Wesfarmers Limited
ABN 28 008 984 049

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FIRST HALF PROFIT

The directors of Wesfarmers Limited today announced a profit of $447.5 million for the half-year ended 31 December 2005, an increase of almost $120 million or 36 per cent on the $327.9 million (re-stated for AIFRS) earned in the corresponding six months last year.

The Energy division made a significant contribution to the increased earnings largely due to higher export coal prices and increased volumes.

Operating revenue rose from $4.0 billion to $4.4 billion for the half-year.

The 31 December 2005 half-year result included profit before tax of $1.1 million on the sale of non-current assets compared with $3.4 million in the same period last year. It also included the full cost of shares issued to employees under the employee share plan, of $27.1 million before tax.

Earnings per share for the six months were 121.4 cents compared with 90.1 cents for the corresponding period last year. Operating cashflow per share of 115 cents was above the 85 cents recorded last year.

As announced earlier today, Wesfarmers and its joint venture partner Genesee & Wyoming ("G&W") have entered into an agreement to sell the Australian Railroad Group ("ARG") to Babcock & Brown and Queensland Rail. Completion of the transaction, which also involves separation of the South Australian operations from ARG and Wesfarmers disposing of its rail interests in that state to G&W, is expected before the end of the current financial year following certain regulatory approvals. Wesfarmers expects to record a pre-tax profit on sale of approximately $235 million.

Hardware

Operating revenue of the Bunnings hardware merchandising business increased by 3.8 per cent to $2.22 billion in the first half. Earnings before interest and tax of $220.9 million were 2.0 per cent lower than the $225.4 million earned in the corresponding period last year. The result includes $15.5 million of costs associated with the employee share plan and an additional net $3.9 million in refurbishment expenses associated mainly with the previously announced Sydney network refurbishment programme. Adjusted for these costs, the comparative growth in earnings before interest and tax was 6.3 per cent over the corresponding period last year.

Cash sales growth of 4.7 per cent was achieved, with underlying store-on-store cash sales growth (for the six month period) of around 2.7 per cent. Good results were recorded in Queensland, New South Wales, Western Australia and New Zealand. As previously noted, trading was slower in the first quarter before picking up well in the second quarter. Store-on-store sales growth for the second quarter was around 4.0 per cent. Sales were strongest, relative to the previous corresponding period, in the outdoor and garden product categories.

Trade sales were 0.2 per cent lower than in the comparative period last year due to the competitive trading environment and a declining residential building market, particularly in eastern Australian regions. Good progress is being made in re-aligning the trade business to focus better on servicing large trade customers through new trade distribution centres, and to improve the offer for walk-in trade customers within the store network.

Store network development activities were ongoing in the period with the opening of four new Bunnings warehouses at Nerang (Queensland), Sunbury (Victoria), Vermont South (Victoria) and Kalgoorlie (Western Australia), and the upgrade and refurbishment of a further 12 stores. It is expected that another seven to nine warehouses will be opened in the second half of the financial year. The upgrade and refurbishment programme within existing stores is also ongoing, with work at a further 14 to 18 stores scheduled for completion in the second half.

The previously announced major systems upgrade project is currently on target in terms of timing and cost. There continues to be an effective focus on better inventory management, improving business efficiency and lowering the cost of shrinkage.

Outlook

The outlook for the hardware business is for continued retail sales growth and a modest improvement in trade performance.

Energy

Operating revenue of $814.4 million from the group's energy business was 57.3 per cent above the $517.8 million recorded in the corresponding period last year. Earnings before interest and tax of $343.2 million were 177 per cent higher than the $123.8 million earned last year.

Coal

Coal business results were characterised by increased revenues and earnings versus the prior year on increased volumes.

Total sales volumes from the Curragh coal mine in Queensland for the period were 37.2 per cent above the comparative six month period last year in line with the ramp up of Curragh North production. Earnings were significantly above last year's, due to higher export metallurgical coal prices and favourable inventory movements (arising from a build up of coal stocks to support higher export sales volumes in the second half), partly offset by higher production and tonnage related costs.

Premier Coal in Collie, Western Australia, achieved sales volumes seven per cent above those recorded in the comparative period last year due to higher sales to Western Power. Earnings were up due to higher sales volumes, partly offset by higher production costs.

Joint venture sales volumes for the Bengalla coal mine in New South Wales, in which Wesfarmers holds a 40 per cent interest, were 7.6 per cent lower than the corresponding period last year, but earnings increased significantly, largely as a result of higher export sales prices and favourable coal stock movements, partly offset by higher production and demurrage costs.

