8 February 2005

WESFARMERS ANNOUNCES FIRST HALF PROFIT

The directors of Wesfarmers Limited today announced a profit of $291.2 million for the half-year ended 31 December 2004. The result was slightly below the net profit of $296.7 million (excluding the profit on the sale of the rural services business, Landmark) earned in the corresponding six months last year which included post-tax earnings of $45.1 million from the company's investment in the Gresham Private Equity Fund 1.

Increased earnings for the six month period over last year's first half result were recorded by all major divisions with the exception of the industrial and safety products distribution business which performed slightly below last year's result.

Operating revenue (not including revenue from the sale of Landmark) rose from $3.8 billion to $4.1 billion for the half-year.

The 31 December 2004 half-year result included profit after tax of $2.4 million on the sale of non-current assets compared with $4.3 million (excluding the sale of Landmark), in the same period last year.

Earnings per share (before goodwill amortisation) for the six months were 89.1 cents compared with 90.2 cents (excluding the profit from the sale of Landmark) for the corresponding period last year. Cashflow per share of $1.13 was below the $1.97 reported last year, as a result of the sale of Landmark in the previous corresponding period.

Hardware

Operating revenue of the Bunnings hardware merchandising business increased by seven per cent to $2.1 billion in the first half. Earnings before interest and tax (before goodwill amortisation) of $230.4 million were 11 per cent higher than the $208.7 million earned in the corresponding period last year. Trading earnings before interest and tax (before goodwill amortisation) also increased by 11 per cent.

Cash sales growth of 11 per cent was achieved, with underlying store-on-store cash sales growth (for the six month period) of around 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 two months of the period before picking up well during September and October, helped in part by good seasonal conditions in these months. Trading in November was weaker, but improved in December. Sales were strongest, relative to the previous corresponding period, in the outdoor and garden product categories.

Trade sales were one per cent lower than in the comparative period last year due to the competitive trading environment and a declining residential building market, particularly in the

eastern states.

Store network development activities were ongoing in the period with the opening of four new Bunnings warehouses and the upgrade and refurbishment of a further nine stores. It is expected that another six to eight warehouses will be opened in the second half of the financial year with most of these openings likely to occur in the fourth quarter. The upgrade and refurbishment programme within existing stores is also ongoing, with work at a further four stores scheduled for completion in the second half.

The outlook for hardware is for continued solid retail sales growth and a subdued trade performance.

Energy

Operating revenue of $520.2 million from the group's energy businesses was above the $478.6 million recorded in the corresponding period last year. Earnings before interest and tax (before goodwill amortisation) of $126.7 million were ten per cent above the $115.1 million earned in the comparative period last year.

Coal

Export sales volumes from the Curragh mine in Queensland for the period were 23 per cent below the comparative six month period last year due to an extended shutdown of the Coal Handling and Preparation Plant ("CHPP") for an upgrade as a part of the Curragh North development. The extended shutdown and lower than planned production during the recommissioning period resulted in production being approximately 300,000 tonnes below expectations for the six months to 31 December 2004. Domestic sales were in line with last year. Earnings were $2.4 million lower than last year's as a result of the lower export sales and higher operating costs, offset partially by favourable inventory movements.

Sales volumes from the Premier Coal mine in Western Australia were above those recorded in the comparative period last year due to higher offtake requirements of Western Power. Earnings were lower than the comparative period last year due mainly to higher fuel and maintenance costs, adverse inventory movements and higher market development costs.

The Bengalla coal mine in New South Wales, in which Wesfarmers has a 40 per cent interest, produced sales volumes in line with the corresponding period last year. Earnings were significantly above last year's result due primarily to higher export sales prices.

Highlights during the six month period included continued progress on the development of the Curragh North project which is on schedule to commence mining in March 2005. Higher than expected outcomes from export coking coal price negotiations were achieved in early 2005. Wesfarmers has agreed commercial terms for the majority of the annually priced coking coal contracts from the Curragh mine. The FOB ($US) prices for Curragh coking coals (excluding PCI coal) have increased by an average of approximately 130 per cent. PCI coal prices are expected to be settled within the next month.

