



Wesfarmers

2001 ANNUAL REPORT

looking to the future



**COVER**

**back** - Wayne Enriquez, Graduate Accountant, Wesfarmers Limited

**left** - M'laini Louvel, Sales Assistant, Kleenheat Gas

**right** - Ben Cooper, Territory Sales Manager, Wesfarmers Landmark

**middle** - Terry Cloughessy, Mechanical Fitter, Wesfarmers CSBP

**front** - Anita DeSousa, Events Organiser, Bunnings warehouse



**far left** - Tahni Bricknell, team member, Bunnings warehouse

**left** - Michael Yap, Shift Supervisor, Wesfarmers LPG

**above** - Michael Lockwood-Hall, Operator, Wesfarmers CSBP

**right** - John Kevin, Wesfarmers Landmark franchise holder

**far right** - Amanda Dawson-Evenhuis, Surveyor/Environmental Engineer, Curragh Coal

**We are at** an exciting time in Wesfarmers' development. Our new simplified ownership structure is now in place, our businesses are performing well and we are ready to take advantage of the many opportunities ahead of us. In every sense, we are excited about the future.



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**Company Profile** - With operating revenue of \$4.4 billion and profits exceeding a quarter of a billion dollars, Wesfarmers is one of Australia's largest public companies.

Headquartered in Perth, Western Australia, the company measures its success in terms of shareholder returns and strives to be ranked with the leading performers among Australia's listed companies.

The company is proud of its origin in 1914 as a Western Australian farmers' co-operative - a history that forged strong links with the rural community. While building on these links, Wesfarmers has diversified over the past decade, greatly broadening its business and geographical base.

Today, Wesfarmers has interests in coal mining; gas processing and distribution; retailing of home and garden improvement products and building materials; provision

of rural merchandise, services and insurance; fertilisers and chemicals manufacture; industrial and safety product distribution; road and rail transport; and forest products.

Wesfarmers operates mainly in Australia and New Zealand and has significant export markets.

Since its public listing in 1984, Wesfarmers has recorded strong growth in assets and profits. At June 2001, the group employed about 11,300 people full-time and a further 3,800 on a part-time or casual basis. The acquisition of the Howard Smith group completed after the year-end has increased total employee numbers to around 27,000.

With a clear focus on shareholder value, Wesfarmers is actively expanding its existing businesses and assessing new opportunities throughout Australia and overseas.

## DIRECTORY

**Wesfarmers Limited**  
A.B.N. 28 008 984 049

### Executive directors

M A Chaney, Managing Director and  
Chief Executive Officer  
E Fraunschiel, Finance Director

### Non-executive directors

C H Perkins, A.O., Chairman  
K P Hogan, O.A.M., Deputy Chairman  
D J Asimus, A.O.  
T R Eastwood, A.M.  
T J Flügge, A.O.  
L A Giglia  
J P Graham  
R D Lester  
D E W Nuttall  
J M Paterson  
D C White

### Company Secretary

J C Gillam

### Audit committee

D C White, Chairman of the committee  
L A Giglia  
R D Lester  
D E W Nuttall

### Registered office

11th Floor, Wesfarmers House  
40 The Esplanade  
Perth, Western Australia 6000  
Telephone: (08) 9327 4211  
Facsimile: (08) 9327 4216

[www.wesfarmers.com.au](http://www.wesfarmers.com.au)



# Wesfarmers' objective

**The primary objective of Wesfarmers Limited is to provide a satisfactory return to shareholders. The company aims to achieve this by:**

- satisfying the needs of customers through the provision of goods and services on a competitive and professional basis;
- providing a fulfilling and safe working environment for employees, rewarding good performance and providing opportunities for advancement;
- contributing to the growth and prosperity of Australia by conducting existing operations in an efficient manner and by searching out opportunities for expansion;
- responding to the attitudes and expectations of the communities in which the company operates and placing strong emphasis on achieving sustainable development and protection of the environment; and
- acting with integrity and honesty in dealings both inside and outside the company.

## ANNUAL GENERAL MEETING

The 20th annual general meeting of Wesfarmers Limited will be held at the Hyatt Regency Perth, 99 Adelaide Terrace, Perth on Monday 5 November 2001 at 2.00 pm

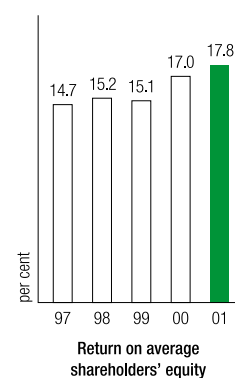
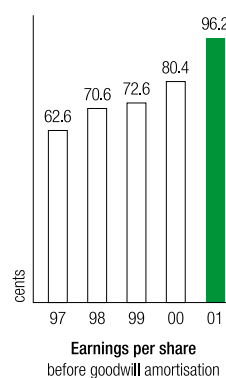
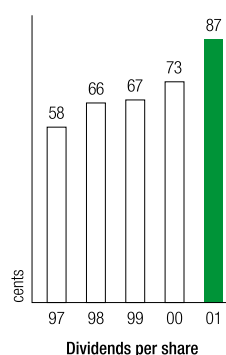
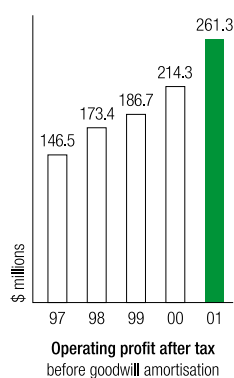
72,000 copies of this annual report have been produced at a cost of about \$2.10 per copy

## FINANCIAL CALENDAR

|  |                 |
|--|-----------------|
| Final dividend payment, 60 cents per share                   | 25 October 2001 |
| Annual general meeting and quarterly announcement of results | 5 November 2001 |
| Half-year results and interim dividend announcement          | February 2002   |
| Half-year results summary mailed to shareholders             | March 2002      |
| Interim dividend payment                                     | April 2002      |
| Quarterly announcement of results                            | May 2002        |
| Full-year results and final dividend announcement            | August 2002     |
| Annual report mailed to shareholders                         | October 2002    |
| Final dividend payment                                       | October 2002    |
| Annual general meeting and quarterly announcement of results | November 2002   |

## highlights of the year

- operating profit after tax **up 21 per cent** to \$251 million (up 29 per cent before 1999/2000's abnormal items)
- successful **completion** of the Ownership Simplification Plan
- creation of Wesfarmers Landmark following the **acquisition** of IAMA Limited and the **merger** of the Wesfarmers Dalgety and IAMA rural operations
- 50 per cent **investment** in Australian Railroad Group venture
- the Howard Smith **takeover** bid, which was successfully completed subsequent to the year-end
- strong **growth** in energy business returns as a result of the Curragh coal mine acquisition
- continued **expansion** of the Bunnings warehouse business
- return on average shareholders' equity **increased** to 17.8 per cent



## FINANCIAL OVERVIEW

|   |       | 2001  | 2000  | % Change |
|---|-------|-------|-------|----------|
| Operating revenue                                       | \$m   | 4,389 | 3,480 | +26.1    |
| Operating profit before interest and tax                | \$m   | 424   | 320   | +32.5    |
| Operating profit after tax before goodwill amortisation | \$m   | 261   | 214   | +22.0    |
| Operating profit after tax                              | \$m   | 251   | 207   | +21.2    |
| Dividends   | \$m   | 245   | 193   | +27.2    |
| Total assets  | \$m   | 4,004 | 3,169 | +26.3    |
| Net borrowings  | \$m   | 1,026 | 829   | +23.8    |
| Shareholders' equity                                    | \$m   | 1,618 | 1,231 | +31.4    |
| Capital expenditure on property, plant and equipment    | \$m   | 243   | 189   | +28.6    |
| Depreciation and amortisation                           | \$m   | 164   | 125   | +31.2    |
| Earnings per share before goodwill amortisation         | cents | 96.2  | 80.4  | +19.7    |
| Dividends per share                                     | cents | 87    | 73    | +19.2    |
| Net tangible assets per share                           | \$    | 4.61  | 4.13  | +11.6    |
| Cash flow per share                                     | \$    | 1.53  | 1.25  | +22.7    |
| Return on average shareholders' equity                  | %     | 17.8  | 17.0  |          |
| Gearing (net debt to equity)                            | %     | 63.4  | 67.3  |          |
| Net interest cover (cash basis)                         | times | 10.9  | 18.9  |          |

## CREATING WEALTH AND ADDING VALUE

|  | 2001  | 2000  |
|--|-------|-------|
|  | \$m   | \$m   |
| Wealth creation  |       |       |
| Total operating revenue  | 4,389 | 3,480 |
| Total cost of materials, goods and services and other external costs             | 3,156 | 2,509 |
| Total value-added, representing the wealth created by Wesfarmers                 | 1,233 | 971   |
| This created wealth was shared as follows:                                       |       |       |
| - to employees as salaries, wages and other benefits                             | 515   | 420   |
| - to governments as income tax, royalties and other taxes                        | 233   | 186   |
| - to lenders on borrowed funds   | 69    | 32    |
| - to shareholders as dividends on their investment                               | 246   | 194   |
| - reinvested in the business as depreciation, amortisation and retained earnings | 170   | 139   |

## dear shareholder,

*On behalf of the board, I am pleased to present the Wesfarmers 2001 annual report.*

*The 2000/2001 year was an excellent one for your company. In addition to reporting record revenues and profits, Wesfarmers' shareholding structure was simplified and a number of important acquisitions were made.*

*The factors behind the improved operating results are described in more detail in the review by the Managing Director, Michael Chaney, and the business unit reports in the following pages. I encourage you to read those reports.*

*On the acquisitions front, the listed company IAMA Limited became part of the group in February and was subsequently merged with Wesfarmers Dalgety to create Wesfarmers Landmark.*

