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**Wesfarmers**

# Wesfarmers Limited

ABN 28 008 984 049 and its controlled entities

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## Half-Year Report

For the six months ended  
31 December 2013

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Wesfarmers Limited as at 30 June 2013 together with any public announcements made by Wesfarmers Limited and its controlled entities during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

# Wesfarmers Limited and its controlled entities

Half-year Report for the six months ended 31 December 2013

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## DIRECTORS' REPORT

The directors of Wesfarmers Limited submit their report for the half-year ended 31 December 2013.

### 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, AO (Non-Executive Chairman)  
P M Bassat  
T J Bowen (Finance Director)  
C B Carter, AM (Non-Executive Director)  
R J B Goyder, AO (Managing Director)  
J P Graham, AM (Non-Executive Director)  
A J Howarth, AO (Non-Executive Director)  
C Macek (Non-Executive Director)  
W G Osborn (Non-Executive Director)  
D L Smith-Gander (Non-Executive Director)  
V M Wallace (Non-Executive Director)  
J A Westacott (Non-Executive Director)

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

### REVIEW OF RESULTS AND OPERATIONS

Wesfarmers Limited today announced a net profit after tax of \$1,429 million for the half-year ended 31 December 2013, up 11.2 per cent on the previous corresponding period. Included within this result was a gain on sale of the Group's 40 per cent interest in Air Liquide WA (**ALWA**), which was partially offset by an increase in reserve estimates for the 22 February 2011 Christchurch earthquake (**EQ2**). Adjusting for these, net profit after tax for the half-year increased 6.3 per cent.

A highlight for the period was the earnings performance of Coles and Bunnings.

Coles delivered strong earnings growth of 10.7 per cent to \$836 million for the half, with return on capital increasing 80 basis points to 10.0 per cent. Coles' strategy of investing savings from efficiencies into lower prices, while improving quality and service, drove increased customer transactions and basket size. Solid productivity improvements were made across the supply chain, stores and store support centre.

Bunnings recorded another very good result with earnings up 8.5 per cent to \$562 million. Growth in transactions was achieved as customers responded positively to Bunnings' ongoing investment in value and improvements in range and service. Growth was achieved within all trading regions and across both consumer and commercial customer segments.

Officeworks achieved earnings growth of 10.5 per cent to \$42 million. Improved sales momentum was recorded during the half, as strategies across Officeworks' every channel offer gained traction. Earnings growth was also supported by reduced operational complexity and lower costs of doing business.

Kmart recorded earnings growth of 5.7 per cent to \$260 million for the period. Customers continued to respond favourably to Kmart's strategy of providing the lowest prices on everyday items for families, which resulted in another period of price deflation. Earnings growth was driven by further improvements in merchandising and a strong focus on cost efficiency.

Target reported earnings of \$70 million, 52.7 per cent below the prior corresponding period. Trading conditions were challenging due, in particular, to the continued clearance of aged and excessive winter stock, which also affected the timing of the summer range launch. In addition, the decision to not repeat increasingly high levels of promotional activity of the prior year had a short-term adverse effect on trading. More positively, at the end of the period, inventory levels were below the same time last year and had an improved seasonality profile.

The Resources division reported earnings of \$59 million, 36.6 per cent below the prior corresponding period due to lower export coal prices, particularly relative to the first quarter of the 2013 financial year. Production performance during the half improved, with aggregate divisional production 6.2 per cent higher than the prior period, and costs were further reduced at both the Curragh and Bengalla mines.

The Insurance division recorded earnings of \$99 million, 4.8 per cent below the prior corresponding period, with results affected by a \$45 million increase in reserve estimates for EQ2. Excluding EQ2, underlying earnings increased strongly by 38.5 per cent to \$144 million. Improved underwriting performance was supported by disciplined risk selection and premium rate growth across personal and commercial lines. Broking earnings growth was solid, driven by the performance of the New Zealand business.

During the half the Group announced the agreement to sell the Australian and New Zealand underwriting operations of its Insurance division to Insurance Australia Group for \$1,845 million. The sale remains subject to regulatory approvals.

