that you might not be able to supply their requirements in the coming quarter because your production is oversold. How will you deal with that situation?

**John Gillam, MD CSBP**
We originally thought that the production capacity at Queensland Nitrates would be limited to its nameplate of 180,000 tpa but we now know we can do 185,000 tpa and it is possible to expand the plant to produce more in the medium term. As at today, we have sold out production up to that 185,000 tonne level. We're also working with Dyno Nobel to import product to meet customer needs, but if a customer wants a large amount of additional volume, over and above that contracted, and gives us very little notice, then we will struggle to supply them in the short term.

**corporatefile.com.au**
What has been the recent experience with pricing for chemicals?

**John Gillam, MD CSBP**
We have long term contracts in place for most of our ammonium nitrate and ammonia supply and we try to get two to three year supply terms for sodium cyanide. With this approach, we avoid exposure to any pricing cycles as much as possible. Our recent earnings growth has been achieved more through improved volumes rather than pricing.

**corporatefile.com.au**
What contribution will Queensland Nitrates make this year?

**John Gillam, MD CSBP**
In terms of our full year results it will contribute somewhere in the 5% to 10% range of that total on an equity accounted basis.

**corporatefile.com.au**
Moving to the other part of your business, can you comment on weather conditions and how that might affect fertiliser volumes?

**John Gillam, MD CSBP**
We are on track for what would be considered a normal season break in Western Australia around about now. A couple of cold fronts will pass through WA today and in the coming days and if we get the normal weather patterns through May and June we expect volumes to be good.

**corporatefile.com.au**
Have you investigated possible alliances with any of the east coast fertiliser producers?

**John Gillam, MD CSBP**
We're interested in building our relationships with any of the major fertiliser producers in our region. For example, bulk shipping costs are currently very high and have moved heavily against importers. We are looking at various opportunities to reduce the cost of bringing raw materials or finished product into Australia and one way may be via collaborative arrangements with other major fertiliser suppliers.

**Wesfarmers Industrial and Safety**

**corporatefile.com.au**
It looks like the third quarter went well in several areas yet, when Paykels is backed out, the performance is not so strong. Given the business conditions, wouldn't you have expected to have done a little bit better than that?

**Bob Denby, MD Wesfarmers Industrial & Safety**
The Western and Northern regions performed particularly well. The Central and Southern regions were down because the manufacturing industries in parts of Victoria and NSW were quieter. The automotive industry is up, Protector Alsafe

was down across the board because of earlier merger issues and New Zealand, excluding Paykels, performed to expectations.

**corporatefile.com.au**
What's your outlook for the fourth quarter?

**Bob Denby, MD Wesfarmers Industrial & Safety**
The outlook for the fourth quarter is reasonably strong. We've put a lot of effort into the infrastructure projects, our distribution centres and our IT systems and we expect improvements to flow from those.

**corporatefile.com.au**
How do you make more money out of shopfronts than traditional distribution?

**Bob Denby, MD Wesfarmers Industrial & Safety**
Historically, we've been good in servicing our larger customers like BHP Billiton but we needed to improve the service for the smaller customers such as a 2-4 person tradesman business. We've typically been out of his reach but we now see a growing demand at the shopfronts from that size of customer. Our gross margins are also higher from those customers.

**corporatefile.com.au**
What do you expect is a realistic assumption for WIS in terms of sustainable sales growth and margin enhancement?

**Bob Denby, MD Wesfarmers Industrial & Safety**
Overall we expect steady sales growth, slightly above the CPI, while maintaining or improving margins through our import program by buying smarter.

Although it's difficult to predict because of the vast numbers, we see growth in the smaller customer base I spoke about before and, for our larger customers, we see growth in mining and infrastructure rather than manufacturing. Some of the smaller customer categories for our division such as forestry, dairy and agriculture look reasonably flat. If you factor in New Zealand on top of that where these are strong sectors for us, you can see why it's a little complicated to predict.

We currently deal with 14,000 vendors and probably about 11,000 of those vendors are small agency businesses who would be making 20-40 percent gross margins on the products we buy. By bringing in more imported product, we'll be able to improve our margins but it's hard to say by how much. We're currently at world's best practice in terms of our KPIs but there are areas of opportunity.

