Wesfarmers Limited
ABN 28 008 984 049

NEWS

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Wesfarmers' profit exceeds a quarter of a billion dollars

The directors of Wesfarmers Limited today announced a record after-tax profit of $251.0 million for the year ended 30 June 2001. The result represents an effective increase of 29 per cent over the 2000 year reported profit before abnormals of $194.5 million. Last year's result after abnormal items was a profit of $207.0 million.

Increased revenues and earnings were recorded in all business segments.

The group's earnings per share of 96.2 cents (before goodwill amortisation) were 27 per cent higher than last year's reported 75.7 cents (before abnormal items and goodwill amortisation). Cash flow per share of $1.53 was also 27 per cent above the $1.20 reported last year.

Total operating revenue of $4.4 billion was 26 per cent above last year's $3.5 billion.

The 2000/2001 result included profit after tax of $18.1 million from non-current asset disposals. This compares with a profit of $19.8 million earned last year from the sale of an investment and other non-current assets.

Final dividend

The directors have declared a fully-franked final dividend of 60 cents per share (last year 48 cents per share), payable on 25 October 2001. This lifts the full-year distribution to 87 cents per share compared to last year's 73 cents per share and represents a payout ratio of 98 per cent of after tax profit.

In declaring this dividend, the directors have decided to set the discount rate for new Wesfarmers shares issued through the company's Dividend Investment Plan at 2.5 per cent to market, the same rate as applied last year.

Finance

Cash outflows on capital items and acquisitions of $541 million increased from $426 million last year. Included in this amount is the $160 million acquisition of shares in IAMA Limited announced in January 2001, the $118 million investment in the Australian Railroad Group announced in October 2000 and the $47 million Curragh coal final acquisition payment announced in November 2000. General capital expenditure on property, plant and equipment increased from $189 million last year to $196 million this year.

In February 2001, the company announced a placement of 11 million new ordinary shares at a price of $19.00 raising $209 million.

The net effect of these and operating cash flows was a slight decrease in the group's ratio of net debt to equity from 67.3 per cent last year to 63.4 per cent at 30 June 2001.

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

Further details of contributions made by each of the operating businesses to group results are set out below.

Energy

Operating revenue of $978 million from the group's energy business segment was 66 per cent higher than 1999/2000. The inclusion of Curragh coal revenue for the first time was a significant contributor to this increase, but gas revenue was also 36 per cent higher mainly due to higher international benchmark prices. Earnings before interest and tax of $190.1 million were 77 per cent higher than the $107.5 million earned last year.

Gas

Domestic sales volumes of LP gas were 12 per cent above last year, but gross margins continued to be affected by higher international benchmark prices and the weak Australian currency. As a result, Kleenheat's earnings for the year were below budget and last year.

Export volumes of 234,000 tonnes of LP gas were 47 per cent higher than last year's 159,000 tonnes. The higher volumes and the prevailing international pricing and currency factors contributed to above budget LP gas export earnings which also exceeded last year's result.

The overall earnings contribution from the group's gas operations was above budget and above last year.

Coal

Sales of 3.6 million tonnes of coal in 2000/2001 from the Premier mine in Western Australia were 3 per cent below last year. Reductions in production costs, however, resulted in a slight increase in earnings over last year. Overburden removal was above budget and in line with last year.

The Curragh coal mine in Queensland, acquired towards the end of June 2000, performed ahead of expectations. Sales of 4.9 million tonnes of coal were achieved. Earnings for the year were significantly above budget due to a combination of higher export volumes (up 33 per cent against budget), firmer selling prices and favourable exchange rates.

Wesfarmers holds a 40 per cent interest in the Bengalla coal mine in New South Wales. Bengalla achieved sales volumes of 5.5 million tonnes for the year, 76 per cent above last year. Earnings for the year were significantly above both last year and budget due to the higher sales volumes as well as stronger international prices.

Hardware and forest products

Operating revenue of the hardware and forest products business segment increased by three per cent in 2000/20001 to $1.5 billion. Earnings before interest and tax of $145.9 million were four per cent higher than the $140.0 million earned last year.

Hardware

The Bunnings hardware merchandising business recorded another strong performance with sales 9 per cent higher than in 1999/2000. The actual increase in sales revenue was 16 per cent after adjusting for the change of accounting treatment of GST compared to the wholesale sales tax system. Earnings increased by 15 per cent.

