WESFARMERS LIMITED
CHAIRMAN'S ADDRESS - ANNUAL GENERAL MEETING 1998

Ladies and gentlemen and special guests.

I hope you enjoyed the 1998 video presentation and that it helped develop your understanding of the Wesfarmers group.

Results

It is very gratifying to be able to stand before you today and again report a record profit result for your company.

As you will all have read in this year's annual report and noted from the video presentation, Wesfarmers' operating profit after tax in 1997/98 was $166 million.

This represented a very satisfactory increase of 18 per cent on the $141 million earned in 1997.

The strong performance in 1997/98 is particularly pleasing because it occurred in a period of growing economic uncertainty, particularly in the Asian region.

Although this world-wide instability has had some impact on the Australian business sectors in which we operate, the underlying strength of the Wesfarmers group and the success of the business strategies that have been pursued over the past few years are reflected in the strong results that have been achieved.

The increased profits in 1997/98 arose from improved performances in the group's hardware retailing, coal mining, gas distribution, rural services and road transport business and a fall in interest rates.

Lower profits were earned in the fertiliser, chemicals and timber businesses as a result of margin reductions due to increased competition.

I will not cover the 1997/98 result in more detail than that because it has been adequately covered in the annual report and company video.

The year was, however, notable for a number of significant achievements which I would like to mention. I shall then talk about our growth strategies, our results for the first quarter of 1998/99 and the outlook for the remainder of the year.

Bunnings warehouses

The Bunnings hardware retailing business performed strongly last year, marked by a 65 per cent increase in sales through warehouse stores.

The Bunnings warehouse format is now well developed with a proven record of success. For those of you who have not yet done so, a visit to one of our warehouses at Maddington, south of the river, or Joondalup or Balcatta in the northern suburbs is well worth the shopping experience.

Customers have supported the strategy, with warehouse stores, nationally, accounting for a steadily growing share of annual sales.

At 30 June Bunnings had 17 operating warehouses – a number which is expected to increase to 32 by the end of 1999 and up to 70 by the end of 2001.

The growing level of investment in land and buildings led the company to launch, during the year, the Bunnings Warehouse Property Trust; an initiative taken to separate the operational and property aspects of the Bunnings hardware business.

The Trust's initial portfolio comprising 20 properties is geographically spread over four States and the Australian Capital Territories. Additional properties will be acquired by the Trust as the Bunnings national warehouse expansion programme gains momentum.

The float of the Trust on the Australian Stock Exchange in September has provided Wesfarmers shareholders and other investors with an opportunity to share directly in a secure rental stream and the long-term appreciation of these properties.

This was a very successful launch. It was gratifying to see the units open on the market at $1.06 and trade up to $1.11 during the first few weeks of listing.

A number of other projects were initiated by the company in 1997/98. These included:

- In November 1997, the announcement of a $235 million joint venture project with Dyno Nobel Asia Pacific to develop an ammonia plant at Moura in Queensland.

  This facility – due for completion in late 1999 – will be capable of producing 180,000 tonnes of product per annum, mainly for supply to BHP's coal operations in the Bowen Basin in Queensland.

  This project represents a logical expansion opportunity for the Wesfarmers group. The company – through its Wesfarmers CSBP subsidiary – already operates ammonia and ammonium nitrate plants at Kwinana and this expansion into eastern Australia combines the expertise of Wesfarmers with that of Dyno Nobel.

- In April 1998, the State Government of Western Australian awarded the company – in conjunction with Marubeni Corporation – a mandate to conduct a feasibility study covering the development of stage two of the Ord River irrigation area.

  This project could involve the investment of up to $300 million to develop a 400,000 tonne per annum sugar industry.

  The feasibility study will take 18 months to complete and we shall have more to report on this project at next year's meeting.

- In June 1998, Wesfarmers Dalgety formed a joint venture with Elders to merge their national wool handling operations.

  The joint venture company – operating as Australian Wool Handlers – will provide handling and warehousing facilities and a wide range of services to buyers and exporters.

  Our Wesfarmers Dalgety people are quite excited about this joint venture which represents a major step forward in introducing handling efficiencies in the Australian wool industry.