*In December Wesfarmers acquired a 50 per cent interest in the Australian Railroad Group, operating in Western Australia and South Australia. The Curragh coal mine, acquired in June 2000, performed strongly during its first year under Wesfarmers ownership and provided a major proportion of the increase in energy business earnings.*

*The takeover of Howard Smith Limited, completed after the close of the financial year, will result in substantial growth in the group's hardware business in future years and will bring a significant industrial and safety product distribution business into the group.*

*Most significantly, the successful completion of the company's Ownership Simplification Plan marked the conclusion of the transition of Wesfarmers from a farmers' co-operative to a broadly based public company. The complexities of this restructuring were significant and it was gratifying that all stakeholders gave it such overwhelming support.*

*A fully-franked final dividend of 60 cents per share (last year 48 cents per share) has been declared. This lifts the full-year distribution to 87 cents per share compared to last year's 73 cents per share and represents a payout ratio of 98 per cent of after tax profit. The company's Dividend Investment Plan will operate for the final 2001 dividend, with the price for new Wesfarmers shares issued under the plan set at a 2.5 per cent discount to the market price, the same as last year.*

*One of the great strengths of the group is the high quality of our employees at all levels. On behalf of the board, I thank them all for their untiring efforts, commitment and loyalty, and acknowledge the important part the group's employees have played in achieving these outstanding results.*

*Yours sincerely*



**HARRY PERKINS AO**  
Chairman



Harry Perkins, Chairman

## a record year with strong growth anticipated



Michael Chaney, Managing Director

### IN BRIEF

- A record performance with strong revenue and earnings growth budgeted for 2002
- Wesfarmers remains one of Australia's top performing companies
- Continued focus on primary objective key to Wesfarmers' success
- Successful growth will come from innovation across the group

Wesfarmers achieved another record performance in 2000/2001, with operating profit after tax reaching \$251 million. This represented an effective increase of 29 per cent on the 2000 financial year reported profit before abnormal items of \$194 million and an increase of 21 per cent on last year's profit after abnormal items of \$207 million.

Earnings per share (before goodwill amortisation) of 96.2 cents increased by 27 per cent from the comparable figure of 75.7 cents last year.

Total operating revenue of \$4.4 billion was 26 per cent above last year's \$3.5 billion. All of Wesfarmers' major business segments recorded increased earnings and revenues.

The group's energy business achieved substantial growth during the year. Major factors in this were the inclusion of the Queensland Curragh coal mining operation for the first time following its acquisition in June 2000 and a continued lift in production at the New South Wales Bengalla coal mining operation as it moved into its second full year of operations.

The Bunnings national hardware retailing business continued to grow strongly. A further eight warehouses were opened, expanding the company's national chain to 47 at the end of June 2001. Sales revenue and earnings increased despite an uncertain retail outlook and the pull-forward of revenues into the final quarter of the previous year due to the then imminent introduction of the Goods and Services Tax.

The profit turnaround achieved by the rural and insurance business in 1999/2000 continued into 2000/2001 with good growth in earnings and revenues. Operating revenue increased across all areas of activity except real estate, with a substantial lift in merchandise sales reflecting the contribution from the recently acquired IAMA business. The Wesfarmers Federation Insurance business achieved impressive growth in premium income and earnings.

Revenue and earnings from the group's fertilisers and chemicals business increased over the previous year but were below expectations. Fertiliser sales



**“The record operating profit result and higher cash flows from operating activities enabled the company to maintain its financial strength.”**

volumes were lower than in financial year 2000 as a result of one of the driest seasons on record. A six week failure in the new ammonia plant at Kwinana in Western Australia in the first half of the financial year adversely impacted chemicals earnings, as did commissioning problems at the Queensland nitrates plant.

Sotico forest products recorded reduced revenue and earnings due to the sale of its woodchipping and plantations businesses at the beginning of October 2000 and the depressed housing market. A proposal was put to the Western Australian Government in the latter part of the year regarding plans to restructure the industry. These will result in further rationalisation of the Sotico business.

In December 2000, the group expanded its interests in transport with an investment in the 50 per cent owned Australian Railroad Group, which comprises the South Australian and Western Australian rail freight businesses. This investment made a positive contribution in line with expectations. The group's road transport business performed satisfactorily in a difficult trading environment.



#### **Financial position**

The record operating profit result and higher cash flows from operating activities enabled the company to maintain its financial strength. Cash flow per share of \$1.53 was 23 per cent higher than last year's \$1.24.

Cash outflows on capital items and acquisitions of \$541 million (up from \$426 million last year) included the purchase of all the shares in IAMA Limited, the investment in the Australian Railroad Group and a final payment on the Curragh coal acquisition. General capital expenditure on property, plant and equipment was \$196 million, a slight increase from \$189 million last year.

A placement of 11 million ordinary Wesfarmers shares at a price of \$19.00, raising \$209 million, was completed in February 2001.

The net effect of these cash flows was a decrease in the group's ratio of net debt to equity from 67.3 per cent last year to 63.4 per cent at 30 June 2001, within the target range of 40-65 per cent.

Net interest cover on a cash basis of 10.9 times was less than last year's 18.9 times but remains well above the group's minimum target of four times.

“As a result of the successful completion of the Howard Smith acquisition, **revenue and earnings from Bunnings** will increase significantly upon integration of its hardware operations with those of BBC.”



**top left** - Warwick Nightingale and Matthew Hallam, Wesfarmers Landmark Sales Agronomists, at a trial demonstration site, near Junee, NSW  
**left** - Wesfarmers LPG plant expansion, Kwinana, WA

### Growth of the Business

Since it listed on the Stock Exchange in 1984 Wesfarmers has been one of Australia's top performing companies. Its market capitalisation has increased from \$80 million on the day of listing to over \$9 billion today.

This growth has been achieved without the board or management, at any time, expressing any size aspirations for the group. Rather, the company's primary objective has been expressed as providing a satisfactory return to shareholders; that is a return on investment rather than an absolute level of profit.

Looking back over that time it is apparent that Wesfarmers' success has resulted from a number of fairly simple actions, namely:

- running the businesses more efficiently, with a "Best Practice" philosophy, and generating increased amounts of cash from them;
- hiring the best people available;
- developing a set of management systems which had a common shareholder focus;
- developing a set of valuation principles and not departing from them;
- utilising the increased cash and skilled people to take advantage of opportunities as they emerged; and
- using the management systems to improve the performance of newly acquired businesses.

These are the principles on which the company's future development will be based.

There are several challenges involved with such a growth strategy. The first is uncovering sufficient opportunities in which the numbers add up. Our approach to this has been to resource the group with a relatively large number of business analysts and to engage in a broad scan of opportunities.

In most cases the investments evaluated do not come to fruition, but in some, for example Western Collieries, Bunnings and the Australian Railroad Group, the result has been the acquisition of an entirely new business. Those, in turn, lead to new expansion opportunities in that industry – Bengalla and Curragh coal and Howard Smith being cases in point.

As the group gets larger, so the number of expansion opportunities seems to grow and at the present time our business development team and other corporate services groups are busier than ever.

The second challenge is to maintain strict financial disciplines in the face of external pressures to grow faster or to grow in a certain direction or to dispose of businesses which appear mature.

In our experience, a good business becomes a bad business when you pay too much for it, and businesses which seem to be "mature" often sprout new, related investment opportunities after a period of dormancy.

The key to growing successfully continues to be innovation – developing new products or new processes, expanding into new markets or into new businesses. Our aim is to ensure that a culture of innovation continues to characterise the Wesfarmers group.



“The incidence of work-related injury continued to decline in almost all group activities during 2000/2001. **Achieving a safer working environment has been a strong focus** of senior management in all businesses.”

### People

At June 2001, the Wesfarmers group had a total permanent work force of 11,300 people and employed a further 3,800 on a part-time or casual basis, mainly in the stores operated by Bunnings and Wesfarmers Landmark. This workforce expanded significantly after year-end following the completion of the Howard Smith acquisition.

It is pleasing that over 7,000 employees of the group now hold shares in the company through the Employee Share Plan. During 2000/2001, over 95 per cent of eligible employees accepted invitations to apply for shares under the plan.

It is also pleasing that the incidence of work-related injury continued to decline in almost all group activities during 2000/2001. Achieving a safer working environment has been a strong focus of senior management in all businesses in recent years. Continued improvements in safety performance reflect the acceptance by all employees that safety is an absolute priority.

Recently, two senior executives retired after significant periods of service with the company. Peter Knowles made a strong contribution to the group during his 13 year career in both the business development department and as head of the fertilisers and chemicals business. Peter Johnston joined Wesfarmers in 1994 following the acquisition of Bunnings and performed the role of Company Secretary with distinction. I thank them both for their great contributions.

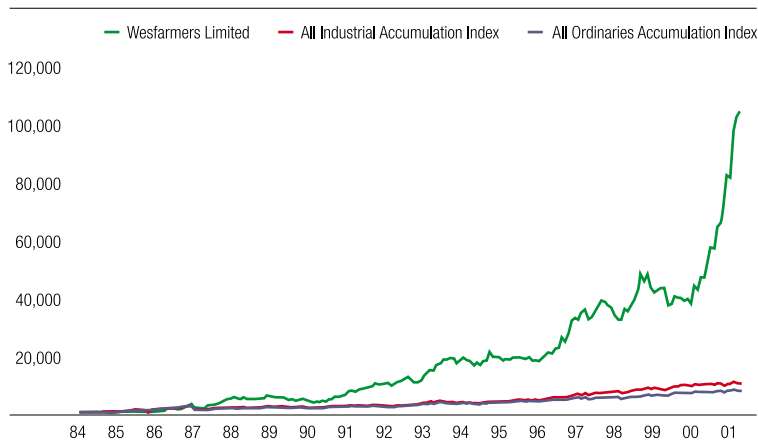


**top left** - John Wilkinson, Operator, Wesfarmers CSBP, at the carbon dioxide stripping plant, Kwinana, WA

**above** - Mac Adlam, Senior Statutory and Projects Engineer, at the Curragh coal mine, near Blackwater, Qld



#### AUSTRALIAN ACCUMULATION INDICES 1984-2001



#### Outlook

The company is budgeting for strong growth in revenue and earnings in the 2001/2002 financial year.

