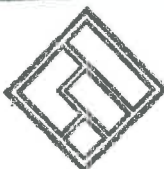


ASIC registered agent number 20463  
 lodging party or agent name WESFARMERS LIMITED  
 office, level, building name or PO Box no. 11TH FLOOR, WESFARMERS HOUSE  
 street number and name 40 THE ESPLANADE  
 suburb/city PERTH state/territory WA postcode 6000  
 telephone ( 08 ) 9327 4211  
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 DX number \_\_\_\_\_ suburb/city \_\_\_\_\_

ASS.	<input type="checkbox"/>	REQ-A	<input type="checkbox"/>
CASH.	<input type="checkbox"/>	REQ-P	<input type="checkbox"/>
PROC.	<input type="checkbox"/>		



Australian Securities & Investments Commission

notification of

**Half Yearly Reports**

(to be lodged within 75 days of the end of the accounting period)

form **7051**

(ASX Form 1001)  
 Corporations Act 2001  
 285(2), 286(1), 320

**Disclosing entity**

Please complete A, B or C.

**A a company**

name WESFARMERS LIMITED  
 A.C.N. 008 984 049

**B a body (other than a company)**

name \_\_\_\_\_  
 A.R.B.N. (if applicable) \_\_\_\_\_

**C a registered scheme**

name \_\_\_\_\_  
 A.R.S.N. \_\_\_\_\_

**Financial period**

from 1 / 7 / 2009 to 31 / 12 / 2009

**Certification**

*I certify that the attached documents comprise the half yearly reports together with every other document that is required to be lodged with the reports by a disclosing entity under the Corporations Act 2001. See Annexure "A"*

**Signature**

This form is to be signed by:

if a company or a body a director or secretary or the equivalent  
 if a registered scheme a director or secretary of the responsible entity acting in that capacity

name of responsible entity WESFARMERS LIMITED  
 A.C.N. 008 984 049  
 name of person signing (print) LINDA JAYNE KENYON capacity SECRETARY

sign here

date 18 / 2 / 2010

Small Business (less than 20 employees), please provide an estimate of the time taken to complete this form

**Include**

- The time actually spent reading the instructions, working on the question and obtaining the information
- The time spent by all employees in collecting and providing this information

hrs \_\_\_\_\_ mins \_\_\_\_\_

**HALF YEARLY REPORTS**

“A”



**Half-yearly report for six months ended 31 December 2009**

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Wesfarmers Limited as at 30 June 2009 together with any public announcements made by Wesfarmers Limited and its controlled entities during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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This is Annexure A of 36 pages marked “A” referred to in the Form 7051 Notification of Half Yearly Reports signed by me and dated 18 February 2010.

A handwritten signature in black ink, appearing to be "Linda Jayne Kenyon", is written above a horizontal line.

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LINDA JAYNE KENYON

# **WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES**

## **HALF-YEARLY REPORT – 31 DECEMBER 2009**

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## **DIRECTORS' REPORT**

### **WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES**

The directors of Wesfarmers Limited submit their report for the half-year ended 31 December 2009.

#### **DIRECTORS**

The names of the directors in office during the half-year and until the date of this report are shown below:

R L Every (Non-Executive Chairman)  
T J Bowen (Finance Director)  
C B Carter OAM  
P A Cross  
R J B Goyder (Managing Director)  
J P Graham AM  
A J Howarth AO  
C Macek  
D L Smith-Gander (Appointed Non-Executive Director – 27 August 2009)  
D C White

Directors were in office for the entire period unless otherwise stated.

On 8 February 2010, Mrs Patricia Cross announced her resignation from the Board of Wesfarmers following the appointment of her husband, Mr Paul Meadows, as Group General Counsel to the company. Mrs Cross has been a non-executive director of Wesfarmers since 2003. Her resignation from the Wesfarmers Limited Board will be effective from the end of March, 2010.

#### **OVERVIEW**

Wesfarmers Limited and its controlled entities recorded a net profit after tax of \$879 million for the half-year ended 31 December 2009, marginally ahead of the previous corresponding period despite the foreshadowed large drop in earnings from the Resources division.<sup>1</sup>

The highlight for the period was strong growth in retail earnings which increased by 22.6 per cent as compared to the previous corresponding period. The improvement in results was driven broadly across Wesfarmers' retail businesses and reflected the continued turnaround of Coles, Kmart and Officeworks and the ongoing strong performance of Bunnings and Target.

Earnings from the Resources division were significantly down on last year's record result, due to materially lower global export coal prices, high Stanwell royalty and costs associated with the early close-out of a number of foreign exchange hedge contracts.

Earnings for both the Energy and the Chemicals and Fertilisers divisions improved, despite a \$25 million write-down of fertiliser inventory, following a return to full gas supply during the period.

The slower economy continued to impact the results of the Industrial and Safety and Insurance divisions, with the latter also affected by reduced investment income as a result of comparatively lower interest rates.

---

<sup>1</sup> EBIT from Resources for the six months to 31 December 2009 was \$2 million compared to \$664 million in the previous corresponding period.

The Group's earnings also benefited from an improved contribution from associate businesses, lower corporate overhead costs following a focus in this area, reduced impact from non-trading items and lower interest charges following debt repayment.

Cash flow generation continued to be very good. Operating cash flows were strong as strategies continue to deliver improvements in working capital, particularly in Coles, Kmart and Target, and fertiliser inventories returned to more historical levels following high carry over stock last financial year. Improvement in working capital more than offset increased capital expenditure.

Strong cash flows further strengthened the balance sheet with net debt reduced at the end of the period to \$3.8 billion, resulting in a closing net debt to equity ratio of 15.5 per cent and a rolling 12 month cash interest cover ratio of 6.6 times.

The directors have declared an increase in the fully franked interim dividend to 55 cents per share compared to 50 cents per share for the half last year.

Given the significant fall in the contribution from the Resources division as a result of lower commodity prices, it was a very good result to have achieved profit in line with last year. This showed the strength of having diversity of earnings across the Group.

The quality of the Group's result was evident with most divisions recording improvement over the prior corresponding period, reflecting asset quality, sound strategic initiatives and the investment in management.

Collectively the retail businesses performed well, although December trading was more challenging given the impact of rising interest rates on households and the federal government stimulus in the prior year.

Continuing improvement in the turnaround of the retail businesses was evident. After two years of ownership of the former Coles Group of companies, gains have been achieved in areas such as business and management restructuring, and improvements in operations and working capital. While the results are on track, there still remains significant work ahead to extract further value from these businesses.

During the half, Coles' continuing focus on quality, service and value drove strong customer growth and increased earnings. Kmart's overall performance improvement was particularly pleasing, while Officeworks achieved solid sales growth from its retail stores.

Very strong results from Bunnings and Target continue to highlight the quality of these businesses.

Energy and the Chemicals and Fertilisers divisions showed improved performance on the back of higher production with gas supply having returned to normal levels. It was encouraging that Insurance, while being adversely affected by lower investment income, recorded an improvement in its underwriting result following restructuring and a more benign claims environment.

While earnings from the Resources and Industrial and Safety divisions were lower in the period, largely due to external factors, the outlook for both of these businesses looks positive, especially Resources where the market fundamentals for high quality metallurgical coal are strong.

Cash generation and capital management across the Group was strong and when combined with the earnings result and outlook, the Board has approved an increase in the half year dividend to 55 cents per share.