**corporatefile.com.au**
Can you explain how much of your business is on supply contracts?

**Bob Denby, MD Wesfarmers Industrial & Safety**
In broad terms, we have contracts with about one third of our customers, another third are on verbal agreements and about a third are on a day-to-day basis.

**corporatefile.com.au**
Can you detail the current level of stock turn and what you hope it will be in two to three years?

**Bob Denby, MD Wesfarmers Industrial & Safety**
I don't know about 2 to 3 years time but we'd like to get our stock turn up to about six. It's currently below that.

**corporatefile.com.au**
Are there any product categories where you feel you're under-represented and would like to expand?

**Bob Denby, MD Wesfarmers Industrial & Safety**
There are opportunities in mechanical services, materials handling where we're starting to see some good growth and in electrical.

**corporatefile.com.au**
Can you explain how you achieved strong earnings growth in 2003 and why you're going through a flat period now?

**Bob Denby, MD Wesfarmers Industrial & Safety**
We rationalised four or five head offices from the various successful acquisitions and mergers during 2001 and 2002. We've also been able to buy a little better so our margins have improved.

**corporatefile.com.au**
You mentioned that the market's still pretty fragmented. Are there still opportunities to make the sort of acquisitions which have helped deliver the recent earnings growth?

**Bob Denby, MD Wesfarmers Industrial & Safety**
There are different types of acquisition opportunities. One is where people approach us out of the blue. Those opportunities will always be there and we'll continue to evaluate those in conjunction with Wesfarmers Business Development. We've looked at many and have walked away from quite a few. Then there are the proactive opportunities and I'll be able to spend more time on those when we've bedded down the various infrastructure projects we currently have underway. We're close to completing most of these projects.

## Wesfarmers Business Development, ARG, Gresham Private Equity Fund

**corporatefile.com.au**
What is the current gearing level in ARG? Have you benchmarked ARG against other companies in that area?

**Gene Tilbrook, Executive Director Business Development**
It's currently geared to around 60% debt to total assets and debt to total equity would be 140% or so. We'd be prepared to go a little higher than that and still be within our ratio tests. We haven't really benchmarked ARG against other companies but there are railroad companies in the US that are more highly geared. I don't know whether that would be tenable in the longer term.

**corporatefile.com.au**
Why be in a business that is relatively small for Wesfarmers, particularly when it's in a somewhat crowded space and has taken up a lot of management time?

**Gene Tilbrook, Executive Director Business Development**
We're in ARG because we invested in it some years back in an emerging privatisation landscape. The business lost its way in early 2002 but we appointed a new Chief Executive about a year ago and we're now pleased with where the business is headed. It's a solid business with good growth prospects. It's part of an evolving industry in Australia which may go through another period of rationalisation and we hope to be a larger proportion of that industry. In the meantime we'll continue to maximise the value of the business.

**corporatefile.com.au**
Given that Gresham Private Equity Fund 2 is targeted to be much larger than Gresham Private Equity Fund 1 and will therefore be a larger investor, what will happen at the margin with potential investments that either Gresham or Wesfarmers could make? One example is Repco. Could that investment have been done differently?

**Gene Tilbrook, Executive Director Business Development**
The Repco business was at the margin. It's something that Wesfarmers would usually have looked at but we were looking at other things at the time and it was pleasing that the Gresham fund was able to pick it up.

If something similar came up we'd speak to Gresham about who would make the investment. Having said that, there have been very few opportunities falling in that middle ground. Most of the investments by Gresham have been of a private equity nature and Cashcard is a good example.

**corporatefile.com.au**
What sorts of things are you looking at in energy and other mining areas like nickel?

**Gene Tilbrook, Executive Director Business Development**
We've looked at some of the earlier, large privatisations in energy, and recent re-sales. Our interest was in some of the individual assets in those portfolios. Metals would be a completely new area to get into although it has similarities with coal mining. Some of the metals industries are very volatile and they trade at high PEs. Metals companies can raise capital at fairly low cost and that's one of the reasons that few opportunities have come up for us. We wouldn't rule it out but it's not an area we spend much time on.

**corporatefile.com.au**
Given that Pacific Brands is something you looked at investing in but which ultimately was taken up by another private equity fund, what does it say about Wesfarmers' investment criteria versus a private equity fund? Also, how overall do you measure the performance of the private equity?