- On the disposals side, during the year the company sold its chain of Charlie Carter supermarket stores to the Coles Myer group of companies and its electrical/furniture stores trading as Archie Martin Vox to the Harvey Norman group.

> Wesfarmers has been in the country supermarket business for over 30 years and for most of that time it has operated satisfactorily.
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> In recent years, however, the expansion of larger chains and their ability to invest in new technology has made it harder for small chains to compete with the pricing and levels of service that supermarket customers have come to expect.

I have mentioned some of the expansions that have been initiated in 1997/98.

There are other longer-term projects which I described last year and are yet to come on stream.

For instance, in the year 2000, group earnings will benefit from the $150 million ammonia plant being built by Wesfarmers CSBP at Kwinana.

There is also the contract to supply 1.2 million tonnes of coal per annum to Western Power for the new Collie Power Station commencing next July. Revenue will begin to flow from the Bengalla coal project in the Hunter Valley in New South Wales in about April 1999.

During the last year a number of other expansion opportunities were evaluated by the company.

These included an evaluation of the possible purchase of the Dampier to Bunbury gas pipeline and – more recently – a takeover bid for SGIO Insurance Limited. Neither of these investments proceeded because the price was higher than we were prepared to pay. In the case of SGIO, we made a useful $15 million profit on the transaction by selling our 15 per cent shareholding to the higher bidder.

We have a strongly held belief at Wesfarmers that it is no use making new investments if you pay too much for them – to do so would be totally inconsistent with our primary objective to provide a satisfactory return to shareholders.

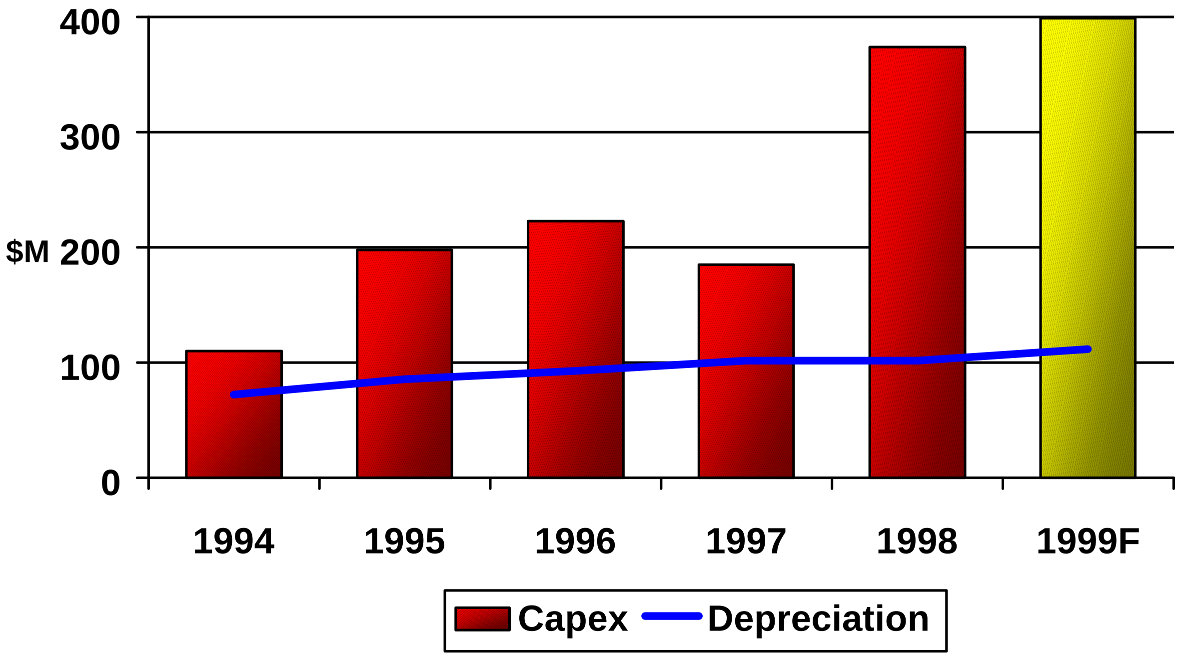
Our strategies for growth are quite simple; namely to improve the efficiency of existing businesses, expand those businesses as opportunities are identified and invest in new businesses.