The Chemicals, Energy and Fertilisers division reported earnings of \$205 million for the half, \$101 million above the prior corresponding period. Excluding a \$95 million gain on sale of the 40 per cent interest in ALWA, underlying earnings increased 5.8 per cent. Earnings in the chemicals business were in line with the prior period, while the contribution from Kleenheat Gas increased as a result of higher international LPG prices. Earnings from the fertilisers business reduced due to lower sales volumes following a dry June which resulted in reduced fertiliser application rates.

The Industrial and Safety division recorded earnings of \$73 million, 17.0 per cent below the prior corresponding period. Industrial supply market conditions remained challenging throughout the period, with customer and project activity reduced across most customer segments.

The Group's first half operating cash flows of \$1,757 million were \$450 million or 20.4 per cent below those recorded in the prior corresponding period, with cash realisation of 88.5 per cent recorded. Cash realisation was below the prior year, mainly due to the January 2014 settlement of the sale of the Group's interest in ALWA and lower cash inflows from working capital improvements across the retail portfolio.

Gross capital expenditure for the Group was \$1,160 million, 12.3 per cent or \$163 million below the prior corresponding period, due to lower property investment by Coles and Bunnings. Net capital expenditure for the half was significantly below that of the prior year, reducing \$563 million or 50.3 per cent due to increased retail property disposals.

Free cash flows of \$1,016 million for the half were 0.9 per cent above the prior period, with reduced net capital expenditure offsetting lower operating cash flows.

In November 2013, the Group returned \$579 million to shareholders through a capital return of 50 cents per fully-paid ordinary share and partially protected share which was accompanied by a proportionate share consolidation. In December 2013, Wesfarmers partially protected shares were reclassified into ordinary shares on a one for one basis, following the satisfaction of criteria for reclassification consistent with the terms of the partially protected shares.

The directors declared a fully-franked interim dividend of 85 cents per share, compared to 77 cents for the 2013 half-year.

The increase in the Group's profit was pleasing, given the challenging conditions experienced by the Resources and Industrial and Safety divisions, and reduced earnings recorded at Target.

The strong performance of the retail businesses, excluding Target, underpinned the increased earnings achieved by the Group.

Good growth in Coles' earnings highlighted its successful transition to the next phase of growth, building on the solid foundation established during its initial turnaround plan. The Board is pleased with the smooth leadership succession at Coles following the senior management changes which were announced yesterday.

The result achieved at Bunnings was also strong, with the business continuing to execute its strategic agenda to plan.

As foreshadowed, Target's earnings were significantly affected by clearance activity during the half. Importantly, good progress was made in renewing its senior leadership team to improve organisational capability to oversee the turnaround of the business.

Earnings for the Resources and Industrial and Safety divisions were adversely affected by challenging market conditions. The industrial divisions continued to focus on cost control and, in the case of the Chemicals, Energy and Fertilisers division, the commissioning of the nitric acid/ammonium nitrate capacity expansion at Kwinana (**NA/AN3**).

The divestment of the Insurance division's underwriting operations, which remains subject to regulatory approvals, and the disposal of Wesfarmers' 40 per cent interest in ALWA, demonstrate the Group's ongoing focus on disciplined portfolio management, having regard to the best interests of shareholders. The Board extends its thanks to the teams involved in these businesses for their significant efforts over many years.

## RESULTS SUMMARY

Half-year ended 31 December	2013	2012	Variance %
<b>KEY FINANCIALS (\$m)</b>			
Revenue	31,853	30,614	4.0
Group EBITDA	2,710	2,574	5.3
Group EBIT	2,154	2,043	5.4
Net profit after tax	1,429	1,285	11.2
Operating cash flows	1,757	2,207	(20.4)
Free cash flows	1,016	1,007	0.9
Net debt	6,039	5,127	17.8
<b>KEY SHARE DATA (cents per share)</b>			
Earnings per share	124.2	111.4	11.5
Operating cash flows per share	152.2	190.7	(20.2)
Interim dividend per share	[85]	77	10.4
<b>KEY RATIOS</b>			
Interest cover (R12, cash basis) (times)	13.8	11.8	2.0 times
Fixed charges cover (R12) (times)	3.0	2.9	0.1 times
Return on shareholders' funds (R12) (%)	9.4	8.8	0.6 pt