## Results Summary

Half-year ended 31 December	2009	2008	Variance %
<b>KEY FINANCIALS (\$m)</b>			
Revenue	26,533	26,363	0.6
Group EBITDA <sup>^</sup>	1,996	2,160	(7.6)
Group EBIT <sup>^</sup>	1,547	1,737	(10.9)
Net profit after tax <sup>^</sup>	879	871	0.9
Operating cash flows	2,083	1,770	17.7
Net debt	3,824	9,312	(58.9)
<b>KEY SHARE DATA (cents per share)</b>			
Earnings per share <sup>^</sup>	76.3	103.6	(26.4)
Operating cash flows per share	180.0	219.7	(18.1)
Dividends per share	55	50	10.0
<b>KEY RATIOS</b>			
Net debt to equity (%)	15.5	48.9	33.4pt
Interest cover (R12, cash basis) (times) <sup>^</sup>	6.6	4.8	37.5
Return on shareholders' funds (R12) (%)	6.5	7.4	(0.9)pt

## Divisional Summary

Half-year ended 31 December (\$m)	2009	2008	Variance %
<b>EBIT</b>			
Coles	486	431	12.8
Home Improvement	422	370	14.1
Office Supplies	27	25	9.0
Target	279	215	29.8
Kmart	154	75	105.3
Resources <sup>^</sup>	2	664	(99.7)
Insurance	58	67	(13.4)
Industrial & Safety	51	68	(25.0)
Chemicals & Fertilisers	27	4	575.0
Energy	56	30	86.7
Other (including non-trading items)	31	(138)	n.m.
Divisional EBIT <sup>^</sup>	1,593	1,811	(12.0)
Corporate overheads	(46)	(74)	37.8
Group EBIT <sup>^</sup>	1,547	1,737	(10.9)

<sup>^</sup> 2008 restated for change to Stanwell rebate accounting policy  
n.m. = not meaningful

## ***RETAIL***

Performance across the retail businesses was strong with earnings increasing 22.6 per cent compared to the previous corresponding period. The economy and consumer spending began to show signs of recovery during the period. This was somewhat tempered by the impact of three interest rate increases and the cycling of the December 2008 federal government stimulus package, which resulted in a more challenging discretionary retail environment.

The Coles division's (supermarkets, liquor, fuel and convenience) performance over the period was pleasing, generating an increase in EBIT of 12.8 per cent on the previous corresponding period to \$486 million. This result reflects the significant amount of work underway on the long-term turnaround of that business.

Total food and liquor store sales growth for the period was 7.1 per cent with comparative food and liquor sales growth of 6.0 per cent and second quarter growth of 5.9 per cent. Increasing customer numbers continued to be a primary driver of growth as strategic initiatives continue to improve customer service and value, merchandise offer, on-shelf availability and store standards generally.

Bunnings delivered another strong result with EBIT of \$422 million, up 14.1 per cent on the previous corresponding period, driven by good merchandising and operational strategies. Cash sales growth of 14.1 per cent was achieved for the period, with underlying store-on-store cash sales increasing by 11.2 per cent and 7.9 per cent in the second quarter.

Officeworks generated EBIT of \$27 million, 9.0 per cent higher than the previous corresponding period in what were challenging market conditions for its small-to-medium size business customers. Sales from the retail network grew 12.7 per cent over the period with second quarter growth of 13.1 per cent.

Target delivered a very good result with EBIT of \$279 million for the period, up 29.8 per cent on the previous corresponding period. This performance was driven by good merchandise planning, a favourable sales mix and tight cost control. Total sales for the period increased 4.2 per cent with comparable store sales growth of 1.7 per cent for the period and 1.6 per cent for the second quarter.

Kmart's turnaround showed very good progress in the period, with EBIT more than double the previous corresponding period despite slightly reduced revenue. This strong result was due to higher margins, reflecting improved category management and promotional strategy, as well as benefits from supply chain restructuring. Tight cost control was also evident. Total sales for the period decreased 1.0 per cent with comparable store sales declining 1.6 per cent for the period and 1.1 per cent for the second quarter as the business continued to exit unprofitable product lines and reset its customer offer.

## ***INDUSTRIAL***

EBIT from Resources was \$2 million compared with a record \$664 million in the previous corresponding period. The current period's result was affected by a significant reduction in global export coal prices following the March 2009 price settlements, and also included \$65 million of costs associated with the early close-out of a number of foreign exchange hedge contracts and the lag effect of the Stanwell royalty resulting in payments of \$106 million during the period. Benefiting the first half's results was a reduction in mine cash costs at Curragh following a strong focus in that area.

Global coal markets saw a progressive recovery over the period resulting in solid demand for export coal with sales of metallurgical coal from Curragh of 3.25 million tonnes, 6.8 per cent lower than the previous corresponding period which included initiatives to maximise output in a high price environment.

Rising demand has seen the forecast range for total metallurgical coal sales for the 2010 financial year increase to 6.3 - 6.8 million tonnes.

Wesfarmers' 40 per cent share of export steaming coal sales from the Bengalla mine was 1.2 million tonnes for the period, an increase of 5.6 per cent on the previous corresponding half.

Sales of domestic steaming coal from the Premier mine during the period was 1.3 million tonnes, down 26.9 per cent due to lower Verve Energy off-take.

The Energy, and Chemicals and Fertilisers divisions recorded improved results due to the return to full gas supply in June 2009 following the Varanus Island gas disruption. Chemicals and Fertilisers recorded EBIT for the half of \$27 million, including a \$25 million write-down of fertiliser inventory carried over from the 2009 financial year due to lower domestic prices. Energy recorded EBIT of \$56 million, compared to \$30 million in the previous corresponding period as a result of higher LPG production and improved Kleenheat Gas performance.

Industrial and Safety continued to experience sales and margin pressures due to a weaker economy resulting in broad cost reduction initiatives across its customer base. Despite reducing operating costs, EBIT was down 25.0 per cent to \$51 million in the half. Encouragingly, trading results improved progressively over the period as business activity increased.

### ***INSURANCE***

EBIT for the period decreased 13.4 per cent to \$58 million as a result of reduced investment income, from lower interest rates, and the exit from builders warranty insurance during the period.

Despite WFI experiencing higher than expected crop and property claims, underlying insurance performance improved following the recent restructuring in Lumley Australia and Lumley New Zealand. Broking EBITA was marginally lower than the corresponding period last year.

### ***OTHER BUSINESSES/CORPORATE***

Other businesses and non-trading items contributed before-tax earnings of \$31 million this period as against a loss of \$138 million in the previous comparative period. This included earnings of \$29 million from Gresham Private Equity Funds, due to upward non-cash revaluations compared to a loss of \$1 million in the same period last year.

In addition, Wesfarmers' investment in Bunnings Warehouse Property Trust generated earnings of \$10 million compared to a loss of \$5 million in the same period last year.

Non-trading and other one-off costs for the half totalled \$39 million, relating mainly to supply chain restructuring in Kmart, compared to a cost of \$148 million in the same period last year.

A focus on cost management saw corporate overheads reduce to \$46 million from \$74 million for the same period last year.



## ***CAPITAL MANAGEMENT***

Cash realisation<sup>2</sup> of 157 per cent for the period was a very good result and reflects ongoing initiatives to improve working capital across the Group as well as a benefit from fertiliser inventories returning to historical levels following high carry over from the 2009 financial year.

Operating cash flows for the period were \$2,083 million, compared to \$1,770 million for the previous corresponding period.

Increased operating cash flows more than offset additional capital expenditure, which increased by \$204 million compared to the previous corresponding period. The increase in capital expenditure was mainly in Coles and related to freehold property acquisitions, refurbishments and ongoing improvements to store standards.

Free cash flows for the period were \$1,192 million compared to \$1,083 million in the previous corresponding period.

During the period Wesfarmers issued A\$500 million in domestic 5-year corporate bonds while repaying \$972 million of debt. As a result, the Group's liquidity position improved with the closing net debt position reducing to \$3.8 billion and a closing net debt to equity ratio of 15.5 per cent.

The Group continues to look at opportunities to diversify its current debt profile.

## ***INTERIM DIVIDEND***

Consistent with the Group's dividend policy, which was revised in January 2009, the directors have declared a fully-franked interim dividend of 55 cents per share.

The Board's decision is based on the company's current and projected cash position, having regard to capital expenditure requirements, retained earnings, franking credits, debt levels and business and economic conditions generally. Wesfarmers will seek to deliver stable and growing dividends in the future.

The dividend will be paid on 31 March 2010 to shareholders on the company's register on 1 March 2010, the record date for the interim dividend.

Given the preference of many shareholders to receive dividends in the form of equity, the directors have decided to continue the operation of the Dividend Investment Plan (the "Plan"). The allocation price for shares under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 10 consecutive trading days from and including the second trading day after 1 March 2010.

No discount will apply to the allocation price and the Plan will not be underwritten. Given Wesfarmers' current capital structure and strong balance sheet, shares will be acquired on-market and transferred to participants on 31 March 2010 to satisfy any shares to be issued under the Plan.

## ***OUTLOOK***

The Group is well-positioned to benefit from any further upturn in the Australian and global economies.

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<sup>2</sup> Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation.

The current outlook for export coal, particularly metallurgical, is positive and is expected to result in earnings from the Resources division improving from the fourth quarter of this financial year.