Coal earnings are expected to increase with the Curragh mine continuing to perform ahead of expectations and expanded production anticipated at the Bengalla mine. The benefit of stronger international coal prices which have been experienced in the last quarter of 2000/2001 is likely to be sustained for the coming 12 months. The Premier operation at Collie, Western Australia, is also expected to perform satisfactorily.

The outlook for the company's gas activities for 2001/2002 is for slightly reduced earnings on the assumption that current high international LP gas prices will not be sustained throughout the full year.

As a result of the successful completion of the Howard Smith acquisition, revenue and earnings from Bunnings will increase significantly upon integration of its hardware operations with those of BBC.

Finalisation of the Howard Smith acquisition has also introduced the Blackwoods industrial and safety product distribution business into the group. This will further diversify Wesfarmers' revenue and earnings base.

The outlook for the Wesfarmers Landmark rural services business for 2001/2002 is positive. The rural industry in Australia is showing signs of improvement with better commodity prices and favourable exchange rates for exports. Integration work which commenced in April 2001 following the merger of the Wesfarmers Dalgety and IAMA businesses is expected to realise significant efficiencies and cost savings in the coming year.

Wesfarmers Federation Insurance is also budgeting for a strong year.

The outlook for Wesfarmers CSBP is for increased earnings in the chemicals business partially offset by a challenging fertiliser market in Western Australia, where seasonal conditions have been poor for the last two years.













Following the sale of Sotico's woodchipping and plantations business in early October 2000, the forest products business now represents a small part of Wesfarmers' operations. Sotico's size will decrease in the future as the business is rationalised further.

An increased contribution will be achieved in the first full year of ownership of the company's rail freight business. The road transport business continues to be rationalised and is expected to report reduced earnings in 2001/2002.

A more detailed description of group activities is contained in the following pages.

**MICHAEL CHANEY**  
Managing Director

# a portfolio of diversified businesses

| HARDWARE  | GAS  | COAL   | FERTILISERS & CHEMICALS  |
|---|--|--|--|
| <ul style="list-style-type: none"> <li>- Specialist retailer of home and garden improvement products and building materials</li> <li>- Servicing DIY project builders and the housing industry</li> <li>- Bargain hardware and variety</li> </ul>   | <ul style="list-style-type: none"> <li>- National marketing and distribution of LP gas</li> <li>- LP gas extraction for domestic and export markets</li> <li>- Manufacture and marketing of industrial gases and equipment</li> </ul>  | <ul style="list-style-type: none"> <li>- Coal mining and development</li> <li>- Coal marketing to both domestic and export markets</li> </ul>  | <ul style="list-style-type: none"> <li>- Manufacture and marketing of broadacre and horticultural fertilisers</li> <li>- Manufacture and marketing of chemicals for industry, mining and mineral processing</li> <li>- Soil and plant testing and agronomy advisory services</li> </ul>  |
| <p><b>The year in brief</b></p> <ul style="list-style-type: none"> <li>- Strong growth in Bunnings warehouse hardware sales</li> <li>- Eight new warehouse stores opened in national chain</li> <li>- Commencement of seven day trading in Queensland</li> </ul> <p><b>Future directions</b></p> <ul style="list-style-type: none"> <li>- Integration of BBC hardware/ Hardwarehouse acquisition</li> <li>- Continued national rollout of warehouse stores</li> <li>- Enhanced technology and management systems</li> </ul> <div style="display: flex; justify-content: space-around; align-items: center;">    </div> | <p><b>The year in brief</b></p> <ul style="list-style-type: none"> <li>- Sales growth ahead of budget and last year</li> <li>- Merger of Kleenheat's east coast autogas operations with Elgas to form Unigas</li> <li>- 25 per cent expansion of the Kwinana LP gas extraction plant</li> <li>- Record LP gas production and export sales</li> <li>- Construction of LP gas import terminal in Bangladesh completed</li> <li>- Recovery in industrial gases markets</li> </ul> <p><b>Future directions</b></p> <ul style="list-style-type: none"> <li>- Plant enhancements to expand Kwinana capacity further</li> <li>- Pilot plant to develop LN gas as a transport fuel for heavy duty vehicles</li> <li>- Commencement of trading in Bangladesh</li> <li>- Search for new LP gas extraction opportunities</li> </ul> <div style="display: flex; justify-content: space-around; align-items: center;">    </div> | <p><b>The year in brief</b></p> <ul style="list-style-type: none"> <li>- Increased coal production and sales from the Curragh and Bengalla mines</li> <li>- Higher export prices</li> <li>- Lower coal deliveries from Premier mine</li> </ul> <p><b>Future directions</b></p> <ul style="list-style-type: none"> <li>- Continued focus on safety and environment</li> <li>- Development of adjacent coal deposits</li> <li>- Improved production and processing efficiencies</li> </ul> <div style="display: flex; justify-content: space-around; align-items: center;">    </div> | <p><b>The year in brief</b></p> <ul style="list-style-type: none"> <li>- Reduced fertiliser despatches due to adverse seasonal impact</li> <li>- Increased chemicals sales volumes</li> <li>- Chemicals operations impacted by plant equipment failure</li> </ul> <p><b>Future directions</b></p> <ul style="list-style-type: none"> <li>- Increased chemicals earnings</li> <li>- Strong position in competitive fertiliser market</li> <li>- Construction of solid sodium cyanide plant</li> </ul> <div style="display: flex; justify-content: space-around; align-items: center;">    </div> |

## RURAL SERVICES & INSURANCE

- Supplier of rural merchandise and fertilisers to cotton, cropping, viticulture, horticulture and grazing industries
- Provider of:
  - wool and livestock marketing services
  - real estate and rural property sales
  - seasonal finance, term loans and deposit facilities
  - rural, domestic and commercial insurance

### The year in brief

- Formation of Wesfarmers Landmark through merger of Wesfarmers Dalgety and IAMA Ltd
- Continued expansion of the merchandise business, especially in the cotton, cropping, horticulture and viticulture sectors
- Higher cattle and wool prices
- Increased rural lending
- Record profit by Wesfarmers Federation Insurance with strong premium income growth and lower claims

### Future directions

- Capturing synergies from the IAMA acquisition
- Continued expansion of core business activities
- Focus on key business drivers including costs and capital
- Development of e-business strategies



## FOREST PRODUCTS

- Manufacturer of products to service the wholesale timber market in Australia and internationally, industrial customers and furniture/cabinet/joinery manufacturers
- Forestry and timber operations

### The year in brief

- Sale of the woodchipping, plantations and plantation management business completed
- Significantly reduced demand due to severe Australian housing downturn
- Commencement of restructuring of the WA hardwood forest industry as a result of new Government forest policy
- 40 per cent production capacity upgrade at the 50 per cent owned Wespine sawmill at Dardanup
- Record safety performance

### Future directions

- Restructure the business based on reduced log supply



## ROAD & RAIL TRANSPORT

- General and freezer freight transport
- Specialised transport, bulk and heavy haulage, warehousing and storage
- 50 per cent interest in South Australian and Western Australian rail freight businesses

### The year in brief

- Launch of 50 per cent owned Australian Railroad Group
- Sale of Niteroad Express
- Strong performance from freight services

### Future directions

- Development of value-added services and enhanced technology service systems
- Focus on service levels



## INDUSTRIAL & SAFETY PRODUCTS DISTRIBUTION

- Supplier and distributor of industrial, engineering and safety products, power transmission machinery, bearings, fasteners and metals
- Specialist supplier and distributor of industrial safety products and services

### The year in brief

- The industrial and safety products distribution businesses were acquired after the year end and their trading performance for the year ending 30 June 2001 did not form part of the Wesfarmers group results

### Future directions

- Development of enhanced technology and management systems to improve services and reduce costs
- Continued expansion of core business activities
- Integration of Atkins Carlyle and Protector Safety acquisitions

## Blackwoods

## A.E.BAKER & CO



# hardware



## IN BRIEF

- Eight new warehouse stores opened across Australia in 2000/2001
- Earnings increased by 13 per cent
- Continued expansion of B2B electronic trading system
- Warehouse rollout programme for 2001/2002 accelerated with acquisition of BBC hardware group

About 87 per cent of business is conducted with do-it-yourself consumers and the balance with builders and contractors.

The business recorded another outstanding year with sales of \$1.4 billion. Earnings for the financial year were 13 per cent above last year. It was a good result considering the significant drop in new housing statistics.

During the year, eight new warehouse stores were opened, expanding the national Bunnings warehouse chain to 47. Warehouse stores now account for 81 per cent of total Bunnings hardware sales compared to last year's 77 per cent.

While the warehouse concept has been well accepted by customers, Bunnings continues to strive to further improve key elements of the business by widening its enormous product range, improving levels of service and taking competitive leadership in the market.

The eight new warehouse stores that were opened last year included several regional stores designed specifically for less densely populated centres and to service metropolitan markets where existing stores are over shopped.

This warehouse building programme was accompanied by a reduction of traditional hardware stores to 22. Although fewer in number, the remaining traditional stores are continuing to perform well and are all making a strong contribution.

The acquisition after year-end of the BBC hardware group - which includes the Hardwarehouse stores and New Zealand based Benchmark Building Supplies operations - has accelerated the Bunnings warehouse rollout programme. A focus for the coming year will be the integration of the BBC hardware operations into Bunnings, as well as the continued rollout of new Bunnings warehouse stores.