## DIVISIONAL EARNINGS SUMMARY

Half-year ended 31 December (\$m)	2013	2012	Variance %
<b>EBIT</b>			
Coles	836	755	10.7
Home Improvement	562	518	8.5
Office Supplies	42	38	10.5
Kmart	260	246	5.7
Target	70	148	(52.7)
Insurance <sup>1</sup>	99	104	(4.8)
Resources	59	93	(36.6)
Chemicals, Energy & Fertilisers <sup>2</sup>	205	104	97.1
Industrial & Safety	73	88	(17.0)
Divisional EBIT	2,206	2,094	5.3
Other	7	6	16.7
Corporate overheads	(59)	(57)	(3.5)
<b>Group EBIT</b>	<b>2,154</b>	<b>2,043</b>	<b>5.4</b>

<sup>1</sup> Earnings for the December 2013 half-year include an increase in reserve estimates for the 22 February 2011

Christchurch earthquake (**EQ2**) of \$45 million.

<sup>2</sup> Earnings for the December 2013 half-year include the \$95 million gain on sale of the 40 per cent interest in Air Liquide WA (**ALWA**).

## RETAIL

Headline food and liquor sales for Coles of \$15.0 billion for the first half of the 2014 financial year<sup>1</sup> were 4.7 per cent above the prior corresponding period. Comparable food and liquor store sales increased 3.6 per cent, with comparable food store sales growth of 4.2 per cent. Food and liquor deflation in the first half was 1.8 per cent.

For the second quarter<sup>2</sup>, total food and liquor sales increased 4.9 per cent to \$8.1 billion. Coles recorded comparable food and liquor store sales growth of 3.8 per cent and comparable food store sales growth of 4.3 per cent. Food and liquor price deflation eased to 1.1 per cent in the second quarter<sup>2</sup> with seasonal conditions affecting the supply of fresh produce and a tobacco excise increase in December 2013. Overall, inflation pressures were offset by Coles' continued investment in lowering prices for customers.

Coles reported earnings growth for the half of 10.7 per cent to \$836 million and return on capital increased to 10.0 per cent. Coles' strategy to invest operational efficiencies in lower prices resulted in increased customer numbers and items per basket, further improving store sales productivity. Customers continued to respond favourably to Coles' initiatives to improve quality, service and value, as evidenced by a record number of customers over the important Christmas period.

Coles' focus on improving its fresh credentials was reinforced, with further collaborative partnerships formed with suppliers on key products, responsible sourcing initiatives extended and an Australia first sourcing policy introduced for Coles brand products. Category innovation continued, as evidenced by the re-launch of the Coles Finest range and extension of health and convenience category ranges, including gluten free product expansion.

During the period, Coles continued to reinforce its price leadership through the Down Down, Unreal Deals and Super Specials platforms. Multi-channel innovation continued in the half with Coles' multi-award winning loyalty program, flybuys, further leveraging customer analytics to provide personalised offers and instant offer activation to customers. Program partner acquisition continued at flybuys through the membership of Medibank during the half. An enhanced Coles Online website was launched in October 2013, which has received a positive customer response since launch.

Initiatives to improve operational efficiency and productivity were also progressed, with the expanded trialling of easy ordering for meat, bakery and fresh produce and further improvements to rostering efficiency. Supply chain initiatives were advanced, focused on transport route optimisation and inventory efficiency across distribution centres.

Coles continued to improve customer experiences through store format innovation, refurbishing 31 stores during the half, which included the launch of three food services superstores in New South Wales focused on offering a state-of-the-art food experience. At the end of the half, 382 stores were in the renewal format, representing 50 per cent of the store network. During the period Coles accelerated selling space growth through the opening of 11 new supermarkets, with net selling space growth of 2.3 per cent recorded in the 12 months to 31 December 2013.