The Industrial businesses and Insurance division are expected to continue to benefit from any further improvements in general economic conditions and, in the case of Insurance, increased investment income should further interest rate rises occur.

The Group is optimistic about the future performance of its retail businesses as customer offers and operations continue to improve, but it remains cautious of the Australian retail environment in the second half as retailers trade without the assistance of the prior year government stimulus and face potential impacts on consumer confidence and spending as a result of any further interest rate rises.

## ***DIVISIONAL UPDATES***

### ***COLES DIVISION***

The Coles half-year result demonstrates that the five-year turnaround strategy is on track. Total food and liquor revenue of \$12.0 billion grew 7.5 per cent and comparable food and liquor sales grew 6.0 per cent in the half, which was a good result.

Coles' focus on quality, service and value is driving increased customer transactions across the store network. As a result, five consecutive quarters of volume growth in food and liquor have been achieved since the new management team was appointed.

On average during the first half there were over 17 million customer visits per week to Coles food and liquor stores and Coles Express stores. Customer satisfaction is rising and focus groups show a positive customer response to key quality and service measures across the stores. This reflects the significant investment made to improve store and service standards including equipment investment and replacement, cleaning, product availability and service.

Food and liquor deflation in the six months to December 2009 was 0.9 per cent as Coles passed on the benefits of lower prices to customers. Suppliers have also enjoyed higher sales volumes as a result.

The GST-free campaign on feminine hygiene products and uniform pricing initiatives at a national and state level have also started to build customer faith in Coles as a supermarket they can trust to deliver more consistently on value as well as quality and service.

It was particularly pleasing to see a strong customer response to the Coles Christmas campaign this year. Sales were significantly higher this Christmas as a result of the 'Feed The Family' campaign, an expanded Coles Finest range of quality Christmas private label products and improved availability and store service standards.

Sell-through of seasonal Christmas lines was well managed and this will allow Coles to move quickly to its 2010 Easter campaign.

Coles Express' operating revenue for the period was \$3.1 billion with lower petrol prices and solid fuel volumes through the period. Comparative store sales (ex-fuel) grew 4.8 per cent over the period.

During the period, Coles Express was awarded the convenience retailer of the year award by the Australasian Association of Convenience Stores.

The supermarket renewal program continues with over 40 new stores now on the ground trialling new concepts that will be rolled out to other stores across the network in the next few years. Coles' focus on a better store network, including the transfer of smaller stores to FoodWorks, is resulting in higher sales densities and improved returns on capital across the store network.

During the first half, Coles opened nine supermarkets, 18 liquor stores, three Coles Express sites and one hotel. In addition, Coles refurbished 19 supermarkets and 15 liquor stores and refreshed 90 Coles Express sites.

Coles also commenced the transfer of 45 supermarkets to FoodWorks in the first half. At the end of the period, 18 of these sites had been transferred with the remainder expected to be completed by the end of the 2010 financial year.

At 31 December 2009, Coles had 749 supermarkets, 781 liquor stores, 626 Coles Express sites and 95 hotels.

### ***Outlook***

Any increase in interest rates or rising global petrol prices in 2010 will likely affect household disposable income and result in customers remaining strongly value driven which will reinforce the benefits of Coles' strategic commitment to value in each of its businesses.

During the next six months, Coles will continue to put the foundations in place for future growth by fixing the basics in our store network. As standards are progressively raised, Coles will look to transition to the next phase of its turnaround strategy - delivering consistently well - so that Coles can become a supermarket that Australians truly trust to provide quality, service and value.

## ***HOME IMPROVEMENT AND OFFICE SUPPLIES DIVISION***

### **Bunnings**

Operating revenue of the home improvement business increased by 13.1 per cent to \$3.4 billion in the first half. Earnings before interest and tax of \$422 million were 14.1 per cent higher than that recorded in the corresponding period last year. Trading earnings (net of property sale contributions) increased by 16.5 per cent.

Cash sales growth in Bunnings of 14.1 per cent was achieved, with underlying store-on-store cash sales growth of 11.2 per cent, reflecting strong continued organic growth in the business driven by merchandising and operational strategies. Pleasing results were achieved in all Australian states, New Zealand performed ahead of expectations, and growth was achieved across all product categories.

Trade sales were 7.2 per cent higher than the comparative period, a favourable outcome given ongoing challenges in the housing construction market which have been alleviated to some extent by government stimulus initiatives. The business continues to see good results coming from increased traction of its trade strategies.

Store network development activities increased over the period. Eight new warehouse stores, two small format stores and four trade centres were opened. Investment in bringing current building and merchandising standards into older parts of the network was sustained at similar levels to prior years. At the end of the period there were 181 warehouses, 58 smaller format stores and 25 trade centres operating across Australia and New Zealand.

The business is well positioned with an ongoing growth agenda driven by improvements to both the strength of the customer offer and the effectiveness and efficiency of operations as well as continued network expansion

### ***Outlook***

Continued retail sales growth is expected in the second half of the 2010 financial year, albeit at a likely lower growth rate given the impact of government stimulus in the comparative period last year. Trade sales are expected to be positively affected should housing construction pick up.

### **Officeworks**

Operating revenue of Officeworks increased 10.0 per cent to \$662 million for the first half, with earnings before interest and tax of \$27 million which was 9.0 per cent higher than that recorded in the corresponding period last year

Headline sales growth across the Officeworks retail store network in the reporting period was 12.7 per cent, a pleasing result given the challenging market conditions for small-to-medium size businesses. Sales growth was underpinned by strong transaction growth whilst pressure on margins and costs continued.

Four new stores were opened during the half and another seven existing stores were totally upgraded. Results from the refurbished stores have been pleasing. Implementation of the new point of sale system in all stores is now complete.

The Officeworks Business channel continues to gain sales momentum despite the volatility in confidence amongst small-to-medium size businesses.

The business remains focused on delivering its strategic agenda, with core actions focused on driving sales, improving the offer to customers, expanding and upgrading the retail store network and continuing to remove unnecessary cost and complexity.

### ***Outlook***

In a competitive marketplace, the pressures on margins and costs are expected to continue during the second half of the 2010 financial year. Moderate sales growth is expected as the business continues to focus on delivering its strategic agenda.

### ***TARGET DIVISION***

Operating revenue for the period was \$2.2 billion. Sales increased 4.2 per cent on the corresponding period last year with comparable store sales growth of 1.7 per cent. Earnings before interest and tax of \$279 million were 29.8 per cent ahead of the same period last year.

Target's market share of the department store sector continued to grow over the period.

Good sales results were achieved in some high margin fashion related departments, with particularly strong sales in ladieswear and children's related product. Consumer electronics and interactive games were down in comparison to the corresponding period last year when these categories benefited substantially from the government's stimulus package.

The business was acutely aware of the affect of the December 2008 government stimulus package and planned accordingly. By planning for a difficult sales period Target was able to close the period with appropriate inventory levels, especially in the key fashion related apparel categories. Pleasingly this was achieved without any substantial change to the marketing program compared to the prior year and, combined with a positive sales result in apparel, enabled the business to achieve a very good income result.

The business has continued its investment in the existing store network with 13 store refurbishments during the period. The focus remained on improving layout and customer traffic flow and enhancing in-store signage to assist with the customer experience.

Six new stores were opened during the period, three full line Target and three Target Country, taking the total number of stores in the network to 291.

### ***Outlook***

Current trading in this highly competitive market remains volatile.

The business will continue to take a cautious approach in setting expectations for the second half of the 2010 financial year given last year's significant government stimulus and the prospect of any further interest rate rises during the year.

Business priorities remain focused on maintaining flexibility through management of inventory, as well as delivering strong product offers to the customer.

Fifteen refurbishments and one new store are scheduled for the second half.

### ***KMART DIVISION***

Operating revenue for the period was \$2.2 billion, slightly lower than the corresponding period last year. Underlying earnings before interest and tax and non-trading items for the period of \$154 million were more than double that of the corresponding period last year.

Comparable store sales declined 1.6 per cent for the period as sales were affected by the exit of unprofitable categories, the reduction of unprofitable promotional activity and the impact of the December 2008 government stimulus. Adjusting for these impacts, encouraging sales performance was recorded across the business, particularly in apparel, entertainment and household departments.