Bunnings now has almost 9,800 employees. That number will more than double in the 2002 financial year with the continued warehouse store rollout programme and the BBC hardware group acquisition.

To support the large recruitment effort demanded by the warehouse rollout, investment in the human resource areas is increasing. A significant focus on improvements in recruitment processes, induction and ongoing skills training continues to be made to ensure all

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**Eight new Bunnings warehouse hardware stores were opened during the year, expanding the national chain to 47. With the acquisition of the BBC hardware group finalised after year-end, the Bunnings marketing strategy - lowest prices, widest product range and best service - will be extended throughout Australia and New Zealand.**

Bunnings Building Supplies Pty Ltd is a specialist retailer of home and garden improvement products and building materials.



left - Tony Martiniello, Tool Shop  
Co-ordinator, Bunnings warehouse,  
Taylors Lakes, Vic

employees are well equipped to deliver the desired high customer service levels. All Bunnings employees have the opportunity to participate in various incentive schemes aimed at delivering them a share of the success of their business.

A modern and flexible technology base is continually being upgraded to support the rapid growth of the business. Over the past year the focus has returned to business improvement programmes. Phase two and three of the internet based electronic trading system with suppliers have been developed and are now ready to be rolled out. This includes electronic invoicing and price updating through direct links with supplier systems. Over 80 per cent of orders are now processed through this system. Modules which provide the facility to deal electronically with small to medium sized builders as well as project builders with more sophistication have been tested over the past year. The facility should be available to all trade customers by the end of the first quarter.

All supply chain and warehouse administration processes have been

reviewed and improved efficiencies are planned through better uses of technology now available.

The WA Salvage bargain hardware and variety business, operating from 17 metropolitan and regional Western Australia stores, had a difficult year. Sales fell slightly but margins improved due to a better product mix.

Disruption to supply of imported products which severely impacted the two main trading periods of the year, Christmas and Easter, was the major contribution to the poor result. The business is now no longer vulnerable to the performance of any one overseas supplier and a strong recovery is expected this year.



**“The Bunnings and BBC merger creates Australia’s leading supplier of home improvement products to consumers and building materials to the housing industry. Combining the strengths of both organisations will deliver a ‘stand-out’ team and strong growth in the fragmented Australian and New Zealand markets.”**

Joe Boros  
Managing Director  
Bunnings Building Supplies

# coal



## IN BRIEF

- Curragh sales 10 per cent higher than budget
- Bengalla sales 76 per cent above previous year's result
- Celebration of 50 years in the Collie Basin
- Record health and safety result

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**Wesfarmers Energy's coal interests comprise the Premier open-cut operations at Collie in Western Australia's south-west, the Curragh mine in Queensland's Bowen Basin and a 40 per cent interest in the Bengalla mine in the Hunter Valley of New South Wales.**

### Premier, Western Australia

Wesfarmers Premier Coal operates the Premier open-cut coal mine near Collie, 200km south of Perth in Western Australia.

Sales of 3.6 million tonnes of coal in 2000/2001 were three per cent below the previous year, as a result of lower tonnage delivered to our major customer Western Power. Earnings were comparable year-to-year, with lower sales tonnes being offset by improved production costs.

Overburden removal of 29.5 million bank cubic metres in 2000/2001 was similar to the previous year's result.

In November 2000 the company celebrated 50 years of operation in the Collie Basin. Several thousand people attended a celebratory event at the mine site.

Employee occupational health and safety continues to be a major focus, including development and implementation of safe work practices, behavioural systems and health checks. A record period was achieved without a lost-time injury.

Premier is committed to enhancing its market position by ensuring coal quality exceeds sale contract parameters, and by reducing production costs. All mining processes, from overburden removal to final delivery of coal to the customer, are subject to ongoing review and implementation of improved practices.

Rehabilitation of completed mine areas is well underway, including reshaping, replacing topsoil and planting of original vegetation. The overall concept includes filling of mine voids with water to enhance the potential community value of the areas and encourage a possible aquaculture industry. Environmental awareness of employees is being improved via training programmes.

Studies continue to show that Collie coal used for electricity generation in the south west of Western Australia is on par with gas from the North West Shelf in respect to greenhouse gas emissions. Premier is pursuing opportunities to facilitate additional sales of coal for power generation.

### Curragh, Queensland

Wesfarmers operates and markets coal from the Curragh open-cut coal mine situated near Blackwater, 200km west of Rockhampton in Queensland's Bowen Basin.

Sales of 4.9 million tonnes of coal in 2000/2001 were 10 per cent higher than budget, with the higher tonnage being export-quality coking coal, sold to a number of overseas steelmakers.



**far left** - Dragline operations at the Curragh mine, Qld

**left** - Coal wash plant, Curragh, Qld

**left below** - Premier open-cut coal operation, Collie, WA



“The addition of Curragh to our Premier and Bengalla coal interests, and the strong committed performance of employees at all three operations, provides an exciting platform for growth well into the future.”

David Robb  
Managing Director  
Wesfarmers Energy

Earnings were higher than budget due to the increased volumes, combined with stronger US\$ selling prices and a favourable exchange rate.

Overburden removal and ROM coal production were both higher than budget, to meet the increase in sales volumes.

During the year, Curragh's dragline fleet performed well and upgrading of the mobile equipment fleet commenced.

Safety and environmental management performance are two of Curragh's core values and objectives, and during the financial year performance continued to exceed industry standards.

Further volume increases, together with continued firm US\$ prices for export coal, and continuing on-site productivity

improvements suggest a further profit improvement in the 2001/2002 year.

#### **Bengalla, New South Wales**

Bengalla is an open-cut steaming coal mine located in the Hunter Valley in New South Wales managed by Coal and Allied. Wesfarmers holds a 40 per cent interest in the Bengalla mine which was officially opened in July 1999.

Sales volumes continued to increase, reaching five and a half million tonnes for the year, 76 per cent above the previous year and well ahead of budget.

The higher sales volumes together with stronger international coal prices resulted in significantly higher earnings.

# gas



## IN BRIEF

- Kleenheat and Elgas merged to form new Unigas autogas business
- LP gas plant upgrade commissioned with record gas production result
- Commissioning of Air Liquide acetylene plant

comprehensive network of depots, company operated branches, dealers and franchisees, servicing in excess of 22,000 bulk and 243,000 domestic customer installations.

Gas sales volumes were 12 per cent higher than in the previous year, an excellent result in a market in which results were affected by record high international LP gas prices, which reduced margins and demand in some areas.

In April, Kleenheat and Elgas announced the merger of their autogas wholesaling and retailing businesses in all states except Western Australia. The merged entity, Unigas, will be a specialist supplier of autogas to over 1,000 independent service stations in rural and regional areas and the major cities. Unigas will provide real benefits to autogas consumers through increased operational efficiencies and a stronger market presence, contributing to continued growth for Kleenheat in the autogas sector.

During the year, Kleenheat's national Customer Service Centre at Myaree in Western Australia was further enhanced to provide first point of contact for resolution of all customers requirements.

Kleenheat's commitment to safety, quality and environmental management was reinforced with continued development of an on-line operations management system, and a strong focus on safety communication, training and consultation with all staff, particularly those involved in the direct handling of LP gas.

Kleenheat has continued the development of an LP gas business in Bangladesh. This includes the construction of a 1,500 tonnes storage facility and cylinder filling plant at Port Mongla, which will be operational in the first quarter of the 2001/2002 year.

The use of liquefied natural gas as a clean, economical, transport and power generation fuel is well established in other countries. Kleenheat has established a small pilot plant at Wesfarmers' LP gas plant in Kwinana and is working to develop transport and power markets in Australia using liquefied natural gas as the fuel source.

### Wesfarmers LPG

Wesfarmers LPG owns and operates a plant at Kwinana in Western Australia, which extracts LP gas from the natural gas stream in the Dampier to Bunbury pipeline.

**Wesfarmers Energy's gas activities comprise Wesfarmers Kleenheat Gas Pty Ltd (distribution and marketing), Wesfarmers LPG Pty Ltd (production and export) and Air Liquide WA Pty Ltd (industrial gases).**

### Kleenheat

Kleenheat is a major distributor of liquefied petroleum gas (LP gas) to a broad range of domestic, commercial, autogas and industrial customers. Kleenheat operates in all mainland states of Australia through a



**far left** - Paul Buckingham, Process Technician, at the LNG pilot plant, Kwinana, WA

**left** - Air Liquide, Kwinana, WA

**above** - Scott Bardon, Marketing Manager, Unigas, Broadmeadows, Vic

Product from the plant supplies much of the state's domestic market, with the balance exported to Japan under a long term sales contract.

The plant continues to operate at high levels of availability and efficiency producing a record 300,000 tonnes for 2000/2001, well in excess of the 1999/2000 production of 252,000 tonnes. This followed the commissioning of the plant upgrade on time and ahead of budget during December 2000.

Strong domestic demand saw sales increase while export sales were at record levels of 234,000 tonnes (up from 159,000 tonnes last year).

Export sales again benefited from record high international LP gas prices and a favourable Australian dollar exchange rate, which produced revenues and earnings well ahead of budget and last year.

Wesfarmers LPG's safety record continued with no lost-time injuries incurred during the year. The plant has operated for more than four years without a lost-time injury. This excellent safety performance was mirrored by the plant upgrade construction team with

no lost-time injuries incurred during construction and commissioning of the plant upgrade.

#### Air Liquide WA Pty Ltd

Air Liquide WA Pty Ltd is a 40 per cent owned company, managed by Wesfarmers Energy. Air Liquide produces and markets a comprehensive range of industrial, medical, scientific and environmental gases as well as welding products.