Sales momentum in the liquor business improved during the half and included a better Christmas trading period. During the period the business continued to focus on targeted offers, tailoring of ranges to both format and location, and further optimisation of the store network. Encouraging customer responses to category and format innovation were also recorded during the half. Coles opened 20 new liquor stores and closed six liquor stores in the half.

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<sup>1</sup> Financial Year 2014 for the 27 week period 1 July 2013 to 5 January 2014 and Financial Year 2013 for the 27 week period 2 July 2012 to 6 January 2013.

<sup>2</sup> Financial Year 2014 for the 14 week period 30 September 2013 to 5 January 2014 and Financial Year 2013 for the 14 week period 1 October 2012 to 6 January 2013.

Total Coles Express sales, including fuel, for the first half<sup>3</sup> were \$4.3 billion, 5.6 per cent higher than the previous corresponding period. Total sales increased by 4.9 per cent to \$2.3 billion during the second quarter<sup>4</sup>. Following higher fuel prices during the half, total fuel volumes decreased by 0.5 per cent while comparable fuel volumes decreased by 0.7 per cent. During the second quarter<sup>4</sup>, total fuel volumes decreased by 0.1 per cent and comparable fuel volumes increased by 0.1 per cent.

Convenience store sales, excluding fuel sales, were up 2.6 per cent for the first half<sup>3</sup>, and grew by 2.9 per cent on a comparable store basis. For the second quarter<sup>4</sup>, convenience store sales grew at 3.7 per cent and 3.9 per cent on a comparable store basis.

Earnings in the convenience business increased 3.8 per cent during the half to \$81 million. A lower growth rate in fuel earnings followed a reduction in fuel volumes due to higher fuel prices and an increased investment in fuel discounts relative to the prior corresponding period. An improved contribution from the convenience store segment was recorded as a result of continued improvements in value and range.

Bunnings achieved strong operating revenue growth of 10.4 per cent to \$4.4 billion for the half, with total store sales growth of 10.6 per cent recorded. Sales growth was achieved in consumer and commercial areas across all key trading regions and merchandising categories, with store-on-store sales growing 7.2 per cent during the half.

For the second quarter, Bunnings recorded sales growth of 10.6 per cent. Store sales growth was 10.8 per cent during the quarter, with store-on-store sales growth of 7.3 per cent achieved.

Bunnings reported strong first half earnings of \$562 million, 8.5 per cent above the prior year. Higher development costs associated with new store openings were offset by increased sales and improved productivity. Improvements in service, merchandising, stock flow and the commercial offer all contributed to the improved performance during the period.

Store network expansion continued at Bunnings, with 11 warehouse stores, two smaller format stores and one trade centre opened during the half. Significant investment in upgrading the existing network also continued, with targeted store reinvestment focussed on a faster roll-out of the best merchandising opportunities. At 31 December 2013, Bunnings had 15 sites under construction with over 10 warehouse stores expected to open in the second half.

Return on capital at Bunnings increased 210 basis points to 27.6 per cent, as a result of increased earnings and the effective management of capital employed, which included a higher level of property recycling during the half.

Officeworks achieved operating revenues of \$745 million for the half, 4.6 per cent above the prior corresponding period. Customers continued to respond favourably to an improved store offer, including new category development and renewed store layouts. Online sales grew strongly, with the period representing the ninth consecutive half of double digit growth recorded through the online channel. Growth in the business-to-business segment accelerated, supported by increased service investment.

Officeworks' earnings for the half increased 10.5 per cent to \$42 million through disciplined execution of its 'every channel' offer and ongoing focus on reducing operational complexity and the cost of doing business.

Kmart achieved total sales of \$2.4 billion for the first half<sup>3</sup>, 1.7 per cent above last year, with comparable store sales increasing 0.3 per cent. The removal of Christmas lay-by and the Toy Sale event affected sales in the first quarter of the year and, excluding this impact, comparable sales for the half increased 2.3 per cent. For the second quarter<sup>4</sup>, total sales declined 0.3 per cent to \$1.4 billion, with comparable store sales increasing 1.6 per cent.