Underlying profitability of the business has improved significantly with benefits coming from improved margins, due to the changes in product ranges, promotional program, and supply chain restructuring. Cost of doing business, having benefited from previous administration efficiencies, was also well controlled.

Final supply chain restructuring costs in the period (not included in underlying earnings) were \$33 million before tax.

In-store focus has centred on building a customer service culture by ensuring team members engage and serve, stores are cleaner, aisles are clear and checkouts are fast and friendly.

Two stores were opened during the period, three refits were completed and over 30 stores have now had floors and fitting rooms replaced. The business is continuing to actively look for new sites in the right locations.

Kmart Tyre and Auto Service results were ahead of last year, following sales growth across all categories.

As at 31 December there were 171 Kmart stores in Australia, 15 in New Zealand and 252 Kmart Tyre and Auto Service stores.

### ***Outlook***

The first stage of fixing the Kmart business model is progressing well, with a solid strategy and new leadership team in place delivering improved business profitability. Significant change still needs to occur to ensure that the offer continues to evolve to deliver everyday items to customers at low prices. Investment will continue in making stores cleaner, uncluttered and easier for customers to shop.

Kmart's strategy is now moving into its third phase, being 'Growth'. Whilst the first and second phases of 'Discovery' and 'Renewal' will remain active, customer engagement and the reintroduction of the Kmart brand to Australia and New Zealand is a major focus over the coming months.

It is expected that sales in the short-term will be moderate as the foundation and economics of the business model continue to be reset. The retail environment remains cautious given the prospect of any further interest rate rises and trading in the second half without the assistance of economic stimulus.

### ***RESOURCES DIVISION***

Operating revenue of \$624 million for the period was 56.3 per cent below the \$1.4 billion recorded in the corresponding period last year. Earnings before interest and tax of \$2 million were 99.7 per cent below last year.<sup>3</sup>

Earnings for the period reflected the significant fall in export coal prices from the March 2009 price settlements. Additionally, earnings were materially reduced by higher Stanwell royalty costs of \$106 million, reflecting the record prices Curragh received in the preceding financial year, and locked-in foreign exchange hedge losses of \$65 million.

- **Curragh (Qld):** Metallurgical coal sales volumes of 3.25 million tonnes were 6.8 per cent lower than the corresponding period last year while steaming coal volumes were also 24.9 per cent lower as a result of reduced exports. Results in the corresponding period last year reflected initiatives to maximise export volumes as a result of record prices. Aggressive cost reduction programs have delivered lower mine cash costs of 8 per cent over the period compared with the previous corresponding period.
- **Premier Coal (WA):** Sales volumes for the period were 26.9 per cent down, due to lower off-take by Verve Energy which was positively affected last year by the Varanus Island gas disruption.
- **Bengalla (NSW):** Sales volumes were 5.6 per cent above the corresponding period last year.

A highlight of the period was the decision in November to proceed with the \$286 million expansion of the Curragh mine to 8.0 - 8.5 million tonnes export capacity. Works have commenced with completion expected in late 2011.

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<sup>3</sup> 2008 EBIT restated following Stanwell royalty accounting change.

The Blackwater Creek diversion achieved practical completion on 10 December 2009, ahead of time and budget.

### ***Outlook***

The outlook is for improved earnings in the second half of the 2010 financial year, reflecting expectations of higher export coal prices for the upcoming Japanese financial year commencing April 2010, as well as lower Stanwell royalty obligations and foreign exchange hedge losses.

Expected sales of metallurgical coal at Curragh for the 2010 financial year are in the range of 6.3 to 6.8 million tonnes. Achievement of targeted sales volumes is subject to satisfactory operating performance and infrastructure constraints.

### ***INDUSTRIAL & SAFETY DIVISION***

Operating revenue for the period of \$637 million was 7.3 per cent below the corresponding period last year. Earnings before interest and tax for the period decreased by 25.0 per cent to \$51 million.

The comparatively lower first half results reflect the business activity slow-down which followed the global financial crisis resulting in delays to capital projects, lower activity levels in the resources sector generally and a cost reduction/deferral focus by many customers.

Most of the division's businesses experienced lower sales compared to the corresponding period last year with the exception of Packaging House, which continued to deliver solid growth. Encouragingly, most businesses experienced an increase in sales in the second quarter of the period.

During the period, the division maintained a strong focus on cost management which is expected to be a benefit should economic conditions continue to improve. The division also focused on working capital, resulting in stronger cash generation despite the lower earnings result.

The division continues to strengthen its delivery performance to customers, upgrade its distribution capabilities and networks, develop strong customer and supplier relationships and expand its direct sourcing capability.

Supply chain capability improvements included the completion of new purpose-built distribution centres for Blackwoods in Perth and Blackwoods Paykels in Auckland.

Other key achievements included the launch of new enhanced Blackwoods and Bullivants catalogues, the commissioning of Bullivants oil and gas equipment in Perth and the acquisition by Protector Alsafe in December of the three-branch Geminex business to strengthen its safety specialist offering in the Northern Territory.

On the technology front, a new telephony system was introduced and wireless warehousing technology was further rolled out. E-business sales grew significantly and a new Customer Relationship Management system was successfully developed which is currently being rolled out in Blackwoods and Protector Alsafe.

### ***Outlook***

The division is expected to benefit from a strong pipeline of significant resources, oil and gas and other infrastructure projects and any general improvement in industrial market conditions. In a very competitive market, pressure on margins is expected to continue.

The division will continue to have a focus on providing strong customer service and security of supply while investing in its people and strengthening capabilities and organisation effectiveness. Safety and sustainability will also continue to be a strong focus.

### ***CHEMICALS AND FERTILISERS DIVISION***

Operating revenue of \$433 million for the first half was 5.5 per cent below the comparative period last year. Earnings before interest and tax of \$27 million were significantly ahead of last year's result which was affected by the Varanus Island gas incident.

Earnings for the first half were affected by a \$25 million write down of fertiliser inventories carried over from the 2009 financial year due to falling domestic market prices. The first half results also include \$4 million in profit from the sale of CSBP's Mt Weld phosphate rock assets.

The ammonia business improved earnings compared to the comparative period last year with historically high levels of sales and production volumes following full gas supply throughout the period.

Ammonium nitrate sales and production from Kwinana were slightly higher than the corresponding period last year with good plant performance and increased demand. Earnings were also higher.

Earnings from the Queensland Nitrates joint venture were above the corresponding period last year reflecting higher sales and production levels.

Export sales from CSBP's sodium cyanide activities were similar to the corresponding period last year. Domestic sales were, however, higher due to increased activity in the gold extraction sector that included the commencement of the new mining operations at Boddington, Western Australia.

Sales, production and earnings from Australian Vinyls were all higher than the corresponding period last year. Despite this improved performance, the market for PVC in the construction sector remains depressed as does global pricing.

Fertiliser sales volumes were 16.9 per cent higher than the corresponding period last year. These higher volumes indicate a return to more traditional levels of fertiliser application, following low usage last year.

### ***Outlook***

The seasonal break in the second half of the 2010 financial year will determine the demand for fertiliser. CSBP continues to see growth in demand for its mining chemical products. Discussions with insurers in relation to the Varanus Island gas disruption claim are ongoing and the quantum of any claim or outcome is unknown at present. The FEED study into expanding ammonium nitrate production at Kwinana is progressing.

### ***ENERGY DIVISION***

Operating revenue reduced by 5.6 per cent to \$304 million, primarily due to lower international LPG prices. Earnings before interest and tax were \$56 million, compared to \$30 million for the same period last year. Last year's earnings were adversely affected by the Varanus Island gas incident and inventory write-downs following the sharp decline in international LPG prices towards the end of 2008.



## **Industrial, medical and speciality gases**

*Coregas:* Earnings were lower than last year due to reduced demand from Coregas' major customer and subdued market activity in New South Wales and Victoria.

*Air Liquide WA:* Earnings were higher than last year when supply shortages were experienced during the Varanus Island gas disruption.

## **LPG and LNG**

*Wesfarmers LPG:* Production volumes were 24.4 per cent above last year due to higher gas flow rates and LPG content in the Dampier to Bunbury pipeline. Export volumes were 47.6 per cent above last year due to the higher production. Earnings were higher than last year which was abnormally affected by the Varanus Island incident and LPG inventory write-downs.

*LNG:* The 175 tonne-per-day plant at Kwinana, commissioned in September 2008, has performed to expectations during its first year of operation. Earnings were higher than the same period last year due to the ramp up of production and sales.