**Gene Tilbrook, Executive Director Business Development**
Pacific Brands is possibly one that we may have done differently. Our valuation was not far off the price for which it sold but it was a month and half after we'd settled Howard Smith and we were busy at the time.

Private equity for Wesfarmers is a way of achieving a satisfactory return for shareholders. We're very pleased that we're in this business based on the returns of Fund 1. Richard Goyder and I sit on the investment committee at Gresham Private Equity. That brings value to Gresham but it also enhances my understanding of various ways of looking at investments that we can apply within Business Development.

**corporatefile.com.au**
Can you give some background on the five investments in Fund 1?

**Gene Tilbrook, Executive Director Business Development**
The first one is EROC, a mining and infrastructure contractor that was acquired when Peabody Australia was sold to Coal and Allied. It has some major contracts in various mining centres in Australia. It has fairly volatile margins.

Norcros is a UK group. We co-invested with a large private equity house and our holding is less than 10%. This was a buy and break up plan but the assets haven't yet achieved what we thought they would be worth.

Riviera manufactures cruisers at the Gold Coast. It's performing well and has good growth prospects. It's moved into the larger cruiser market recently.

We have a small percentage in Virgin Active which has a chain of health clubs in the UK, South Africa and, increasingly, in Southern Europe. These health clubs are performing ahead of plan and target the high value end of that market.

Raywood produces taxi and vehicle fleet control systems. It has a number of contracts in the US and Europe. This investment has been written down but we think it will have a reasonable outcome.

We expect to exit these investments over the next three to four years, in line with the original target of the Fund, to realise all investments within ten years.

**Wesfarmers Insurance**

**corporatefile.com.au**
When you say the insurance cycle has peaked, what does that mean for your business? What is your strategy for when the market toughens?

**Bob Buckley, MD Wesfarmers Insurance**
We could still reach our target 20% return on capital even if prices fell significantly but if our quality accounts come under attack, then we'll probably match the new premiums. That's providing premiums don't fall to ridiculous levels. We would also possibly become a little more aggressive in response to competitors and target some of their clients. Alternatively, the best thing to do in tougher times would be to maintain our margins and improve our service.

It will depend on how severe the price competition becomes. I don't think we will see the crazy premium levels of the past because we've got to expect claims to stay at current levels. The industry wants to avoid loss ratios blowing out because that's one of the calculations in the capital ratio and you have to put more capital in if loss ratios blow out.

**corporatefile.com.au**
So are you expecting no growth in gross written premiums in the next two years?

**Bob Buckley, MD Wesfarmers Insurance**
What I'm saying is that it will be harder to grow. It won't be the case across all our businesses but growth overall will be modest and there will also be some reduced premiums to make up.

**corporatefile.com.au**
What retention ratio do you expect across the business?

**Bob Buckley, MD Wesfarmers Insurance**
I can't comment across the whole division but WFI's retention rate is 92% of all policies. That's very high and I think it would be quite a bit lower in the broker business, which is probably down in the 80s but I don't have those numbers.

**corporatefile.com.au**
You're saying that gross written premiums might be under a bit of pressure. Will that be more than offset by a reduction in your reinsurance levels? Can total earnings from the business still grow even though premiums might come down?

**Bob Buckley, MD Wesfarmers Insurance**
There's potential for EBITA growth by saving in the levels of reinsurance that we're paying away but we haven't done the sums yet.

**corporatefile.com.au**
Can you confirm your maximum net exposure to any single event within Australia?

**Bob Buckley, MD Wesfarmers Insurance**
The main exposure for Lumley General Australia is either wind, storm or earthquake in Sydney and we buy some catastrophe reinsurance for that. I think we keep $1.5 million net. WFI has its major exposure in Perth. We buy catastrophe cover to protect either wind, storm or cyclone damage and we retain $1.75 million net there. I think New Zealand is about $1.5 million or a little lower. These are all carefully modelled and the amount of reinsurance is purchased based on several possible outcomes.

**Bunnings**

**corporatefile.com.au**
Am I right in assuming that sales margins will be flat going forward and that sales volume will provide the earnings growth?

**Peter Davis, MD Bunnings**
We see an EBITA/Sales Ratio of around 10% going forward. It has averaged 10.3% in the year to date. We could be opportunistic and drive that up a little but I'd have concerns in maintaining a higher level as a longer term strategy because of the competitive environment. I want to make sure that our business is strong in the longer term.