Kmart continued to benefit from ongoing range development and further improvements in sourcing, with strong sales growth achieved during the half in summer seasonal apparel and everyday core ranges across the home and toy categories. Sales growth was, however, largely offset by continued decline within entertainment categories including video games, music and DVDs. Improvements in product, range and margin management, together with cost efficiencies and the removal of Christmas lay-by from the mid-year Toy Event, supported the earnings growth achieved.

During the half, three Kmart stores (including one replacement store) and one new Kmart Tyre & Auto Service were opened. Kmart's store refurbishment program accelerated during the half, with 12 refurbishments completed.

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<sup>3</sup> Financial Year 2014 for the 27 week period 1 July 2013 to 5 January 2014 and Financial Year 2013 for the 27 week period 2 July 2012 to 6 January 2013.

<sup>4</sup> Financial Year 2014 for the 14 week period 30 September 2013 to 5 January 2014 and Financial Year 2013 for the 14 week period 1 October 2012 to 6 January 2013.

Target recorded total sales of \$2.0 billion for the first half<sup>5</sup>, 4.4 per cent below the previous corresponding period. Comparable store sales<sup>6</sup> declined 4.2 per cent during the first half. For the second quarter<sup>7</sup>, total sales declined 3.3 per cent to \$1.2 billion, with comparable store sales declining 3.3 per cent.

Target recorded earnings of \$70 million for the half, 52.7 per cent below the prior period. Earnings were affected, in particular, by high levels of aged stock and winter clearance activity, which delayed the launch of the spring/summer range. Contributing to lower earnings were the non-repeat of heavy promotional activity in the prior year, and ranging challenges in ladies youth and areas of home.

A strong focus on inventory management during the half resulted in an improved stock profile and lower unit levels at the end of the period compared to the same time last year. Notwithstanding this early progress, there remains significant room for improvement in stock management and a great deal of work is underway to strengthen buying teams, ranges and inventory planning. Encouragingly, customers are responding positively where better ranges have been introduced.

Initial improvements in store standards, customer service and queues were achieved and costs were well managed. Target relaunched its online store in October 2013, delivering enhanced functionality and a solid foundation to support this channel's future growth. Good progress was made during the half in recruiting stronger organisational capability and leadership to oversee the long-term turnaround of the business.

## INSURANCE

The Insurance division's earnings decreased by 4.8 per cent to \$99 million during the half. Included within this result was a \$45 million negative impact on underwriting earnings from additional reserve increases in relation to EQ2. Excluding EQ2, underlying earnings for the Insurance division increased 38.5 per cent to \$144 million. The increase in reserves reflects higher expected repair costs following better assessment of the worst affected earthquake areas. At the end of the half, Lumley New Zealand had settled 70.2 per cent of claims relating to EQ2, above the industry average of 59.9 per cent.

The positive momentum in the underwriting business continued during the half, with underlying earnings growth achieved following premium rate increases and favourable claims experiences, partially offset by lower investment income. The underlying combined operating ratio (excluding the EQ2 reserve increase) improved to 90.2 per cent from 94.9 per cent in the previous corresponding period due to improved risk pricing, exposure management and claims efficiencies. Coles Insurance home and motor portfolio continued to grow strongly, with policies exceeding 260,000 at the end of the half.

Broking earnings increased during the half, with earnings before interest, tax and amortisation (**EBITA**) increasing 7.9 per cent to \$41 million, supported by a stronger New Zealand performance and a favourable A\$:NZ\$ exchange rate movement. This offset softer conditions in Australia and the United Kingdom and implementation costs associated with a major upgrade of information technology systems to support the future growth of the business.

## INDUSTRIAL

The Resources division recorded earnings for the half of \$59 million, 36.6 per cent below last year. Revenues and earnings were adversely affected by significantly lower US\$ export coal prices, particularly in the first quarter when hard coking coal export prices fell approximately US\$80 per tonne or 36 per cent as compared to the prior corresponding period.