*Kleenheat Gas:* LPG cylinder sales volumes were above last year due to growth in the Kwik-Gas cylinder exchange business, while bulk volumes were lower due to subdued industrial demand. Earnings were above last year due to improved margins and the adverse impact of the Varanus Island gas disruption in last year's results.

## **Power generation**

*enGen:* Earnings were above last year, primarily due to a full contribution from LNG-fuelled power generation at Sunrise Dam and Darlot mine sites in Western Australia which were fully commissioned in the second half of last financial year.

## **Outlook**

Continued industrial gas sales growth will be pursued and results in this segment are expected to benefit from any further improvement in economic conditions.

LPG earnings will continue to remain heavily dependent on international LPG prices, LPG content in the Dampier to Bunbury pipeline and domestic gas prices in Western Australia.

## **INSURANCE DIVISION**

Wesfarmers Insurance recorded modest revenue growth for the half to \$868 million. Revenue was affected by reduced investment income of \$19 million, driven by lower interest rates, and more disciplined risk selection. Underwriting performance improved from a combined operating ratio of 98.7 per cent in the corresponding period last year to 97.0 per cent for the current period driven mainly by better loss ratios.

Divisional earnings before interest, tax and amortisation ("EBITA") was \$63 million compared to \$75 million for the corresponding period last year. The lower earnings were a result of reduced investment income and losses associated with classes in run off.

Pleasing underlying improvement in earnings was driven by Lumley Australia and Lumley New Zealand. The benefits of portfolio remediation and better risk selection have improved net loss ratios, notwithstanding losses of \$6 million associated with the run off of the builders warranty portfolio.

Generally, benign weather conditions in Australia and New Zealand relative to the prior corresponding period also benefited the underwriting result. However, WFI experienced higher than expected crop and property claims from isolated storms and bushfires.

Broking EBITA was \$3 million lower than the corresponding period last year. This was affected by lower investment income and unfavourable movements in GBP and NZD exchange rates. Broking revenue growth was constrained by economic factors leading to lower levels of client insurance and fewer acquisitions.

### ***Outlook***

Any further improvement in economic conditions and rising interest rates are expected to benefit the performance of underwriting and broking operations, subject to weather conditions.

The continued focus on improved risk selection and the impact of premium rate increases in Lumley Australia and New Zealand are expected to lead to further improvements in underwriting margins. Modest to flat growth in gross written premium is expected following the exit from certain arrangements and classes of business that did not meet underwriting criteria.

Profitable growth in premiums is being targeted from a number of new initiatives including the expansion of commercial business placed with brokers through the Lumley “my.place” EDI system, the recruitment of a new Corporate Solutions team and personal lines initiatives.

There continues to be strong competition in commercial lines across most classes. Reinsurance markets remain robust following strong results globally in 2009 which is creating additional capacity with some softening of reinsurance rates apparent in recent months.


## **AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's Independence Declaration on page 36 forms part of the Directors' Report for the half-year ended 31 December 2009.

## **ROUNDING**

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

A handwritten signature in cursive script that reads "R L Every".

**R L Every**  
Director  
Perth, 18 February 2010

## Income statement

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED	
		2009 \$m	2008 \$m
<b>Revenue</b>			
Sale of goods		25,524	25,282
Rendering of services		834	907
Interest		71	79
Other		104	95
		<b>26,533</b>	<b>26,363</b>
<b>Expenses</b>			
Raw materials and inventory		(17,721)	(17,444)
Employee benefits expense	5	(3,504)	(3,355)
Net insurance claims, reinsurance and commissions		(597)	(584)
Freight and other related expenses		(413)	(424)
Occupancy-related expenses	5	(1,047)	(972)
Depreciation and amortisation	5	(449)	(423)
Other expenses	5	(1,388)	(1,489)
		<b>(25,119)</b>	<b>(24,691)</b>
Other income	5	80	63
Finance costs	5	(319)	(478)
Share of profits and losses of associates		53	2
		<b>1,228</b>	<b>1,259</b>
<b>Profit before income tax</b>		<b>1,228</b>	<b>1,259</b>
Income tax expense	8	(349)	(388)
		<b>879</b>	<b>871</b>
<b>Profit attributable to members of the parent</b>		<b>879</b>	<b>871</b>
Earnings per share (cents per share)	3		
– basic for profit for the period attributable to ordinary (including partially protected) equity holders of the parent		76.3	103.6
– diluted for profit for the period attributable to ordinary (including partially protected) equity holders of the parent		76.1	103.3

Dilution to earnings per share arises as a result of the employee reserved shares issued under the employee share plan being accounted for as in-substance options.

## Statement of comprehensive income

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	2009	2008
Note	\$m	\$m
<b>Foreign currency translation reserve</b>		
Exchange differences on translation of foreign operations	3	7
<b>Available-for-sale financial assets reserve</b>		
Changes in the fair value of available-for-sale financial assets	1	(6)
Tax effect	-	2
<b>Cash flow hedge reserve</b>		
Unrealised changes in the fair value of cash flow hedges	21	(929)
Realised (gains)/losses transferred to net profit	116	81
Realised (gains)/losses transferred to non-financial assets	124	(199)
Tax effect	(78)	314
<b>Retained earnings</b>		
Actuarial loss on defined benefit plan	-	(101)
Tax effect	-	30
<b>Other comprehensive income for the period net of tax</b>	<b>187</b>	<b>(801)</b>
<b>Net profit for the period</b>	<b>879</b>	<b>871</b>
<b>Total comprehensive income for the period net of tax</b>	<b>1,066</b>	<b>70</b>

## Balance sheet

as at 31 December 2009 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED	
		December 2009 \$m	June 2009 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,212	2,124
Trade and other receivables		1,902	1,893
Inventories		5,054	4,665
Derivatives		73	38
Investments backing insurance contracts		1,013	1,003
Other		313	221
<b>Total current assets</b>		<b>10,567</b>	<b>9,944</b>
<b>Non-current assets</b>			
Receivables		200	211
Available-for-sale investments		19	18
Investment in associates		440	392
Deferred tax assets		685	766
Property, plant and equipment		7,253	6,912
Intangible assets		4,346	4,365
Goodwill		16,282	16,273
Derivatives		63	147
Other		34	34
<b>Total non-current assets</b>		<b>29,322</b>	<b>29,118</b>
<b>Total assets</b>		<b>39,889</b>	<b>39,062</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		5,130	4,054
Interest-bearing loans and borrowings		339	634
Income tax payable		73	27
Provisions		1,061	1,066
Insurance liabilities		1,234	1,198
Derivatives		224	413
Other		259	169
<b>Total current liabilities</b>		<b>8,320</b>	<b>7,561</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings		5,332	5,535
Provisions		1,069	1,042
Insurance liabilities		433	503
Derivatives		90	153
Other		19	20
<b>Total non-current liabilities</b>		<b>6,943</b>	<b>7,253</b>
<b>Total liabilities</b>		<b>15,263</b>	<b>14,814</b>
<b>Net assets</b>		<b>24,626</b>	<b>24,248</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Contributed equity	10	23,286	23,286
Employee reserved shares	10	(56)	(62)
Retained earnings	7	1,364	1,179
Reserves		32	(155)
<b>Total equity</b>		<b>24,626</b>	<b>24,248</b>

## Cash flow statement

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED	
		2009 \$m	2008 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		28,302	27,990
Payments to suppliers and employees		(25,702)	(25,480)
Dividends and distributions received from associates		7	44
Interest received		71	79
Borrowing costs		(297)	(461)
Income tax paid		(298)	(402)
<b>Net cash flows from operating activities</b>	9	<b>2,083</b>	<b>1,770</b>
<b>Cash flows from investing activities</b>			
Net acquisition of insurance deposits		(9)	(110)
Purchase of property, plant and equipment and intangibles		(891)	(687)
Proceeds from sale of property, plant and equipment		33	20
Net investments in associates and joint ventures		(3)	(9)
Acquisition of subsidiaries, net of cash acquired		(8)	(10)
<b>Net cash flows used in investing activities</b>		<b>(878)</b>	<b>(796)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		543	1,388
Repayment of borrowings		(972)	(1,360)
Proceeds from exercise of in-substance options under the employee share plan		3	4
Equity dividends paid		(691)	(732)
<b>Net cash flows used in financing activities</b>		<b>(1,117)</b>	<b>(700)</b>
Net increase in cash and cash equivalents		88	274
Cash and cash equivalents at beginning of period		2,124	638
<b>Cash and cash equivalents at end of period</b>	9	<b>2,212</b>	<b>912</b>