**corporatefile.com.au**
What are the limitations in your inventory control systems and why are you looking at putting in a new system in the next two or three years?

**Peter Davis, MD Bunnings**
The doubling of our business through the Howard Smith acquisition has really stretched our inventory systems. Any company in retail or even trade distribution needs to have the best technology in that area and there have been many improvements in the last five years. We've got a little bit of catching up to do.

**corporatefile.com.au**
How much will a new system cost?

**Peter Davis, MD Bunnings**
In the vicinity of $20 million to $40 million.

**corporatefile.com.au**
Over the last couple of years, you've been disappointed with shrinkage. What is the latest statistic on that?

**Peter Davis, MD Bunnings**
It has fallen but we haven't done a stock take at all the stores. We'll do that over the next few months. The initial results are quite pleasing.

**corporatefile.com.au**
What is world's best practice for shrinkage? What's the current number for Bunnings?

**Peter Davis, MD Bunnings**
1.5% is world's best practice for companies running an average cost inventory system. It was around 2% a few years back. Shrinkage for Bunnings is currently greater than 2%. It increased after we introduced the warehouse stores and again after the BBC acquisition.

**corporatefile.com.au**
What do the latest figures say about sales growth in the retail industry?

**Peter Davis, MD Bunnings**
The industry figures indicate that the market is slowing. Our figures agree with that assessment but we think we can do better than the industry numbers.

**corporatefile.com.au**
You've stated that Bunnings has a cost structure that's not appropriate for trade sales. Can you explain that?

**Peter Davis, MD Bunnings**
What I meant is we'd probably configure each store differently if we didn't have trade sales which require a certain layout. We see a possible opportunity to reconfigure stores and drive retail sales more efficiently.

**corporatefile.com.au**
What is your recent experience with bad debts? What provision do you have for bad debts?

**Peter Davis, MD Bunnings**
We monitor that issue closely. Our bad debt history is quite low compared with the industry. We have a provision for bad debts of less than 1%.

**corporatefile.com.au**
What's the current stock turn and what's your target?

**Peter Davis, MD Bunnings**
Stock turn is currently in the low 3s and our target is high 3s or low 4s. It was mid 3s prior to the acquisition.

**corporatefile.com.au**
You've said you want to renovate about 10% of your stores annually. What does it cost for each renovation?

**Peter Davis, MD Bunnings**
It differs quite a lot depending on the store. In broad terms, about $1 million in renovation costs can be expensed through the P&L and, on top of that, it's between $1 million to $2.4 million in capital expenditure.

**corporatefile.com.au**
At what stage are you with rationalising the traditional stores?

**Peter Davis, MD Bunnings**
Our five year plan has the number of traditional stores reducing from the current 86 to about 50 at the end of that period. The rate of closure of traditional stores is slowing. That's good because closing a store is probably harder than opening one and it takes up a lot of management time. We're starting to get the focus back on the core business.

**corporatefile.com.au**
What's the recent experience with basket size per customer? What's the current differential between Bunnings and BBC?

**Peter Davis, MD Bunnings**
Cash sales are averaging about $40 per customer – up about 2.5% - and the differential between Bunnings and the BBC stores is about $3.

**corporatefile.com.au**
Can you elaborate on the situation in Victoria and how you might improve that market segment?

**Peter Davis, MD Bunnings**
Our sales growth in Victoria for the quarter was almost half that of the other states. We're reviewing our whole strategy for Victoria at the moment including merchandising and advertising.

**corporatefile.com.au**
Have the Hardwarehouse stores closed the gap in average sales turnover relative to the Bunnings stores? You expected them to average $22 million within about three years from the acquisition.

**Peter Davis, MD Bunnings**
They've got there a little quicker than that. Hardwarehouse stores in NSW are averaging more than $22 million.

**corporatefile.com.au**
What threat does the Mitre 10 business pose to Bunnings?

**Peter Davis, MD Bunnings**
We're going to protect our company's market share and make significant investments in the markets that they open in. It will be quite a small investment for us to protect our market share but it will be a large investment for them to gain market share. We have detailed plans on how we aim to protect our market share.

**corporatefile.com.au**
Thank you.

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