Operational performance at Curragh improved, with metallurgical coal production of 4.0 million tonnes achieved for the half, 4.2 per cent above the previous corresponding period. A strong focus on productivity continued with unit mine cash costs (excluding carbon tax) approximately nine per cent lower than the previous corresponding period and approximately 28 per cent lower than the peak recorded in the first half of the 2012 financial year.

Bengalla's operational performance during the period was strong, with thermal coal production up 13.2 per cent and sales volumes increasing 18.8 per cent. Strong cost reduction was also achieved at Bengalla, driven by a focus on mine productivity which, together with sales volume growth, offset lower US\$ export thermal coal prices.

In January 2014, the Resources division acquired Mineral Development Licence 162 (MDL 162), which is located between and adjacent to the Curragh and Curragh North mining leases. The acquisition will increase Curragh's total base of coal reserves by approximately 29 per cent<sup>8</sup>, extending Curragh's mine life and providing future options to optimise mine operations. Further work is required to convert MDL 162 into a mining lease, with a feasibility study assessing development options expected to be complete by the end of calendar year 2014.

The Chemicals, Energy and Fertilisers division reported earnings of \$205 million for the half, which included a \$95 million gain on sale of the 40 per cent interest in ALWA. Underlying earnings, excluding the ALWA gain on sale, were \$110 million, up 5.8 per cent. Continued good demand for ammonia and ammonium nitrate supported earnings in the chemicals business that were in line with the prior corresponding period, despite planned shutdowns and a major

<sup>5</sup> Financial Year 2014 for the 27 week period 30 June 2013 to 4 January 2014 and Financial Year 2013 for the 27 week period 1 July 2012 to 5 January 2013.

<sup>6</sup> Comparable store sales include lay by sales. Lay by sales are excluded from total sales under Australian Accounting Standards.

<sup>7</sup> Financial Year 2014 for the 14 week period 29 September 2013 to 4 January 2014 and Financial Year 2013 for the 14 week period 30 September 2012 to 5 January 2013.

<sup>8</sup> Refer slides on pages 35 (Acquisition – MDL 162) and 36 (Coles Reserves & Resources Notes) in the 2014 Half-Year Results Supplementary Information.



unscheduled outage in the nitric acid/ammonium nitrate number two plant (NA/AN2) on 11 December 2013 which required force majeure to be called. The repairs on the NA/AN2 plant are not expected to be completed until March 2014, with costs of this event expected to be the subject of a future insurance claim. Weaker market conditions were experienced in the sodium cyanide business due to reduced gold pricing, and challenging conditions continued for Australian Vinylns due to high input costs relative to PVC selling prices.

Kleenheat Gas' LPG earnings increased during the half due to higher LPG pricing, which offset further declines in LPG content in the Dampier to Bunbury natural gas pipeline. In the fertilisers business, a dry June affected sales volumes and earnings during the half.

Production plant capacity expansions progressed well during the half, including construction of the NA/AN3 expansion, which will increase production capacity by 260,000 tonnes per annum to 780,000 tonnes per annum. Commissioning of the additional plant capacity is underway, with the project expected to be completed within budget and on time, and incremental capacity expected to be available in the fourth quarter of the 2014 financial year. The sodium cyanide debottlenecking project at Kwinana is similarly reaching completion and is in line with budget.

Earnings for the Industrial and Safety division declined 17.0 per cent to \$73 million during the half, despite an improved contribution from Coregas. Consistent with the second half of the 2013 financial year, market conditions continued to affect sales and margin due to lower customer activity in the mining, manufacturing and engineering construction sectors.

In response to difficult market conditions, the Industrial and Safety division focused strongly on cost reduction and operational efficiency, closing 14 branches during the half. Customer retention during the period was high, supported by improvements in customer service and product range.

## **OTHER BUSINESSES/CORPORATE OVERHEADS**

Other businesses and corporate overheads reported an expense of \$52 million for the half, marginally above the \$51 million expense incurred in the same period last year.

During the period, the Group's investment in the BWP Trust generated earnings of \$16 million, up from \$12 million recorded last year, while Wesfarmers' share of the loss recorded by the Gresham Private Equity Funds reduced to \$1 million compared to the loss of \$11 million recorded in the prior year.