Highlights during the six month period included satisfactory progress at Curragh North with the last remaining major element, the Curragh North materials handling project, expected to be commissioned in the fourth quarter of the 2006 calendar year. In August 2005 Wesfarmers Premier Coal was named as the successful bidder to supply Western Power Corporation's coal requirements from 2010 for its existing coal fired power stations at Muja C and D and Collie A, potentially through to 2030.

Gas and Power

Kleenheat Gas' total sales volumes for the half-year were two per cent above the comparative period last year, with lower autogas sales being more than offset by higher sales in traditional markets. Earnings were below last year's due to higher international LPG prices which are at record levels and impacting margins significantly.

Wesfarmers LPG's sales volumes were 39.3 per cent below the corresponding period last year due to lower LPG content following the end of mandated minimum LPG content levels in the Dampier to Bunbury natural gas pipeline together with lower pipeline throughput. Earnings were above last year's due to higher international LPG prices, increased demand from Kleenheat Gas and lower production costs.

Air Liquide W.A., in which Wesfarmers has a 40 per cent interest, recorded earnings that were higher than those recorded in the comparative period last year due primarily to a full six months of operations at the HIsmelt plant in Kwinana, Western Australia. Industrial gas production at Air Liquide W.A. was constrained by the unplanned shutdown of the Kwinana air separation unit for 18 days in October 2005.

Energy Generation's earnings were significantly higher than last year's notwithstanding higher diesel fuel prices. The company made good progress towards completion of three new power stations for the remote Western Australian townships of Gascoyne Junction, Laverton and Menzies, and also in expanding the Hill 60 power station.

Highlights for the half-year included the installation by Kleenheat Gas of a new exchange cylinder filling facility in New South Wales and expansion of the LNG plant at Kwinana, to meet increased customer demand. Energy Generation was selected by Western Power as the preferred tenderer to build the new 15MW gas-fuelled power station in Carnarvon, Western Australia.

Outlook

The export coal businesses will benefit from a continuation of high metallurgical coal prices and volume growth although achievement of targeted sales volumes will require satisfactory mine, rail and shipment performance. Expectations for full-year production of metallurgical coal at Curragh remain in the range of 6.4 to 6.8 million tonnes.

Negotiations continue in relation to export coal contract pricing and industry reports point to a decline in prices, particularly for lower quality metallurgical coals. Curragh has settled prices for 37 per cent of 2006/07 contract volumes and further commentary on outcomes will be provided when pricing for the majority of contract volumes has been settled.

Earnings from the gas businesses will be dependent upon international LPG prices, domestic competition and on gas flow rates and LPG content of the feed gas to Wesfarmers LPG.

Insurance

The insurance division recorded a sound result for the half-year with gross written premium ("GWP") of $502.0 million and earnings before interest and tax of $63.5 million. This compares with the previous corresponding period in which GWP was $486.8 million and earnings before interest and tax were $66.2 million.

The divisional insurance margin was 14.4 per cent and the combined operating ratio ("COR") was 88.8 per cent. This compares with the previous corresponding period when the insurance margin was 17.5 per cent and the COR was 85.7 per cent. The change in margin was primarily due to a significant number of crop claims for Wesfarmers Federation Insurance ("WFI") resulting from crop hail damage and strengthening of the outstanding claims provision for both Lumley General (Australia) ("LGA") and WFI.

LGA recorded GWP of $242.9 million, which was slightly ahead of the previous corresponding period. The COR was 89.1 per cent compared to 84.6 per cent in the previous corresponding period and the insurance margin was 14.9 per cent compared to 19.4 per cent. The higher COR and lower insurance margin were primarily due to an $8 million increase in the outstanding claims provision in the liability portfolio.

Lumley General (New Zealand) reported a record result despite an increasingly competitive market. GWP was $127.8 million for the period, an increase of 6.6 per cent compared to the previous comparative period. The COR was 85.2 per cent compared to 86.0 per cent in the previous corresponding period and the insurance margin improved from 15.7 per cent to 16.8 per cent.

WFI recorded GWP of $131.4 million, an increase of 5.5 per cent compared to the previous comparative period. The COR was 89.1 per cent compared to 85.2 per cent in the previous corresponding period and the insurance margin was 14.8 per cent compared to 19.0 per cent. The higher COR and lower insurance margin was mainly due to a number of major hail events in New South Wales and Queensland which caused crop claims to be significantly higher compared to 2005.

Outlook

While continuing to generate good returns, all business units are experiencing strong competition and pressure on rates with the recent benign claims environment reverting to the long term average.

Industrial and safety

The industrial and safety business experienced flat sales in the first half with operating revenue of $588.0 million, slightly below the $589.7 million recorded in the corresponding period last year.