The Curragh CHPP is now performing in line with expectations, but logistics constraints including a lack of available capacity on the rail network will make it difficult to achieve the previously estimated five million tonnes of export sales for the 2004/05 year. Increases in coking coal prices and export tonnage give a positive outlook for coal, particularly in the 2005/06 year when exports are expected to reach seven million tonnes. As previously disclosed, the benefit from the increased tonnages will be offset partially by an export related price rebate payable under Curragh's domestic coal sales arrangements. Under these arrangements, Curragh's domestic customer will be entitled to a rebate on its domestic coal purchases when

Curragh's export semi soft coking coal price exceeds approximately A$60 a tonne. This rebate will be equal to 25 per cent of the incremental price, multiplied by Curragh's total export tonnage. Payments for the year ending 30 June 2005 are expected to be less than $5 million; and for the year ending 30 June 2006 between $80 million and $100 million.

Gas and power

Kleenheat Gas' sales volumes and earnings for the half-year were slightly below the comparative period last year as a result of lower sales to distributors and margin erosion due to higher LPG prices.

Wesfarmers LPG's export volumes were slightly above the corresponding period last year. Earnings were significantly above last year's result due primarily to higher international LPG prices.

Earnings from StateWest Power and from the 40 per cent-owned Air Liquide W.A. were higher than those recorded in the comparative period last year.

Highlights for the half-year included satisfactory progress on the construction of the HIsmelt project; purchase by Kleenheat Gas of the Mobil LPG business in Tasmania; and commissioning of the Coober Pedy Power Station by StateWest Power.

The outlook for the group's gas activities for 2004/05 remains largely dependent on international LPG price movements.

Insurance

The insurance division achieved a strong result for the half-year with earned premium revenue of $514.3 million and earnings before interest and tax (before goodwill amortisation) of $69.1 million.

The divisional insurance margin was 18.5 per cent and the divisional combined operating ratio ("COR") was 85.1 per cent. This compares with the previous corresponding period where the divisional insurance margin was 18.2 per cent and the divisional COR was 85.3 per cent.

Lumley General (Australia) delivered a solid result, notwithstanding a fall in the insurance margin to 19.4 per cent from 22.7 per cent in the previous corresponding period as a result of higher claims and more competitive premium rates. Similarly the COR increased from 81.2 per cent to 84.6 per cent. Gross written premium ("GWP") for the period increased by 4.6 per cent over the previous corresponding period.

Lumley General (New Zealand) reported a record result despite signs of increasing competition. The COR improved from 87.1 per cent to 86.0 per cent and the insurance margin strengthened to 15.7 per cent from 15.0 per cent in the previous corresponding period. An increase in GWP of 1.0 per cent over the prior comparative period was achieved.

Wesfarmers Federation Insurance reported a record result despite higher than anticipated crop claims. Overall, claims were below expectations, particularly in the liability segment. Results improved significantly compared to the corresponding period, with the insurance margin improving from 13.6 per cent to 19.0 per cent, and the COR improved from 90.0 per cent to 85.2 per cent. GWP increased slightly by 2.4 per cent despite increased competitive conditions and lower than expected crop premium due to seasonal factors.

The immediate outlook for the insurance division is stable. All businesses are performing well notwithstanding the increasingly competitive environment. While claims experience has been favourable over the last 18 months, it is expected that there will be a gradual return to normal long term claim patterns.

Industrial and safety

The industrial and safety business experienced sales growth in the first half with operating revenue of $587.5 million, 2.2 per cent above the $574.9 million recorded in the corresponding period last year. Good sales growth was seen in the Australian industrial products business, the New Zealand safety businesses and Packaging House in New Zealand, which were partially offset by Protector Alsafe and the New Zealand industrial products business, Blackwoods Paykels.

While the Protector Alsafe business is showing positive signs of improvement, sales were around 3.4 per cent below last year’s due to the loss of several significant sales contracts during 2003.

Blackwoods Paykels has been the focus of a concerted business improvement effort over the last six months and the benefits of this effort should become evident in the second half of calendar year 2005.

Earnings before interest and tax (before goodwill amortisation) were $51.4 million, 3.2 per cent lower than the $53.0 million recorded in the corresponding period last year. This was a disappointing result given the increased sales and reflects the competitive trading conditions currently being experienced and pressure on profit margins due to rising fuel and material prices, particularly steel.

The second half of the financial year is expected to see continued growth in sales, with initiatives undertaken during the first half expected to result in improved profit margins.

Chemicals and fertilisers

Operating revenue of $217.9 million from CSBP’s chemicals and fertiliser businesses for the six month period was 27 per cent higher than for the comparative period last year. Above budget earnings before interest and tax (before goodwill amortisation) of $29.1 million were recorded, an increase of 41 per cent compared with last year’s $20.6 million.