Interest revenue during the half declined to \$3 million from \$5 million last year and corporate overheads increased by \$2 million to \$59 million.

## **CASH FLOWS AND CAPITAL MANAGEMENT**

Operating cash flows for the half of \$1,757 million were \$450 million below last year, with a cash realisation ratio<sup>9</sup> of 88.5 per cent recorded. Cash realisation was affected by the January 2014 settlement of the sale of the Group's 40 per cent interest in ALWA and lower working capital cash inflows from the retail portfolio. As compared to the prior year, reduced operating cash flows reflected the non-repeat of previous strong cash releases associated with the turnaround of working capital positions (particularly in Kmart), increased retail inventory as a result of store network growth and increased direct sourcing, and cash settlements relating to performance incentive plans and aged workers' compensation claims.

Working capital, excluding the receivable associated with the sale of ALWA, remained largely flat during the period, with net inventory days improving driven by business growth.

Gross capital expenditure of \$1,160 million was \$163 million or 12.3 per cent below the prior corresponding period. Significant investment continued to be made by Coles and Bunnings to improve and optimise store networks while Kmart began to accelerate its store refurbishment program. The expansion of ammonium nitrate capacity and the debottlenecking of sodium cyanide capacity at Kwinana were other major capital projects during the half.

Proceeds from the sale of property, plant and equipment during the half were \$400 million above the prior year, resulting in net capital expenditure \$563 million below last year. Property disposal activity reflected the Group's return on capital focus, with retail property disposals accelerating during the half in line with freehold site development. This activity included two significant transactions announced in August 2013 which collectively realised \$485 million during the half through the sale and leaseback of 10 Bunnings stores to BWP Trust<sup>10</sup> and 15 Bunnings stores via a securitised lease structure. Overall for the half, free cash flows for the Group were \$1,016 million, \$9 million above the prior corresponding period.

<sup>9</sup> Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant non-trading items.

<sup>10</sup> At 31 December 2013, four of the 10 stores to be sold to BWP Trust (announced in August 2013) were contracted for sale but remained under construction/development, with settlement not yet reached and hence proceeds not yet realised.

Finance costs decreased to \$179 million during the half, compared with \$229 million in the first half of last year, with the Group's effective borrowing cost decreasing 149 basis points to 5.56 per cent as compared to the prior corresponding period. The reduction in borrowing costs was as a result of successful refinancing initiatives completed in recent financial years and more efficient use of intra-month cash receipts towards term debt reduction. Business growth and balance sheet management resulted in further improvement in liquidity metrics, with cash interest cover<sup>11</sup> increasing to 13.8 times and fixed charges cover remaining solid at 3.0 times.

In November 2013, the Group returned \$579 million to shareholders via a capital return of 50 cents per fully-paid ordinary share and partially protected share, which was accompanied by a proportionate share consolidation through the conversion of one share into 0.9876 shares.

Net debt, comprising interest bearing liabilities less cash at bank and on deposit, was \$6,039 million, 14.8 per cent above the net debt position at 30 June 2013, with the November 2013 capital return contributing to the increase in net debt. Gearing remains at a comfortable level, with net debt-to-equity of 23.5 per cent at 31 December 2013.

The Group's credit ratings for Standard & Poor's and Moody's Investors Services remained unchanged at A- (stable) and A3 (stable) respectively during the half.

During the half, the trigger for early reclassification of Wesfarmers partially protected shares into Wesfarmers ordinary shares occurred. As a result, partially protected shares were reclassified into ordinary shares on 9 December 2013 on a one for one basis.

## INTERIM DIVIDEND

The Board has declared a fully-franked interim dividend of 85 cents per share, compared to 77 cents per share in the previous corresponding period. The interim dividend will be paid on 2 April 2014 to shareholders on the company's register on 28 February 2014, the record date for the interim dividend. The ex-dividend date is 24 February 2014.

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 issued under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 15 consecutive trading days from and including the third trading day after the record date, being 5 March 2014 to 25 March 2014.