There is nothing spectacular about that. I think it is just a common sense way to run a diversified business. Nobody can predict what the future holds, in many respects; and we believe that if we continue to seek improved efficiency in our businesses and look for new opportunities on many fronts, our shareholders will do well.

Some of the expansion opportunities we look at generate a fair bit of publicity – things like SGIO and ICI and Perth Airport – but many of the new investments that are actually taking place tend to go unnoticed.

In this regard it is very instructive to look at how the group's level of capital expenditure over recent years compares with its depreciation charge. Depreciation, as you would know, gives you an idea of the level of capital expenditure you would need, to replace existing assets as they wear out.

Capital Expenditure



This graph illustrates those two figures for each of the last five years plus the current year. Annual capital expenditure is shown by the bars and depreciation by the line.

As you can see, our capital expenditure has been well above replacement capital levels. The new capital has been spent on projects like the ammonium nitrate plant, Bunnings warehouses, coal mines in Western Australia and New South Wales and tree plantations. These are all strong investment projects which generate new jobs in the economy and dividends for shareholders. Importantly they do not involve the payment of any goodwill because they are grass roots investments.

Over that six year period, capital expenditure has totalled about 1.5 billion dollars while depreciation has been half a billion dollars. So there is a billion dollars of new capital poised to generate returns for shareholders.

This level of expenditure is unprecedented in our company's history.

The strategies employed in Wesfarmers have been very successful over the years since we listed in 1984 and the company, as you would know, has been one of Australia's top performers.

The key to this success has been the high calibre of our employees and, on behalf of all shareholders, I thank them for their efforts.

Before turning to the first quarter results I would like to acknowledge the contribution of two directors who retired during the year and welcome two who joined us. Mr Stan Glassford and Mr John Lussick retired in April after long associations with the company.

I would like formally to record the sincere appreciation of the board and – indeed – of all shareholders of the valuable contributions made by these directors over the past 14 years. During this time the market capitalisation of Wesfarmers rose from $25 million to around $3 billion.

I also take this opportunity to welcome Mr Trevor Flügge and Mr James Graham who joined the board in May.

Mr Flügge has an extensive farming and agricultural background and has been a member of the Australian Wheat Board since 1984. He was appointed chairman of the Australian Wheat Board in 1995, a position he still holds.

Mr Graham has had an active involvement in the growth of Wesfarmers since 1977 in his roles as a financial adviser to the group.

Both these new directors bring valuable experience to the board.

First quarter results

Now, I would like to turn my attention briefly to the Wesfarmers trading results for the first quarter of the current year.

I am pleased to report that in the three months ended 30 September 1998, profit after tax was up 10.5 per cent to $31.4 million on sales revenue which increased slightly from $589 million to $592 million.

In addition to the profit of $31.4 million which I just mentioned, the group also recorded an abnormal profit of $11.8 million in the first quarter. This abnormal profit arose from the sale of retail properties to the Bunnings Warehouse Property Trust which was floated on the Australian Stock Exchange in September.

Combined, the operating profit after tax and abnormal items was $43.2 million which was 52 per cent higher than last year's figure for the first quarter.

One of the highlights of the first three months was the Bunnings hardware merchandising business which recorded sales revenue which was 27 per cent above the first quarter last year. Most of this increase was attributable to the expanding national chain of Bunnings warehouses which I have referred to earlier in this address.

Our other businesses – gas and coal, fertilisers and chemicals and rural – have all made solid contributions to the result.

So, as you can see, we are off to another good start this year and we are budgeting for an increased profit for the full year. In the annual report we set out in some detail our expectations for the next year and at this stage we have no reason to amend those comments.

As we stated in the report, the comments on outlook were made on the assumption that Australia continues to achieve positive economic growth and obviously any exacerbation of the world's financial woes could affect us too. In any event we are well placed to weather a world downturn. The group's level of debt is low and our businesses generate strong cash flows.

In the longer term I am sure that the investment programme we are currently undertaking will enable our profits and dividends to grow.

Thank you for your attention.