Sales and earnings have shown a recovery against the same period last year, and have been assisted by the company's local production capacity.

During this period the company's acetylene plant expansion was commissioned and now produces all of the acetylene gas sold in Western Australia.

Air Liquide's Healthcare business continues to grow strongly with a number of major and new supply contracts secured.

Air Liquide, through significant efforts of all its staff continues to maintain its commitment to its quality, safety and environmental objectives. In excess of 3,000 days have been worked without a lost-time injury.

**"New alliances, products, customers and markets, together with expanded production and a continuing investment in our people will underpin a clean, 'green' and growing future for our gas businesses."**

**David Robb**  
Managing Director  
Wesfarmers Energy

# rural services & insurance



## IN BRIEF

- Wesfarmers Dalgety merges with IAMA to form Wesfarmers Landmark
- Lending to primary producers reached record levels
- High prices for cattle and sheep lift livestock marketing revenue
- Record earnings for insurance business



**The rural services and insurance businesses, Wesfarmers Landmark and Wesfarmers Federation Insurance, have the financial resources, skill base and commitment to deliver real benefits to Australian primary producers and the food and fibre chain.**

**The acquisition of IAMA Limited and its merger in February 2001 with Wesfarmers Dalgety to form Wesfarmers Landmark was a major step forward in the rationalisation of the rural services sector.**

### Merchandise

Merchandise turnover established new records despite lower-than-expected results in Western Australia as a result of adverse cropping conditions. Generally good seasons in the eastern States, with a record cropping season in South Australia, boosted sales. Expansion of the company's horticulture and viticulture business also contributed to higher sales.

Wesfarmers Landmark has a significant merchandise business and the merger has presented an opportunity to

develop and implement more efficient processes for the handling, storage and distribution of agricultural chemicals and other farm inputs.

### Cotton

Wesfarmers Landmark now has a large cotton industry presence, originally established by IAMA. As well as providing seed, fertilisers and agricultural chemicals to the industry, technical information on pests, diseases and nutritional information is available to growers through a team of specialist agronomists. The company also has a research and development unit at a dedicated site on the "St Elmo" property near Moree, in New South Wales.

The company's involvement as a major service provider to the industry has been enhanced by the merger, with cotton growers now able to access a full range of farm business services from Wesfarmers Landmark.

### Wool

Wool prices continued to improve, with increases being experienced by broader

microns as well as the finer end of the clip. The Eastern Market Indicator rose 13.6 per cent and the Western Market Indicator rose 16.3 per cent during the year. The official wool stockpile no longer exists and with the sheep flock at its lowest levels since the mid-fifties, wool supply is better matched to international demand.

The wool broking business met its bale throughput and sales revenue budget for the year. The number of growers taking advantage of risk management products has increased.

Wesfarmers Landmark is also encouraging growers to market wool through Precision Wool Marketing, which includes Fibre Direct. Supplying wool in commercial processing lots to domestic and international processors is an expanding business for Wesfarmers Landmark, with growers benefiting from processor feedback and participation in a marketing system offering efficiencies in the wool pipeline.

### Livestock

Livestock marketing revenue was well above budget and last year's result due to record cattle prices and high prices for sheep and lambs. The Australian livestock industry is experiencing very strong export demand for meat and live exports, assisted by the low Australian dollar and reduced beef supplies from the United States.

As with wool, Wesfarmers Landmark is developing supply-chain relationships which allow producers to trade their stock to specification. A range of specialist services including enhanced feedback is also available.

These services will improve the opportunity for producers to achieve more consistent returns for their stock and provide



**far left** - Des Quilty, Wesfarmers Landmark Viticulture Agronomist, at Andrew Harris Vineyards, Mudgee, NSW

**left** - Greg Curtis, Retail Sales Manager, at Wesfarmers Landmark, Wagga Wagga, NSW

processors, supermarket chains, live exporters and lot-feeders with a regular supply of livestock to their specifications.

#### Real estate

Revenue from real estate and rural property sales met expectations, following a record year in 1999/2000.

Strong interest in properties suitable for beef production has seen prices rise in this section of the market, reflecting high cattle prices and the general positive outlook.

Wesfarmers Landmark was again appointed to market a number of significant rural holdings around Australia, reflecting its expertise and professionalism in this specialised area.

#### Rural finance services

Lending to primary producers reached record levels during the year. Wesfarmers Landmark provides competitive seasonal and term finance through an alliance with the Primary Industry Bank of Australia Limited (PIBA), a subsidiary of Rabobank. The credit risk on loans made by Wesfarmers Landmark to its customers is borne by PIBA. Deposits also reached record levels.

An on-line facility was introduced for finance customers, enabling them to check account balances and print tax invoices and account sales.

#### Insurance

Wesfarmers Federation Insurance - operating through 79 outlets around Australia - achieved record earnings following strong premium income growth, lower-than-expected claims and strong expense management.

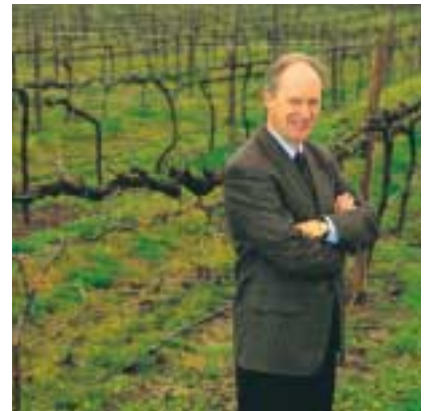
WFI continues to build its reputation as a specialist insurer in rural and regional Australia. It is the preferred insurer for a number of state primary producer organisations including NSW Farmers Association, Agforce and Queensland Fruit and Vegetable Growers.

The dual insurance agency operated by Wesfarmers Landmark through Wesfarmers Federation Insurance and CGU in states other than Western Australia is operating successfully. Insurance sales and earnings increased in 2000/2001 compared to the previous year.

#### The future

The focus in the coming year will be on maximising the benefits from the merger with IAMA which include the implementation of a single management information system and the consolidation of the branch network.

The performance of the Australian rural sector improved during 2000/2001 and the outlook for rural commodities is positive. Wesfarmers Landmark is poised to capitalise on emerging opportunities in the sector.



**“2001/2002 will see Wesfarmers Landmark capture synergies from the IAMA and Wesfarmers Dalgety merger. We have an exceptionally skilled team across the country committed to serving all agricultural sectors. Our scale and strength will allow us to drive efficiencies in all areas of our business. The opportunities are very exciting.”**

**Richard Goyder**  
Managing Director  
Wesfarmers Landmark

# fertilisers & chemicals



## IN BRIEF

- Fertiliser earnings up 27 per cent despite difficult trading conditions
- Opening of new CSBP \$5 million soil and plant analysis laboratory
- Strong demand for ammonia continues

**Wesfarmers CSBP Limited is Western Australia's major supplier of fertilisers and chemicals to the agricultural, mining and industrial sectors.**

Despite difficult trading conditions for both the fertilisers and chemicals businesses in the 2000/2001 year, total revenue grew nine per cent and earnings by 17 per cent. These results were, however, below budget expectations, reflecting lower fertiliser volumes and new chemical plant start-up problems.

## 22 Fertilisers

CSBP manufactures, markets and distributes a broad range of fertiliser products and services to Western Australian agricultural enterprises, covering broadacre cropping and/or livestock operations and the more intensive horticulture and dairy properties.

Demand was impacted by one of driest seasons on record, with a grain harvest some 40 per cent down on the previous year and farm enterprise cash flows under severe pressure. This led to an overall

13 per cent fall in sales volumes despite stronger demand in the last two months of the 2001 financial year. Given current economic uncertainty, however, it is evident that customers are adopting a cautious purchasing approach.

Cropping fertiliser demand was lower overall as a consequence of the prevailing economic conditions in this industry sector, with many growers looking at their third consecutive poor season.

After a reduced demand for SuperPhos based products in the first three quarters of the trading period, the re-emerging confidence within the wool, sheep meat and beef industries was reflected in the encouraging offtake of all pasture products in the last quarter.

The continued strong demand for Flexi-N, a liquid nitrogen product delivering real on-farm productivity benefits, has vindicated a strong CSBP commitment and investment in new application technologies.

Sales of fertiliser under the home garden range Cresco brand increased by 14 per cent on top of a growth of 26 per cent in the previous year.

The \$5 million CSBP futurefarm soil and plant analysis laboratory, located in the southern Perth suburb of Bibra Lake, was officially opened during the year. While the growing importance of soil testing as a means of making sound nutrient decisions is clearly demonstrated by an encouraging 15 per cent of farmers using the service, there remain many who are yet to adopt this cost-effective service as a routine part of their farm planning and decision making process.

Consistent with the CSBP futurefarm philosophy, significant funds were also invested in state-of-the-art materials

handling and blending infrastructure at Albany, Bunbury, Esperance and Geraldton. These facilities deliver effective and cost-efficient logistical outcomes to our customers.

As part of a rationalisation of its manufacturing facilities, CSBP has announced the closure of sulphuric acid production at Albany and Esperance. Superphosphate production at Esperance will cease before the end of 2001, with future stocks being supplied from Albany.

The outlook for demand in 2001/2002 is unfavourable, in light of the extensive and prolonged dry conditions in Western Australia impacting the current season's crop. In these difficult circumstances, CSBP's long term commitment to optimising agricultural productivity through its analytical and advisory services should be of real value to farmers, and position the company well for the future.

## Chemicals

**Ammonia/ammonium nitrate** - Deliveries of ammonia rose significantly over the previous period with a full year of deliveries to Western Mining Corporation, and stronger demand from the lateritic nickel projects. Further increases are anticipated as these projects complete their ramp-up of production.