## Statement of changes in equity

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

CONSOLIDATED	Note	Attributable to equity holders of the parent					Total equity \$m
		Issued capital \$m	Employee reserved shares \$m	Retained earnings \$m	Hedging reserve	Other reserves \$m	
<b>Balance at 1 July 2008 - as previously stated</b>		18,173	(76)	1,176	161	164	19,598
Change in accounting policy	2	-	-	9	-	-	9
Restated balance		18,173	(76)	1,185	161	164	19,607
Exchange differences on translation of foreign operations		-	-	-	-	7	7
Changes in the fair value of available-for-sale assets net of tax		-	-	-	-	(4)	(4)
Changes in the fair value of cash flow hedges net of tax	13	-	-	-	(733)	-	(733)
Actuarial loss on defined benefit plan		-	-	(71)	-	-	(71)
Total other comprehensive income for the period net of tax		-	-	(71)	(733)	3	(801)
Net profit for the period		-	-	871	-	-	871
Total comprehensive income for the period net of tax		-	-	800	(733)	3	70
Transactions with equity holders in their capacity as equity holders:							
Issue of shares	10	428	-	-	-	-	428
Proceeds from exercise of in-substance options	10	-	4	-	-	-	4
Other	10	-	8	-	-	-	8
Equity dividends	6	-	6	(1,079)	-	-	(1,073)
		428	18	(1,079)	-	-	(633)
<b>Balance at 31 December 2008</b>		18,601	(58)	906	(572)	167	19,044
<b>Balance at 1 July 2009 - as previously stated</b>		23,286	(62)	1,183	(307)	152	24,252
Change in accounting policy	2	-	-	(4)	-	-	(4)
Restated balance		23,286	(62)	1,179	(307)	152	24,248
Exchange differences on translation of foreign operations		-	-	-	-	3	3
Changes in the fair value of available-for-sale assets net of tax		-	-	-	-	1	1
Changes in the fair value of cash flow hedges net of tax	13	-	-	-	183	-	183
Total other comprehensive income for the period net of tax		-	-	-	183	4	187
Net profit for the period		-	-	879	-	-	879
Total comprehensive income for the period net of tax		-	-	879	183	4	1,066
Transactions with equity holders in their capacity as equity holders:							
Proceeds from exercise of in-substance options	10	-	3	-	-	-	3
Equity dividends	6	-	3	(694)	-	-	(691)
		-	6	(694)	-	-	(688)
<b>Balance at 31 December 2009</b>		23,286	(56)	1,364	(124)	156	24,626



## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

### 1 Corporate information

The financial report of Wesfarmers Limited (the "Company") for the half year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 18 February 2010. Wesfarmers Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

### 2 Basis of preparation and accounting policies

#### (a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2009 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half year financial report should be read in conjunction with the annual financial report for the year ended 30 June 2009 and considered together with any public announcements made by the Company during the half year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half year financial report is presented in Australian dollars and all values are rounded to the nearest million dollars unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

#### (b) Significant accounting policies

Except as noted below, the same accounting policies and methods of computation have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in the most recent annual financial report.

### New and revised Accounting Standards and Interpretations

From 1 July 2009, Wesfarmers Limited and its subsidiaries (the "Group") has adopted all Australian Accounting Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2009, including:

- AASB 8 *Operating Segments*

This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group has determined that its reportable segments are the same as the business segments previously reported under AASB 114 *Segment Reporting*. Additional disclosures about each of these segments are shown in note 4, including revised comparative information.

- AASB 123 *Borrowing Costs (Revised)*

The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. Under the Group's existing accounting policy, borrowing costs relating to qualifying assets are capitalised, therefore, this revision does not result in any change for the Group.

- AASB 101 *Presentation of Financial Statements (Revised)*

The revised Standard introduces the requirement to produce a statement of comprehensive income that presents all items of recognised income and expense. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements and changes in the presentation requirements for dividends.

- AASB 2008-1 *Amendments to Australian Accounting Standard Share-based Payments: Vesting Conditions and Cancellations*

The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' and prescribe the accounting treatment of an award where conditions that are neither service nor performance conditions ("non-vesting conditions") are not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

### 2 Basis of preparation and accounting policies (continued)

#### (b) Significant accounting policies (continued)

- AASB 3 *Business Combinations*

The revised Standard introduces a number of changes to the accounting treatment of business combinations, the most significant of which includes the requirement to recognise transaction costs immediately in earnings as an expense and a choice to measure a non-controlling interest in the acquiree (formerly a minority interest) either at its fair value, or at its proportionate interest in the acquiree's net assets. This choice will result in goodwill being recognised on acquisition relating to 100 per cent of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The adoption of this amendment did not have a material impact on the financial position or performance of the Group.

#### Change in accounting policy - Coal rebates payable and rights to mine

From 1 July 2009, the Group has elected to change its accounting policy in relation to the rebate payable to Stanwell Corporation for the right to mine the Curragh North deposit so as to better align the timing of the rebate expense with the actual contractual obligations to pay such amount. This change will bring the accounting treatment in line with industry practice and simplify the presentation of the financial statements.

Under the previous accounting policy, the Group recognised a provision related to its total expected future rebate obligation and an intangible right to mine asset for the same amount based on the committed contracts on hand. Both the provision and the intangible right to mine asset changed over time as and when Curragh entered into new export contracts or there were changes in contract prices. The Group also recorded a monthly amortisation expense related to the intangible right to mine asset as well as a finance cost that reflected the unwinding of the discount of the liability.

There has been no change to the contractual arrangements or rebate payments made to Stanwell as a result of this accounting policy change and the net impact on both current and retained earnings for the Group is not material. The impact of the change in accounting policy has been applied retrospectively to previous reporting periods in accordance with Australian Accounting Standards.

The change in accounting policy has the balance sheet impact at 31 December 2009 of reducing financial liabilities by \$140 million (30 June 2009: \$246 million) offset by a reduction in property plant and equipment of \$106 million (30 June 2009: \$214 million) and other net assets of \$27 million (30 June 2009: \$34 million).

The change in accounting policy has resulted in a reduction in depreciation and amortisation at 31 December 2009 of \$106 million (half year ended 31 December 2008: \$54 million) and a reduction in finance costs of \$5 million (half year ended 31 December 2008: \$10 million). The above reduction in expenditure has been largely offset by an increase in royalty and other expenses of \$97 million (half year ended 31 December 2008: \$76 million). The net impact of the change in accounting policy on profit after tax at 31 December 2009 is an increase of \$9 million (half year ended 31 December 2008: reduction of \$8 million).

The cumulative financial statement impact of the change in accounting policy has resulted in an increase in retained earnings as at 31 December 2009 of \$7 million (30 June 2009: reduction of \$2 million).

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

### 3 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to members of the parent, by the weighted average number of ordinary shares (including partially protected shares) outstanding during the year (excluding employee reserved shares).

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the year (excluding employee reserved shares) plus, the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares.

Each partially protected ordinary share confers rights on a partially protected shareholder that are the same in all respects to those conferred by an ordinary share on an ordinary shareholder on an equal basis. In addition, partially protected shares provide a level of downside share protection. Full terms and conditions are available from the Company website [www.wesfarmers.com.au](http://www.wesfarmers.com.au).

Basic and diluted earnings per share calculations are as follows:

	CONSOLIDATED	
	2009	2008
	\$m	\$m
Profit attributable to members of the parent	<b>879</b>	871
	shares (m)	shares (m)
Weighted average number of ordinary shares (including partially protected shares) for basic earnings per share	<b>1,152</b>	801
Effect of dilution - employee reserved shares	<b>3</b>	2
Weighted average number of ordinary shares (including partially protected shares) adjusted for the effect of dilution	<b>1,155</b>	803
Adjustment factor - Entitlement offer announced on 22 January 2009	-	1.05
Earnings per share (cents per share)	cents	cents
- basic for profit for the period attributable to ordinary (including partially protected) equity holders of the parent	<b>76.3</b>	103.6
- diluted for profit for the period attributable to ordinary (including partially protected) equity holders of the parent	<b>76.1</b>	103.3

Prior period earnings per share have been restated with an adjustment factor of 1.05 as a result of the equity issue announced in January 2009, which included a 3 for 7 accelerated pro-rata non-renounceable entitlement offer at an offer price of \$13.50 per share which included a fully underwritten institutional component; and additional proceeds of \$900 million raised by placements to two strategic investors. Details of the shares issued are outlined in note 10.