In Australia, overall sales growth was achieved in Industrial Products, predominantly through the Blackwoods business. Strong market conditions continue in Queensland and Western Australia associated with the strength in the resource sector, but these were partially offset by declines in some areas of the manufacturing sector, particularly in New South Wales and Victoria.

Protector Alsafe sales were marginally below last year's, but greater cost control has lead to an overall improvement in the profitability of this business.

In New Zealand, Packaging House recorded increased sales compared to those recorded in the comparative period. Blackwoods Paykels, NZ Safety and Protector Safety Supply recorded reduced sales due to strong competitive pressures and an overall softening in market conditions in the last quarter.

Earnings before interest and tax of $46.0 million were 10.7 per cent lower than the $51.5 million recorded in the corresponding period last year. This result was affected by costs of $3.4 million associated with the employee share plan.

Outlook

The second half of the financial year is expected to see continued modest sales growth in Australia, particularly to the mining industry, while the results for New Zealand are expected to remain subdued.

Chemicals and fertilisers

Operating revenue of $253.3 million from CSBP's chemicals and fertilisers businesses for the first half was 16.7 per cent higher than for the comparative period last year. Earnings before interest and tax of $26.7 million were recorded, a decrease of 8.2 per cent compared with last year's $29.1 million.

Sales volumes from CSBP's ammonium nitrate and sodium cyanide activities were higher than in the corresponding period last year. Ammonia sales volumes were in line with the corresponding period. Overall production performance from the Kwinana chemicals operations was satisfactory.

CSBP's returns from its investment in the Queensland Nitrates joint venture were lower than last year's and below expectations. The planned maintenance shutdown in October 2005 was extended due to the requirement to repair the process gas cooler while technical issues delayed the return to normal operation. The business was also adversely affected by the high cost of imported ammonium nitrate which was required to satisfy customer requirements during the shutdown.

Due primarily to the impact of the Queensland Nitrates' results, total earnings from CSBP's chemicals activities were below those of the comparative period last year. The Western Australian operations continue to be negatively affected by limitations in gas transmission capacity from the North West of Western Australia and this necessitated an import of ammonia in January.

During the period, the Board approved capital expenditure of up to $200 million for the duplication of CSBP's nitric acid and ammonium nitrate facilities at Kwinana in Western Australia. The project is proceeding in line with plan.

Fertiliser sales tonnage was slightly lower than the corresponding period last year although revenue was higher due to a higher proportion of imported product. The earnings contribution from the fertiliser business was above last year's, mainly due to lower expenses.

During the period, CSBP announced the closure of its superphosphate manufacturing operation at Albany, Western Australia with all manufacture of this product to now take place at Kwinana.

Outlook

The outlook for CSBP for the 2005/06 year is for a result similar to last year's, subject to a normal seasonal break.

Other operations

As mentioned earlier, Wesfarmers has entered into an agreement to sell its 50 per cent share in the Australian Railroad Group.

For the reporting period, ARG generated slightly lower earnings than for the previous corresponding period, as the effects of higher iron ore tonnages were more than offset by low grain tonnages and a one-off charge relating to previous years. The outlook is for an improved second half following good grain harvests in both Western Australia and South Australia.

The Gresham Private Equity Fund 1 made a post-tax contribution of $6.6 million, up from the previous corresponding period, due to realisations of investments.

Wespine, the 50 per cent-owned softwood milling business, had earnings in line with the previous corresponding period. It continues a capital programme aimed at improving productivity.

Finance

The group's net debt to equity ratio as at 31 December 2005 was 74.1 per cent, up from 62.6 per cent at 30 June 2005, reflecting the higher dividend for 2005 and an active capital expenditure programme.

The rolling 12-month cash interest cover was 13 times, well above the group's minimum benchmark of four times.

The directors have approved the extension of the on-market share buy-back programme for a further 12 month period during which time the company may repurchase the balance of up to five per cent of the company's issued capital.

Capital expenditure for the first half was $302 million, below the expected level due to delays in a number of capital projects. Forecast expenditure for the year is now expected to be around $775 million, compared to the original budget of approximately $900 million.

In accordance with the requirements of the Australian equivalents to International Financial Reporting Standards ("AIFRS") adopted by the Company from 1 July 2005, the financial statements, including all comparative numbers, have been prepared in accordance with the new standards. Note 1(e) to the accounts details the differences between the results reported for prior periods and the restated AIFRS comparatives.

Interim dividend

A fully franked interim dividend of 65 cents per share (last year 53 cents per share) has been declared by the directors. The interim dividend will be paid on 8 March 2006.

The directors have resolved to continue the suspension of the company's dividend investment plan as a measure of balance sheet management.

Outlook

The directors continue to expect that group revenue and profit for the full 2005/06 year will significantly exceed the results achieved last year.

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