The majority of these sales were satisfied by the new plant at Kwinana. However, a manufacturing fault in the new plant caused significant downtime in the first half of the financial year and resulted in the unplanned importation of one shipment and consequently lower earnings. Since repair, the plant has run consistently at nameplate capacity.

Sales of ammonium nitrate to the explosives industry were marginally weaker than in 1999/2000, reflecting reduced



far left - Bulk fertiliser at Wesfarmers CSBP, Kwinana, WA

left - Wesfarmers CSBP's new \$5 million futurefarm soil and plant analysis laboratory at Bibra Lake, WA

usage by the major mining companies in Western Australia. Offsetting this reduction, internal usage of ammonium nitrate as a component of liquid fertilisers increased significantly, from a low base.

Manufacturing facilities performed satisfactorily, and overall output could have been higher if not for periodic storage constraints.

Sales from the Queensland Nitrate Project were below expectations. The impact of wet weather and industrial action on the Queensland coal fields reduced overall demand. The production facilities at Moura were adversely impacted by post-commissioning equipment failures until the final quarter of 2000/2001, when reliability was improved. The plant is now operating near nameplate capacity on a consistent basis.

**Sodium cyanide** - Australian Gold Reagents' (AGR) sales of sodium cyanide rose in this financial year, despite a continued reduction in Australian demand as further gold mines closed. However, the industry over-supply position continued to pressure sales margins downwards, or prevent the full recovery of input-related cost increases.

Given the outlook for, at best, flat demand for cyanide in Australia, AGR has committed to the investment of some \$26 million to construct facilities to convert solution into solid form. This initiative builds on existing solution plant capacity and will allow AGR to compete in international markets.

**Industrial chemicals** - Demand for chlorine and its derivative products was slightly stronger over the period. Production facilities performed satisfactorily throughout.

Sales to industrial customers of sulphuric acid, prilled urea and sulphate of ammonia were higher in the reported period.

#### Technology development

Substantial progress was achieved in projects to upgrade the company's business systems and develop e-procurement capabilities. These projects will deliver simplified and streamlined business processes and responsiveness to customers.

#### Environment

Discharges of solid, liquid and gaseous wastes from the company's operations remained within licence conditions throughout the period, and continued to be reduced wherever practicable.

The company pleaded guilty to a charge relating to the release of arsenic that occurred in September 1999, and was fined \$20,000 plus \$5,000 costs.

#### People

All employees made substantial efforts to improve performance over the year. It is therefore disappointing to report that, after 21 months without a lost-time injury, there were nine such accidents this financial year. Nevertheless, the total number of compensable injuries was reduced.

Various employee development initiatives were undertaken in 2000/2001, including a Team Co-ordinator Development Programme, a programme to upgrade operator skills to national standards and the Wesfarmers Executive Development Programme. CSBP also supported 11 apprentices in instrument/electrical and mechanical trades.



**“Although market conditions remain difficult our investments in business systems, analytical facilities and manufacturing capacity have positioned CSPB for profitable growth.”**

Mark Allison  
Managing Director  
Wesfarmers CSBP

# forest products



**below** - Chad Van Kleef, operator at Sotico's Welshpool Processing Centre, WA



## IN BRIEF

- Sale of woodchipping, plantation operations and assets
- \$13 million upgrade to Wespine plantation softwood sawmill
- International sales of hardwood timber increased 35 per cent

### Sotico Pty Ltd produces and markets Western Australian timbers.

Sotico recorded significantly reduced results in 2000/2001 due to the sale in October 2000 of the woodchipping, plantation services operations and plantation assets for \$58 million - in line with book value - and a severe downturn in Australian housing activity.

Timber sales to Western Australian customers reduced significantly during the year. Sales to other Australian customers also reduced, but exceeded budget. International sales of hardwood timber increased 35 per cent over the year in line with budget.

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In December 2000, the 50 per cent owned Wespine Industries officially opened a \$13 million upgrade to its plantation softwood sawmill at Dardanup in Western Australia which increased the annual capacity of this mill by over 40 per cent. The plant upgrade enabled the operation to meet local and national building industry demand and offer export opportunities.

### WA forest management

In February 2001, the newly elected Western Australian state government

implemented its policy of banning all logging of old-growth forest in the state. This will result in sawlog availability reducing by 55 per cent for jarrah and 70 per cent for karri at the conclusion of the current log supply contracts in December 2003.

In May 2001, Sotico announced a proposal it had put to Government to restructure the industry progressively through to mid-2004, with stepped reductions in log volumes to the company's four hardwood sawmills and staged redundancies timed to allow a focus on maximising regional employment opportunities. Sotico believes the government should fund redundancy payments and provide other support for workers displaced as a result of its forest policy. Negotiations are continuing with the government on the details of the Sotico proposal.

### Safety

During the year, the Sotico workforce achieved a record safety performance. The number of lost-time injuries per million man hours worked for the year was 0.9 - the best result ever achieved by the business.



**Ron Adams**, Managing Director, Sotico

### Outlook

It is anticipated that Western Australian housing activity will improve during the 2001/2002 year with the assistance of the first home-owner grant scheme. This will improve structural timber demand which can be well serviced by the upgraded Wespine operation. The focus on decorative hardwood markets will continue, particularly co-operation with Western Australian furniture manufacturers and their market development initiatives.

# road & rail transport



**Ian Thomson**, General Manager, Wesfarmers Transport

## IN BRIEF

- Road transport profit contribution improved
- Sale of Niteroad Express business at year-end
- Acquisition of Westrail Freight business
- ARG is the largest private rail freight operator in Australia



**Transport interests expanded with the acquisition in December 2000 of a 50 per cent stake in Australian Railroad Group, which comprises the South Australian and Western Australian rail freight businesses. Road transport operations, conducted through Wesfarmers Transport Limited, comprise two business units: transport and logistics and specialised services.**

### Road transport

Operating revenue from the road transport business was down on the previous year but profit contribution improved.

The transport and logistics operations reported good results from all areas. Freight Services, Niteroad Express and Logistics Services activities all reported improved profit performances reflecting the impact of necessary rationalisation, particularly in the freight services operation.

The transport and logistics operations comprise freight services – providing regular general freight and refrigerated transport services to destinations throughout Western Australia and the Northern Territory; Niteroad Express – providing express freight and overnight services to destinations throughout

regional Western Australia; and logistics services – providing contract warehousing, distribution, logistics and freight management for a number of significant Western Australian companies across a range of industries.

At the end of the financial year the company announced the sale of the Niteroad Express business with the profits from this sale included in the results for year ended June 2001.

Specialised services operating revenue was reduced due to the lower volumes carried in Western Australian bulk haulage operations and the poor results from Johnstone River Transport in North Queensland, where the cane season was severely affected by floods.

The specialised services operations are involved in the cartage of dangerous goods and chemicals, heavy haulage and bulk storage. These operations extend throughout Western Australia, the Hunter Valley and Tamworth in New South Wales and sugar haulage activities in northern Queensland and the north of Western Australia.

Wesfarmers Transport has embarked on a rationalisation programme aimed at capturing maximum value from existing

operations whilst continuing to deliver sound value propositions to its customers.

### Australian Railroad Group Pty Ltd

Australian Railroad Group Pty Ltd (ARG) commenced operations in December 2000 following the successful acquisition of the Westrail Freight business from the Western Australian Government. ARG is a joint-venture owned 50 per cent by Wesfarmers Limited and 50 per cent by the United States based Genesee & Wyoming Inc (GWI).

As part of the transaction to complete the formation of ARG, GWI contributed its 100 per cent owned Australia Southern Railroad operations and its interest in the Asia Pacific Transport Consortium which has been selected to construct the Alice Springs to Darwin Railroad.

ARG comprises three business units. Australia Southern Railroad and Australia Western Railroad conduct the freight operations for the group. The third business unit is WestNet Rail Pty Ltd, the infrastructure company of the group, which holds the lease over the track and manages the access arrangements for all train operators seeking to use the Western Australian rail network.

ARG is now the largest private rail freight operator in Australia, employs over 1,150 staff and has 180 locomotives and 3,800 wagons. As part of the acquisition of the Westrail Freight business, ARG entered into a 49 year lease with the State Government for 5,300km of track in Western Australia. This is in addition to the 50 year lease plus a 15 year option over 1,290km of track in South Australia.

Revenue and earnings for the year to 30 June were in line with expectations. There is, however, considerable work to be undertaken to ensure ARG maintains its position as a market leader in Australia's deregulated rail industry.

**Harry Perkins**

Non-executive Chairman; age 62.

Joined the board in 1984. Harry is Chancellor of the Curtin University of Technology; Chairman of the Western Australian Institute for Medical Research and a director of Scientific Services Ltd and Adelaide Brighton Limited. He was a Nuffield Farming Scholar in 1972.

**David Asimus**

Non-executive director; age 69.

Joined the board in 1994. David holds a Bachelor of Economics degree from the University of Sydney, an Honorary Doctorate in Science from the University of New South Wales and an Honorary Doctorate in Agricultural Economics from the University of Sydney. He is Chancellor of Charles Sturt University; and a director of Rural Press Limited and The Industrial Bank of Japan Australia Limited. David was formerly Chairman of the Australian Wool Corporation and International Wool Secretariat; a former member of the Executive of CSIRO; and a past director of BHP Limited, Delta Electricity, Austrade and of Australian Eagle Insurance. He was a Nuffield Farming Scholar in 1958.

**Michael Chaney**

Chief Executive Officer and Managing Director; age 51.

Joined the board in 1988. Michael holds Bachelor of Science and Master of Business Administration degrees from the University of Western Australia and attended the Advanced Management Program at the Harvard University Graduate School of Business Management in 1992. He is Chief Executive Officer and a director of a number of Wesfarmers group subsidiaries. He worked in the finance and petroleum industries in Australia and the United States of America before joining Wesfarmers in 1983. Michael is a director of BHP Billiton Limited, Gresham Partners Group Limited and the Centre for Independent Studies. He is a member of the board of the Business Council of Australia and the Council of the National Gallery of Australia and is Vice President of the Australia Japan Business Co-operation Committee.