In the half year ended 31 December 2008, earnings per share were restated with an adjustment factor of 1.03 which only reflected the institutional component of the entitlement offer as the retail component had not settled at the time of reporting. The adjustment factor of 1.05 disclosed above reflects settlement of both the institutional and retail components.

There have been no transactions involving ordinary shares between the reporting date and the date of completion of these financial statements, apart from the normal conversion of employee reserved shares (treated as in-substance options) to unrestricted ordinary shares and the conversion of partially protected ordinary shares to ordinary shares.

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

### 4 Segment information

The operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and operates in different industries and markets. The Board and executive management team (the chief operating decision makers) monitor the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The types of products and services from which each reportable segment derives its revenues is disclosed in the Wesfarmers 30 June 2009 financial statements. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Interest income and expenditure are not allocated to operating segments, as this type of activity is managed on a group basis.

Revenue and earnings of various divisions are affected by seasonality and cyclicalities as follows:

- for retail divisions, particularly Kmart and Target, earnings are typically greater in the December half of the financial year due to the impact on the retail business of the Christmas holiday shopping period; and
- for the Resources division, the majority of the entity's coal contracts are renewed in April each calendar year which, depending upon the movement in prevailing coal prices, can result in significant changes in revenue and earnings in the last quarter of the financial year through to the third quarter of the following year.

Transfer prices between business segments are set at an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

	COLES <sup>1</sup>		HOME IMPROVEMENT AND OFFICE SUPPLIES		RESOURCES <sup>2</sup>		INSURANCE		KMART		TARGET	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m
<b>Segment revenue</b>	<b>15,161</b>	14,626	<b>4,064</b>	3,611	<b>624</b>	1,427	<b>868</b>	864	<b>2,226</b>	2,249	<b>2,182</b>	2,094
<b>Segment result</b>												
Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads	<b>688</b>	628	<b>503</b>	440	<b>61</b>	715	<b>70</b>	82	<b>182</b>	100	<b>311</b>	245
Depreciation and amortisation	<b>(202)</b>	(197)	<b>(54)</b>	(45)	<b>(59)</b>	(51)	<b>(12)</b>	(15)	<b>(28)</b>	(25)	<b>(32)</b>	(30)
Earnings before interest, tax (EBIT) and corporate overheads	<b>486</b>	431	<b>449</b>	395	<b>2</b>	664	<b>58</b>	67	<b>154</b>	75	<b>279</b>	215
	INDUSTRIAL AND SAFETY		ENERGY <sup>3</sup>		CHEMICALS AND FERTILISERS <sup>3</sup>		OTHER <sup>4</sup>		CONSOLIDATED			
	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m
<b>Segment revenue</b>	<b>637</b>	687	<b>304</b>	322	<b>433</b>	458	<b>34</b>	25	<b>26,533</b>	26,363		
<b>Segment result</b>												
Earnings before interest, tax, depreciation, amortisation (EBITDA) and corporate overheads	<b>58</b>	75	<b>79</b>	52	<b>57</b>	34	<b>33</b>	(137)	<b>2,042</b>	2,234		
Depreciation and amortisation	<b>(7)</b>	(7)	<b>(23)</b>	(22)	<b>(30)</b>	(30)	<b>(2)</b>	(1)	<b>(449)</b>	(423)		
Earnings before interest, tax (EBIT) and corporate overheads	<b>51</b>	68	<b>56</b>	30	<b>27</b>	4	<b>31</b>	(138)	<b>1,593</b>	1,811		
Finance costs									<b>(319)</b>	(478)		
Corporate overheads									<b>(46)</b>	(74)		
Profit before income tax expense									<b>1,228</b>	1,259		
Income tax expense									<b>(349)</b>	(388)		
<b>Profit attributable to members of the parent</b>									<b>879</b>	871		

1 Coles division comprises the supermarket, liquor, convenience and Coles property businesses.

2 Resources prior period results have been restated following a change in accounting policy. Prior period EBIT has reduced largely due to a reclassification of finance costs as outlined in note 2(b). 2009 includes locked-in exchange rate losses of \$65 million (2008: nil) and Stanwell rebate expense of \$106 million (2008: \$66 million).

3 Prior period results were affected by the gas supply disruption caused by the explosion at Varanus Island during the period. These disruptions are subject to an insurance recovery process which is yet to be resolved. No insurance recovery amounts have been recognised in the above results.

4 2009 includes interest revenue of \$29 million (2008: \$22 million), share of profit/(loss) of Gresham Private Equity Funds of \$29 million (2008: (\$1) million) and other investments of \$10 million (2008: (\$21) million), Coles Property impairment of \$6 million (2008: \$65 million) and Kmart supply chain and restructuring costs of \$33 million (2008: \$14 million). Prior year results were also impacted by an increase in self-insurance provisions of \$48 million due largely to a revision to discount rates.

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	2009 \$m	2008 \$m
<b>5 Revenue and expenses</b>		
<b>Employee benefits expense</b>		
Remuneration, bonuses and on-costs	3,373	3,247
Amounts provided for employee entitlements	80	63
Share based payments expense	51	45
	<b>3,504</b>	<b>3,355</b>
<b>Occupancy related expenses</b>		
Minimum lease payments	841	773
Other	206	199
	<b>1,047</b>	<b>972</b>
<b>Depreciation and amortisation</b>		
Depreciation	360	324
Amortisation of intangibles	41	46
Amortisation other	48	53
	<b>449</b>	<b>423</b>
<b>Other expenses included in the income statement</b>		
Impairment of freehold property	6	66
Impairment/(reversal of impairment) of plant, equipment and other assets	(6)	48
Government mining royalties	42	116
Stanwell rebate	106	66
Repairs and maintenance	199	183
Utilities and office expenses	452	406
Self-insurance expenses	121	169
Other	468	435
	<b>1,388</b>	<b>1,489</b>
<b>Other income</b>		
Gains on disposal of property, plant and equipment	3	9
Gains on sale of controlled entities	7	1
Other income	70	53
	<b>80</b>	<b>63</b>
<b>Finance costs</b>		
Interest expense	284	434
Discount adjustment	31	31
Amortisation of debt establishment costs	12	7
Ineffective interest rate swap (gains)/losses	(17)	-
Other	9	6
	<b>319</b>	<b>478</b>

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	2009	2008
	\$m	\$m
<b>6 Dividends paid and proposed</b>		
<b>Declared and paid during the period (fully franked at 30%)</b>		
Final franked dividend for 2009: \$0.60 (2008: \$1.35)	<b>694</b>	1,079
<b>Proposed and not recognised as a liability (fully franked at 30%)</b>		
Interim franked dividend for 2010: \$0.55 (2009: \$0.50)	<b>636</b>	408
<b>7 Retained earnings</b>		
<b>Balance as at 1 July</b>	<b>1,179</b>	1,185
Net profit	<b>879</b>	871
Dividends	<b>(694)</b>	(1,079)
Actuarial loss on defined benefit plan	-	(71)
<b>Balance as at 31 December</b>	<b>1,364</b>	906
<b>8 Income tax</b>		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax	<b>1,228</b>	1,259
At the statutory income tax rate of 30% (2008: 30%):	<b>368</b>	378
Adjustments in respect of current income tax of previous years	<b>(1)</b>	(8)
Additional Federal Government Investment Allowance deductions	<b>(16)</b>	-
Non-deductible writedown of investments	<b>2</b>	20
Other	<b>(4)</b>	(2)
Income tax expense/(credit) reported in the consolidated income statement	<b>349</b>	388