Sales volumes from CSBP’s ammonium nitrate and sodium cyanide activities were higher than in the corresponding period last year. Ammonia volumes were lower than in the corresponding period last year, due to an export shipment that occurred in October 2003. The sodium cyanide market remains highly competitive although CSBP’s return on capital improved as a result of higher production and sales volumes. Overall production performance from the chemicals operations was steady with an upgrade of the sodium cyanide solids plant being completed.

CSBP’s returns from its investment in the Queensland Nitrates joint venture were above budget although lower than last year’s.

Total earnings from CSBP’s chemicals activities exceeded those of the comparative period last year reflecting the strong demand from the mining industry.

The feasibility study into the duplication of CSBP’s nitric acid and ammonium nitrate facilities at Kwinana is on track to be completed by mid 2005.

Fertiliser sales tonnages and revenues were significantly higher than in the corresponding period

last year due to a number of factors. These include early completion of harvest, forward deliveries of liquid fertilisers, a superphosphate offer which brought forward sales budgeted in the second half and a continued focus on improving delivery to distributors and farmers.

The earnings contribution from the fertiliser business was above the comparative period last year. The Western Australian grain harvest in the 2004/05 season was the fifth largest recorded, albeit below the record harvest last year. Assuming normal autumn weather patterns, this should provide the stimulus for full year fertiliser sales to be in line with expectations.

A major shutdown of the Kwinana nitric acid and ammonium nitrate plants has been scheduled for February 2005 to complete statutory maintenance. While this shutdown will impact earnings in the second half, the outlook for CSBP for the 2004/05 year is for an improved performance over last year's result.

Other operations

The Australian Railroad Group (ARG), of which Wesfarmers owns 50 per cent, has achieved strong revenue growth due to grain haulage levels and full period contributions from new contracts. Earnings have increased with revenue, but are below expectations due largely to high fuel and labour costs over the period.

These fuel costs are now being passed on under contractual arrangements, while grain tonnages for the next six months will be down relative to last year's.

Rationalisation of the forest products business continued, with sale of the jarrah processing business in August 2004.

The group's remaining forest products business is a 50 per cent interest in Wespine, which achieved higher revenue and earnings compared to the previous corresponding period due to strong demand and the achievement of operating efficiencies.

Gresham Partners, the company's partly owned investment house associate, achieved earnings above the previous year due to successful advisory assignments.

The Gresham Private Equity Fund 1 made a contribution post-tax of $1.1 million. Earnings were significantly down from the previous corresponding period when the IPO of Repco generated post-tax earnings of some $44.2 million.

The portfolio of investments in Fund 1 continues to perform in line with plan, with divestments expected over the next several years. Fund 2 has made one investment.

Senior appointments

As previously announced, Mr Richard Goyder, currently Deputy Managing Director and Chief Financial Officer, will become Managing Director and Chief Executive Officer on the retirement in July 2005 of Mr Michael Chaney.

Mr Gene Tilbrook, Executive Director, Business Development, will be appointed Finance Director. Mr Tilbrook will retain responsibility for the company's business development activities and his membership of subsidiary boards.

Mr David Robb, Executive Director and Managing Director of Wesfarmers Energy Limited, will

continue in these roles and will broaden his involvement with the wider group by taking on responsibilities at the Corporate Office and by joining the boards of a number of Wesfarmers' subsidiary companies.

Finance

The group's net debt to equity ratio as at 31 December 2004 was 47.9 per cent, up from 45.5 per cent at 30 June 2004.

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

On 14 December 2004, the directors announced their intention to make a capital return of $1.00 per fully-paid ordinary share, to return a total of approximately $378 million to shareholders, as part of the company's capital management strategy to bring Wesfarmers' net debt to equity ratio in line with target levels. A meeting of shareholders to approve the capital return is scheduled for Friday, 18 February 2005.

The directors have decided to continue the share buy-back 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.

Preparations for the adoption, from 1 July 2005, of the Australian equivalents to the International Financial Reporting Standards are underway and progressing well. Details of the likely impact of these Standards on the Company's financial position are contained in the half-year report (Appendix 4D).

Interim dividend

A fully franked interim dividend of 53 cents per share (last year 48 cents per share) has been declared by the directors. The interim dividend will be paid on 2 March 2005.

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 forecast that group revenue and profit on a normalised basis for the full 2004/05 year will, as expected, exceed the results achieved last year.

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