**Trevor Eastwood**

Non-executive director; age 59.

Joined the board in 1994. Trevor holds a Bachelor of Engineering degree from the University of Western Australia and attended the Advanced Management Program at the Harvard University Graduate School of Business Management in 1982. He commenced his career with the group as an employee of Westralian Farmers Co-operative Limited in 1963 and held a number of management positions in the group up to his retirement in 1992, including his final eight years as Managing Director of Wesfarmers Limited. Trevor is Chairman of West Australian Newspapers Holdings Ltd, Gresham Partners Holdings Ltd and Gresham Rabo Management Limited; and a director of Qantas Airways Limited.

**Trevor Flügge**

Non-executive director; age 54.

Joined the board in 1998. Trevor is Chairman of the AWB Limited and a director of AWB joint venture companies in China, Egypt and Vietnam. He is a member of the Rabobank Food & Agribusiness Advisory Board and a director of Australian Wool Services Limited (AWS) and AWS subsidiaries TWC Holdings Pty Ltd and The Woolmark Company Pty Ltd. He was formerly President of the Grains Council of Australia; and a past director of the Grains Research and Development Corporation. Trevor received the Monash University/Rabobank Agribusiness Leader of the Year award in 1998 and in 1997 was awarded the Farrer Memorial Medal for his contribution to agriculture.

**Erich Fraunschiel**

Finance Director; age 55.

Joined the board in 1992. Erich holds a Bachelor of Commerce degree with Honours from the University of Western Australia and attended the Advanced Management Program at the Harvard University Graduate School of Business Management in 1991. He joined Wesfarmers in 1984 after working in the finance, management consulting and petroleum marketing industries. He is Chief Financial Officer and a director of a number of Wesfarmers group subsidiaries. He is also a director of Gresham Partners Group Limited, Gresham Private Equity Pty Ltd and Australian Railroad Group Pty Ltd.



Trevor Eastwood



Harry Perkins



Michael Chaney



David Asimus



Trevor Flügge



Lou Giglia

# board of directors

**Lou Giglia**

Non-executive director; member of the audit committee; age 60.

Joined the board in 1984. Lou is President of the Royal Agricultural Society of Western Australia (Inc) and is a director of Farmwest Services Limited. He is a former member of the advisory board of National Foods Limited, the Herd Improvement Service Board and the Dairy Industry Authority of Western Australia.

**Kevin Hogan**

Non-executive Deputy Chairman; age 68.

Joined the board in 1984. Kevin is a trustee of the Country Medical Foundation; and a member of the Kununoppin Hospital Board. He was the founding Chairman of the West Australian Rural Counselling Services.

**James Graham**

Non-executive director; age 53.

Joined the board in 1998. James holds a Bachelor of Engineering in Chemical Engineering with Honours from the University of Sydney and a Master of Business Administration from the University of New South Wales. He has had an active involvement in the growth of Wesfarmers since 1977 in his roles as Managing Director of Gresham Partners Limited and previously as a director of Hill Samuel Australia Limited and Managing Director of Rothschild Australia Limited. In addition to his investment banking activities, James is Deputy Chairman of Primary Industry Bank of Australia Ltd and of Rabo Australia Ltd. He is a trustee or member of a number of community organisations and was Chairman of the Darling Harbour Authority in New South Wales for a period of six years.

**Dick Lester**

Non-executive director; member of the audit committee; age 62.

Joined the board in 1995. Dick is a graduate with Honours from Dookie Agricultural College, Victoria and is a licenced property valuer. He was Principal and Chief Executive Officer of Growth Equities Mutual Limited until he sold his interest in that organisation in 1994. He was an inaugural member of the Companies and Securities Advisory Committee established by the Federal Attorney General to advise the Australian Government on securities industries laws. Dick is actively involved in real estate investment and development in the Perth metropolitan and south-west regions of Western Australia.

**David Nuttall**

Non-executive director; member of the audit committee; age 67.

Joined the board in 1990. David holds a Diploma of Valuation and Farm Management from Lincoln College, Canterbury University, New Zealand and has practised as a farm management consultant in Western Australia since 1961. He is Managing Director of Agribusiness Counsellors Pty Ltd, a farm business consulting firm, and holds directorships in a number of farming companies.

**John Paterson**

Non-executive director; age 69.

Joined the board in 1984. John is the Mayor of the City of Nedlands; a director of the Black Swan Theatre; a trustee of the Scotch College Foundation and Chairman of the Rock Lobster Industry Advisory Committee.

**David White**

Non-executive director; Chairman of the audit committee; age 53.

Joined the board in 1990. David holds a Bachelor of Business degree from Curtin University (formerly Western Australian Institute of Technology) and is a fellow of CPA Australia. He is the Treasurer of The Royal Agricultural Society of Western Australia (Inc) and Chairman of the Beverley Health Services Board.



Erich Fraunschiel



Dick Lester



David White



James Graham



David Nuttall



Kevin Hogan



John Paterson

# corporate governance

In fulfilling its obligations and responsibilities to its various stakeholders, the board of Wesfarmers Limited is a strong advocate of best practice in corporate governance.

This statement outlines the principal corporate governance practices that were followed by the company throughout the 2000/2001 financial year.

## Role of shareholders

The shareholders of Wesfarmers play an important role in corporate governance by virtue of their responsibility for voting on the appointment of directors.

The board ensures that shareholders are kept fully informed on developments affecting the company through:

- the annual and half-year reports which are distributed to all shareholders;
- quarterly reports released through the Australian Stock Exchange and the media;
- compliance with Australian Stock Exchange's continuous disclosure requirements; and
- the annual general meeting and other meetings called to obtain approval for board action.

## Board composition

In view of the diverse business activities of the Wesfarmers group, the company has recognised the importance of having a balanced board comprised of directors with an appropriate range of backgrounds, skills and experience.

The company considers that the preferred number of directors is between 8 and 12 although a number outside this range may be acceptable from time to time. It is company policy that the board has a majority of non-executive directors.

The board is currently comprised of 11 non-executive directors, including the Chairman and Deputy Chairman, and two executive directors, namely the Managing Director and the Finance Director. Details of the age, experience and qualifications of directors are set out on pages 26 and 27 of this annual report.

The composition of the board is determined by application of the following additional principles:

- Persons nominated as non-executive directors shall be expected to have qualifications, experience and expertise of benefit to the company and to bring an independent view to the board's deliberations. Persons nominated as executive directors must be of sufficient stature and security of employment to express independent views on any matter.
- The Chairman and Deputy Chairman shall be non-executive directors who shall be expected to retire from those positions at the expiration of 10 years unless the board decides otherwise. The appointments of both positions shall be formally reviewed at the end of each five years of their respective terms.
- All non-executive directors are expected voluntarily to review their membership of the board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the company's then current policy and programme, together with the other criteria considered desirable for composition of a balanced board and the overall interests of the company.
- Executive directors shall be expected to retire from the board on the relinquishment of their executive position with the company. They are then eligible for re-appointment if they meet the guidelines for non-executive directors.

## Committee structure

The board of Wesfarmers is supported by the following committees comprised wholly of non-executive directors. These committees assist the board in the discharge of its obligations by the review of financial reports, audit, remuneration and the composition and self appraisal of the board itself.

**Nomination committee** - The nomination committee comprises the Chairman of the company, Mr C H Perkins, the Deputy Chairman, Mr K P Hogan, and Messrs Asimus, Eastwood and Flügge.

The main responsibilities of the committee are to review the composition, performance and membership of the board and make recommendations on new appointments.

Any director may, at any time, recommend a person to the nomination committee for consideration as a director.

Upon appointment, a new director receives an orientation pack including the board policy statement, the constitution and other relevant information about the company.

The nomination committee reports at least annually to the board.

**Audit committee** - The members of the audit committee are Messrs D C White (Chairman), L A Giglia, R D Lester and D E W Nuttall, all non-executive directors. The Finance Director, General Manager Group Accounting, Company Secretary and the external audit partner in charge of the Wesfarmers audit attend meetings by invitation. The committee also meets regularly with the external auditors, independent of management.

The committee monitors internal control policies and procedures designed to safeguard company assets and to ensure the integrity of financial reporting.

Among its specific responsibilities, the committee reviews and advises the board on the nomination and remuneration of external auditors and the adequacy of existing external and internal audit arrangements including the scope and quality of audits.

The committee meets and reports to the board at least five times each year. Four of these meetings are timed to review quarterly profit announcements made to the Australian Stock Exchange and the committee also meets to review the end of year financial statements prior to approval by the board and publication in the company's annual report. Other meetings are held as required.

**Compensation committee** - All non-executive directors are members of the compensation committee which is chaired by the Chairman of the company.

The committee determines remuneration policies and practices for Wesfarmers as a whole, including those affecting the Managing Director and senior executives who report to the Managing Director. In determining policies and practices that are market competitive and will attract,

motivate and retain high quality people, the committee regularly seeks appropriate external advice.

The aggregate amount of non-executive directors' fees approved by the shareholders of the company currently stands at \$768,500. The constitution of the company provides that this aggregate amount may be divided among the directors participating in the sum in such proportions as the directors shall agree. In determining fees, each year the board seeks appropriate external advice.

### **Responsibilities and functions of the board**

The board is responsible for ensuring that Wesfarmers is managed in a manner which protects and enhances the interests of its shareholders and takes into account the interests of employees, customers, suppliers, lenders and the wider community.

The relationship between the board and management is a partnership that is crucial to the company's long term success. The separation of responsibilities between the board and management is clearly understood and respected.