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	2009	2008
	\$m	\$m
<b>9 Cash flows</b>		
<b>Reconciliation to cash flow statement</b>		
For the purposes of the cash flow statement, cash and cash equivalents are comprised of the following:		
Cash on hand and in transit	284	277
Cash at bank and on deposit	1,848	560
Insurance broking trust accounts	81	76
Bank overdraft	(1)	(1)
	<b>2,212</b>	<b>912</b>
<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit	879	871
<i>Adjustments</i>		
Depreciation and amortisation	449	423
Impairment of freehold property	6	66
Impairment/(reversal of impairment) of plant, equipment and other assets	(6)	48
Net (gain)/loss on disposal of property, plant and equipment	36	7
Share of associates' net (profit) / loss	(53)	(2)
Dividends and distributions received from associates	7	44
Discount adjustment	31	31
Amortisation of debt establishment costs	12	7
Ineffective interest rate swap (gains)/losses	(17)	-
Non-cash issue of shares recognised in earnings	10	45
Other	9	6
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in inventories	(397)	(651)
(Increase)/decrease in trade and other receivables	8	8
(Increase)/decrease in prepayments	(109)	(130)
(Decrease)/increase in trade and other payables	1,075	896
(Increase)/decrease in pension assets	-	(9)
(Increase)/decrease in deferred tax assets	3	34
(Decrease)/increase in current tax liability	46	(33)
(Decrease)/increase in provisions	(5)	38
(Decrease)/increase in other liabilities	99	71
Net cash from operating activities	<b>2,083</b>	<b>1,770</b>
<b>Non-cash financing and investing activities</b>		
Issue of share capital under employee long term incentive plans	-	83
Issue of share capital under dividend investment plan	-	342

## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

### 10 Contributed equity

Movement in ordinary shares on issue	Thousands	\$m
At 1 July 2008	647,183	11,785
Issue of shares under non executive director plan at \$31.82 per share	5	-
Issue of shares under salary sacrifice share plan at \$29.09 per share	57	2
Issue of shares under dividend investment plan at \$30.46 per share	11,230	342
Issue of shares under employee long term incentive plans at \$18.11 per share	4,575	83
Issue of shares under salary sacrifice plan at \$16.25 per share	141	2
Partially protected ordinary shares converted to ordinary shares at \$41.95 per share	288	12
Transaction costs associated with entitlement offer	-	(1)
At 31 December 2008	663,479	12,225
Issue of shares under salary sacrifice plan at \$18.72 per share	87	2
Issue of shares under placement at \$14.25 per share	63,158	900
Issue of shares under institutional book build at \$15.00 per share	30,153	452
Issue of shares under institutional entitlement offer at \$13.50 per share	115,282	1,556
Issue of shares under non executive director plan at \$16.86 per share	9	-
Issue of shares under retail entitlement offer at \$13.50 per share	128,661	1,737
Issue of shares under dividend investment plan at \$17.37 per share	4,217	73
Issue of shares under retail entitlement offer at \$13.50 per share	59	1
Partially protected ordinary shares converted to ordinary shares at \$41.95 per share	22	1
Transaction costs associated with entitlement offer	-	(36)
<b>At 30 June 2009</b>	<b>1,005,127</b>	<b>16,911</b>
<b>Partially protected ordinary shares converted to ordinary shares at \$41.95 per share</b>	<b>19</b>	<b>1</b>
<b>At 31 December 2009</b>	<b>1,005,146</b>	<b>16,912</b>

Movement in partially protected ordinary shares on issue	Thousands	\$m
At 1 July 2008	152,255	6,388
Partially protected ordinary shares converted to ordinary shares at \$41.95 per share	(288)	(12)
At 31 December 2008	151,967	6,376
Partially protected ordinary shares converted to ordinary shares at \$41.95 per share	(22)	(1)
<b>At 30 June 2009</b>	<b>151,945</b>	<b>6,375</b>
<b>Partially protected ordinary shares converted to ordinary shares at \$41.95 per share</b>	<b>(19)</b>	<b>(1)</b>
<b>At 31 December 2009</b>	<b>151,926</b>	<b>6,374</b>
<b>Total contributed equity</b>	<b>1,157,072</b>	<b>23,286</b>

Movement in employee reserved shares on issue	Thousands	\$m
At 1 July 2008	5,270	76
Exercise of in-substance options	(283)	(4)
Dividends applied	-	(6)
Other	-	(8)
At 31 December 2008	4,987	58
Exercise of in-substance options	(214)	(2)
Dividends applied	-	(2)
Other	-	8
<b>At 30 June 2009</b>	<b>4,773</b>	<b>62</b>
<b>Exercise of in-substance options</b>	<b>(240)</b>	<b>(3)</b>
<b>Dividends applied</b>	<b>-</b>	<b>(3)</b>
<b>At 31 December 2009</b>	<b>4,533</b>	<b>56</b>



## Notes to the financial statements

for the half year ended 31 December 2009 – Wesfarmers Limited and its controlled entities

### 11 Borrowing and repayment of debt

On 4 September 2009 Wesfarmers announced the issue of \$400 million of unsecured fixed rate medium term notes maturing in September 2014, with pricing of 260 basis points over the five year mid swap rate; and \$100 million of unsecured floating rate medium term notes maturing in September 2014, with a pricing of 260 basis points over the average mid three month Bank Bill Reference Rate (BBSW). Settlement on the transaction was on 11 September 2009.

Proceeds from the issue of medium term notes and cash on hand were applied towards the repayment of \$472 million of current debt and \$500 million of non-current debt. The non-current debt repaid consisted of \$300 million maturing in December 2011 and \$200 million maturing in December 2012.

On 25 January 2010, the Group repaid \$200 million of bilateral facilities maturing in December 2011.

### 12 Impairment testing

Wesfarmers is required to review at the end of each reporting period whether there is any indication that an asset may be impaired, in accordance with Australian Accounting Standards. Wesfarmers has reviewed each cash-generating unit for indications of impairment using both external and internal sources of information. This review included an assessment of performance against expectations and changes in market values or discount rates.

Discount rates have remained largely consistent with those used for 30 June 2009 impairment testing. Changes in discount rates used for impairment testing could cause the carrying value of non current assets to exceed their recoverable amount. Such an increase in the discount rates could arise, for example, following an increase in the prevailing risk-free and borrowing rates.

Detailed impairment testing has been completed of non-current assets when the existence of an indication of impairment has been identified. At 31 December 2009, the carrying value of these assets did not exceed their recoverable amount determined for impairment testing purposes.

Wesfarmers will perform detailed annual impairment testing prior to the end of the financial year using cash flow projections based on Wesfarmers' Board-approved five year corporate plans to be updated in early 2010. Any significant changes in the corporate plan from previous periods could cause the carrying value of non current assets to exceed their recoverable amount.

### 13 Cash flow hedge reserve

The change in cash flow hedge reserve to 31 December 2009 represents the after-tax net movement in market value of effective cash flow hedges from 30 June 2009 and comprised: \$57 million (2008: \$391 million) of interest rate swaps; and \$126 million (2008: \$342 million) of foreign exchange rate contracts.

### 14 Events after the balance sheet date

#### Dividend

A fully franked dividend of 55 cents per share resulting in a dividend payment of \$636 million was declared for payment on 31 March 2010. The dividend has not been provided for in the 31 December 2009 half year financial statements.

#### Board resignation

On 8 February 2010, Mrs Patricia Cross announced her resignation from the Board of Wesfarmers following the appointment of her husband, Mr Paul Meadows, as Group General Counsel to the Company. Mrs Cross has been a non-executive director of Wesfarmers since 2003. Her resignation from the Wesfarmers Board will be effective from the end of March, 2010.

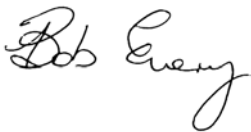
## **Directors' Declaration**

### **WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES**

In accordance with a resolution of the directors of Wesfarmers Limited, I note that in the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**R L Every**

Director

Perth, 18 February 2010

To the members of Wesfarmers Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Wesfarmers Limited (the “company”), which comprises the balance sheet as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors’ declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors’ Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor’s Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity’s financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Wesfarmers Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor’s Independence Declaration, a copy of which is included in the Directors’ Report.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Wesfarmers Limited is not in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the six months ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

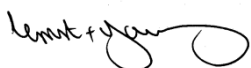
Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz'.

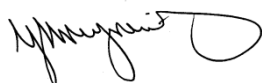
G H Meyerowitz  
Partner  
Perth  
18 February 2010

## Auditor's Independence Declaration to the Directors of Wesfarmers Limited

In relation to our review of the financial report of Wesfarmers Limited for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read 'Ernst & Young', with a large, stylized flourish at the end.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz', with a large, stylized flourish at the end.

G H Meyerowitz  
Partner  
Perth  
18 February 2010