The increase in revenue and earnings was achieved in a soft retail environment and a depressed housing market, which affected trade sales.

Bunnings opened eight new warehouse stores around Australia during the year, lifting the total number of warehouse stores to 47. Sales from Bunnings Warehouse stores now account for in excess of 80 per cent of total Bunnings sales (including WA Salvage).

Forest products

Operating revenue of the forest products business was 36 per cent below the previous year due substantially to the sale of its woodchipping, plantation services and plantation assets at the beginning of October 2000. The business was also affected by the depressed housing market following the introduction of the GST. Earnings were 43 per cent lower than last year.

Rural services and insurance

Operating revenue in the Wesfarmers Landmark rural services and Wesfarmers Federation Insurance business segment increased by 51 per cent to $1.3 billion. Earnings of $57.0 million were 42 per cent above last year's $40.1 million.

Operating revenue increased across all of Wesfarmers Landmark's areas of activity with the exception of real estate. Merchandise sales increased by 87 per cent, reflecting a strong contribution from the recently acquired IAMA business. Stronger beef and wool prices also contributed to the lift in revenue.

Wesfarmers Federation Insurance achieved a pleasing 10 per cent growth in premium income and increased earnings for the full year. The earnings lift resulted from the premium income growth, lower than expected claims and strong expense management.

Fertilisers and chemicals

Operating revenue of $438.1 million was recorded by the group's fertilisers and chemicals business segment, representing growth of 9 per cent over 1999/2000 with higher sales in both fertilisers and chemicals. Earnings of $52.6 million were 17 per cent above last year but were below budget expectations.

Total fertiliser despatches were 14 per cent below last year as a result of one of the driest seasons on record.

Chemical sales volumes in 2000/2001 were 35 per cent above last year, mainly due to the commencement of contractual deliveries of ammonia and higher sales of industrial chemicals. Increased sales volumes resulted in a 23 per cent lift in revenues but, due to a plant failure adversely impacting ammonia production in the first half of the financial year, earnings were reduced and ended up only marginally higher than last year.

Road and rail transport

Operating revenue in the group's road transport business was below the previous year, mainly due to a flood related abnormally short Queensland sugar cane season which affected specialised transport services in that State. Wesfarmers Transport embarked on a rationalisation programme during the second half of the year which has recently seen the sale of Niteroad Express and the Jandakot distribution centre. Earnings for the year were above budget.

The 50 per cent owned Australian Railroad Group, which comprises the South Australian and Western Australian rail freight businesses acquired in mid-December 2000, made a positive earnings contribution in line with expectations.

Outlook

The directors expect continued strong growth in revenue and earnings as detailed in the forecast group result for the 2001/2002 financial year included the bidder's statement dated 13 June 2001 issued in relation to the Howard Smith Limited takeover offer.

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

Coal earnings are expected to increase in the coming year with the Curragh coal mine continuing to perform ahead of expectations and expanded production anticipated at the Bengalla coal mine. The benefit of stronger international coal prices which have been experienced in the last quarter of 2000/2001 are likely to be sustained for the coming 12 months. The Premier operation is expected to perform satisfactorily, although delivered tonnages continue to be below contracted volumes due to a dispute over force majeure with the main customer, Western Power.

A successful completion of the Howard Smith acquisition is expected and as a result revenue and earnings from Bunnings will increase significantly upon integration of the Bunnings and BBC/Hardwarehouse businesses as outlined in the bidder's statement. As at 5.00 pm Monday 6 August, acceptances had been received for 48 per cent of the shares in Howard Smith. The offer remains subject to a minimum 90 per cent acceptance condition.

Following completion of the sale of Sotico's woodchip and plantation business in early October 2000, the forest products business now represents a small part of Wesfarmers' operations and is expected to decrease in the future as the business is rationalised.

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

The outlook for Wesfarmers CSBP is for increased earnings in the chemicals business partially offset by challenging fertiliser market conditions with a subdued outlook for the coming season in Western Australia.

Increased contributions from the company's road and rail transport interests are expected.

The directors are confident that the ongoing focus on financial performance in the group's existing businesses as well as the new investments and acquisitions made by the company in recent years will continue to deliver satisfactory investment returns to the Wesfarmers shareholders.

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