The board is responsible for setting the strategic directions for the company, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the board for the day-to-day management of the company.

The board's responsibilities and duties include the following:

- appointing the Managing Director;
- determining the strategic direction of the company and measuring performance against approved strategies;
- adopting operating budgets at the commencement of each financial year and monitoring progress on a regular basis against budget by both financial and non-financial key performance indicators;
- monitoring and overseeing the company's financial position and risk management priorities;
- evaluating the performance of the Managing Director and senior executives and determining their remuneration;
- determining that satisfactory arrangements are in place for auditing the company's financial affairs; and
- ensuring that policies and compliance systems consistent with the company's objectives and best practice are in place and that the company and its officers act legally, ethically and responsibly on all matters.

### **Ethical standards**

The board has adopted the principles outlined in the booklet - Corporate Practices and Conduct - Third Edition - a guide produced by a working group comprising representatives of a number of Australian industry and professional organisations.

The board has drawn from this guide to develop its own policy statement which establishes procedures and guidelines to ensure that the highest ethical standards, corporate behaviour and accountability are maintained.

### **Non financial accountability**

For the past three years Wesfarmers has published an environment, safety and health report detailing the performance of business units in these years.

Last year's report was independently verified as will be the 2001 document.

### **Independent professional advice**

After prior approval of the Chairman, directors may obtain independent professional advice at the expense of the company on matters arising in the course of their board duties.

### **Share trading by directors**

Directors are each required to own a minimum of 2,000 shares in the company. In addition to statutory and other particular restrictions, the directors in the past adopted a policy to restrict their trading in Wesfarmers securities to a period of four weeks immediately following quarterly profit announcements. Particulars of directors' shareholdings are shown on page 70.

In light of the continuous disclosure requirements now applying to all Australian Stock Exchange listed companies, the directors have resolved to amend the existing policy regarding restrictions on their trading in Wesfarmers securities. From October 2001, directors will be permitted to trade in Wesfarmers securities at any time subject to compliance with statutory and other relevant regulatory restrictions and after reference to the Company Secretary.

### **Other directorships**

Directors are required continually to evaluate the number of boards on which they serve to ensure that each can be given the time and attention required properly to fulfil duties and responsibilities. Directors are required to notify the Chairman in writing prior to accepting an invitation to become a director of any corporation. Executive directors may not accept appointment to the board of any

corporation outside the Wesfarmers group of companies without the prior approval of the board.

### **Code of conduct**

The company has adopted a code of conduct which sets out the minimum acceptable standard of behaviour expected of all employees of the group. All employees are required to act with honesty, decency and integrity at all times.

### **Risk management**

The company has in place a framework to safeguard company assets and ensure that business risks are identified and properly managed.

The company has in place a number of risk management controls which include the following:

- policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies, financial instruments, commodity derivatives and movements in interest rates;
- guidelines and limits for the approval of capital expenditure and investments;
- a group regulatory compliance programme supported by approved guidelines and standards covering crisis management, the environment, occupational health and safety, trade practices, equal employment opportunity, anti-discrimination and sexual harassment; and
- a comprehensive insurance programme including external risk management surveys.

Management is required to provide regular reports on all these matters.

### **Group strategic planning**

The company has adopted a formal, dynamic planning process of preparing five-year strategic plans each year for each operating activity and the group. A special board planning meeting is held annually at which these plans are presented and the board reviews and endorses strategies designed to ensure the continued profitable growth of the group.

# environmental and community interaction

## Environmental management and behaviour

Wesfarmers is committed to the management of all its business operations in an environmentally responsible manner.

A strong compliance framework exists within the group, with the objective of achieving best practice environmental management. In line with community attitudes and expectations there is a strong emphasis on achieving sustainable development and protection of the environment. Legal compliance is the minimum requirement - the goal is to achieve much more.

An Environmental Standard has been established under which each operating business unit is required to have its own programme for managing environmental risk. These programmes are tailored to the relevant business activity and define objectives and targets, procedures and a management framework including designated responsibilities. Each business unit must report annually on its environmental performance and the standard also requires regular audits by external experts and Wesfarmers staff to review continuing suitability and effectiveness.



## Environment, safety and health report

Again this year, Wesfarmers produced a comprehensive and independently verified environment, safety and health report providing greater detail about the performance of its business units in these areas.

A key motivation in publishing this report is creating a public focus on performance in these areas to increase the pressure to improve. The report was published in December 2000 and copies are available via the Wesfarmers website

([www.wesfarmers.com.au](http://www.wesfarmers.com.au)) or on request from the Public Affairs Co-ordinator, telephone (08) 9327 4211. The 2001 environment, safety and health report is due for publication before the end of the year.

## Support for environmental initiatives

Wesfarmers actively supports community and industry based initiatives to improve the environment, such as Wesfarmers CSBP's sponsorship of the Chair of Cleaner Production at the John Curtin International Institute, Wesfarmers Landmark's participation in the Co-operative Research Centre for Plant-Based Solutions to Dryland Salinity and the group's ongoing involvement with the internationally respected Earthwatch organisation.

Wesfarmers Premier Coal and Wesfarmers CSBP are participants in the Commonwealth Government's Greenhouse Challenge programme, part of the national policy to address climate change issues.

Kleenheat Gas was the major supporter of a free video distributed to over 130,000 households in Western Australia which focussed on home waste minimisation and other key domestic environmental messages.



**left** - Curtin University's Tim Storer with aquaculture students from Collie TAFE, working on a research project at Premier Coal mine Collie, investigating water acidity in rehabilitated mine voids.

**below** - Wesfarmers was a major sponsor of the Landcare pavilion at the 2000 Perth Royal Show.



### Community interaction

A positive and interactive involvement in the communities within which the group operates is a central element of the group's operational approach. Examples of such involvement include the extensive community relations and consultation programmes conducted by Wesfarmers Energy's Curragh coal and Premier Coal operations and the active role that Wesfarmers CSBP takes in the Kwinana Community and Industries Forum.

### Sponsorships and donations

At a corporate level, Wesfarmers Limited, through the Wesfarmers Arts programme, is a major supporter of the visual and performing arts in Western Australia, in partnership with key arts organisations including West Australian Ballet, West Australian Opera, West Australian Symphony Orchestra, Black Swan Theatre Company and The Bell Shakespeare Company.

In the past year, Wesfarmers Limited also continued its \$5 million over 5 years support programme for the Western Australian Institute for Medical Research.

In rural and regional Australia, Wesfarmers Landmark has an extensive community interaction programme

ranging from educational scholarships, sponsorships for national and state country week sporting carnivals and teams as well as the support of key agribusiness associations.

In Western Australia, Wesfarmers CSBP's sponsorship programme adds to the group's rural and regional community involvement, particularly through the CSBP futurefarm community donations programme.

Bunnings is a major supporter of many community organisations, such as the Juvenile Diabetes Foundation's national 'walk for the cure' event. Bunnings' community interaction programme includes donations, in-store fund raising and personal time commitments from staff. Bunnings' efforts in Victoria were recognised with the Victoria Day Council's '2001 Good Corporate Citizen' award.

All businesses in the group actively contribute to many community focussed activities and organisations in the areas where those businesses operate.

# investor information

## Shareholder inquiries

**Please contact the company's share registry if you have questions about your shareholding or dividends.**

**Computershare Investor Services Pty Limited  
Level 2, 45 St George's Terrace  
Perth, Western Australia 6000  
Investor enquiries: (61 8) 9323 2077  
Facsimile: (61 8) 9323 2033**

When communicating with the share registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/ CHESS statements.

## Stock exchange listing

Wesfarmers shares are listed on the Australian Stock Exchange and reported in the "industrial" section in daily newspapers - code WES.

## Dividend investment plan

The company has in place a dividend investment plan. The dividend investment plan is a convenient method by which shareholders can increase their share holding without incurring the cost of brokerage fees or other costs.

Shares issued under the plan will be at a discount of 2.5 per cent to the market price unless otherwise advised.

Details of the plan are available from the share registry or the Wesfarmers website.

## Electronic payment of dividends

Shareholders may nominate a bank, building society or credit union account for the payment of dividends by direct credit. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders wishing to take advantage of payment by direct credit should contact the share registry.

## Uncertificated share register

The Wesfarmers share register is uncertificated. Two forms of uncertificated holdings are available to shareholders:

Issuer sponsored holdings. This type of holding is sponsored by Wesfarmers and has the advantage of being uncertificated without the need to be sponsored by a stockbroker.

Broker sponsored holdings. Shareholders may arrange to be sponsored by a stockbroker who will require a signed sponsorship agreement. This type of holding is attractive to regular stockmarket traders or those shareholders who have their share portfolio managed by a stockbroker.

Holding statements are issued to shareholders within five business days after the end of any month in which transactions occur that alter the balance of your holding.

## Change of address or banking details

Shareholders should notify the share registry in writing immediately of changes of address or banking details for dividends electronically credited to a bank account.

## Publications

The annual report is the main source of information for shareholders. Shareholders are also sent a half-year report which reviews, in summary, the six months to December.

Other publications available on request include March and September quarterly reports and the Chairman's address given at the annual general meeting in November. The company also produces a separate environment, safety and health report. The next environment, safety and health report is due for publication before the end of December 2001.

Further information and publications about the company's operations are available from the Public Affairs Co-ordinator, telephone (08) 9327 4211 or from the Wesfarmers website.

## Wesfarmers website

Wesfarmers has an internet address at [www.wesfarmers.com.au](http://www.wesfarmers.com.au)

This site contains the company's latest annual report, interim reports and media statements released through the Australian Stock Exchange.

## Removal from annual report mailing list

Shareholders can choose not to receive an annual report by contacting the share registry. Shareholders will continue to receive all other information including the notice of annual general meeting and proxy form.