No discount will apply to the allocation price and the Plan will not be underwritten. Given the company's current capital structure and strong balance sheet, any shares to be issued under the Plan will be acquired on-market and transferred to participants on 2 April 2014.

## OUTLOOK

The Group will seek to strengthen its existing businesses, secure growth opportunities and renew and develop the portfolio in order to deliver satisfactory long-term shareholder returns. The Group's retail businesses are expected to continue to grow as they improve customer propositions, invest in value, innovate merchandise offers, focus on operational productivity and optimise store networks.

Target's strengthened leadership team will progressively implement Target's strategic plan, with further process and organisational change underway. Target's earnings in the second half are expected to be above the same period last year but trading is expected to remain challenging as the business undergoes significant change in order to achieve long-term, sustainable growth.

The Group believes that good market positions support a positive long-term outlook for the industrial businesses. Short-term earnings for the Chemicals, Energy and Fertilisers division will, however, be negatively affected by reduced production from the NA/AN2 plant's unscheduled major outage, and recent softening in spot pricing for Australian export hard coking coal is expected to impact earnings in the Resources division.

The Group will continue to develop its multiple online offers across each of its businesses, with \$1.1 billion of online sales recorded across the Group during the 2013 calendar year. The Group will work to progress regulatory approvals for the sale of the Insurance division's underwriting operations to Insurance Australia Group, which was announced on 16 December 2013.

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<sup>11</sup> Calculated on a rolling 12 month basis.

## 2014 SECOND QUARTER AND HALF-YEAR RETAIL SALES RESULTS

Half-Year Sales (\$m)	Financial Year 2014	Financial Year 2013	Movement (%)
Food & Liquor <sup>1,2</sup>	15,012	14,344	4.7
Convenience <sup>1,3</sup>	4,266	4,039	5.6
<b>Total Coles</b>	<b>19,278</b>	<b>18,383</b>	<b>4.9</b>
Home Improvement <sup>4,5</sup>	4,430	4,010	10.5
Office Supplies <sup>4</sup>	744	712	4.5
<b>Total Home Improvement &amp; Office Supplies</b>	<b>5,174</b>	<b>4,722</b>	<b>9.6</b>
<b>Target<sup>6</sup></b>	<b>2,013</b>	<b>2,106</b>	<b>(4.4)</b>
<b>Kmart<sup>1</sup></b>	<b>2,365</b>	<b>2,326</b>	<b>1.7</b>

Second Quarter Sales (\$m)	Financial Year 2014	Financial Year 2013	Movement (%)
Food & Liquor <sup>7,2</sup>	8,098	7,721	4.9
Convenience <sup>7,3</sup>	2,275	2,169	4.9
<b>Total Coles</b>	<b>10,373</b>	<b>9,890</b>	<b>4.9</b>
Home Improvement <sup>8,5</sup>	2,431	2,198	10.6
Office Supplies <sup>8</sup>	371	350	6.0
<b>Total Home Improvement &amp; Office Supplies</b>	<b>2,802</b>	<b>2,548</b>	<b>10.0</b>
<b>Target<sup>9</sup></b>	<b>1,224</b>	<b>1,266</b>	<b>(3.3)</b>
<b>Kmart<sup>7</sup></b>	<b>1,395</b>	<b>1,399</b>	<b>(0.3)</b>

1. Financial Year 2014 for the 27 week period 1 July 2013 to 5 January 2014 and Financial Year 2013 for the 27 week period 2 July 2012 to 6 January 2013
2. Includes hotels, excludes gaming revenue and property income
3. Includes fuel sales
4. Financial Year 2014 and Financial Year 2013 for the six month period 1 July to 31 December
5. Includes cash and trade sales, excludes property income
6. Financial Year 2014 for the 27 week period 30 June 2013 to 4 January 2014 and Financial Year 2013 for the 27 week period 1 July 2012 to 5 January 2013
7. Financial Year 2014 for the 14 week period 30 September 2013 to 5 January 2014 and Financial Year 2013 for the 14 week period 1 October 2012 to 6 January 2013
8. Financial Year 2014 and Financial Year 2013 for the three month period 1 October to 31 December
9. Financial Year 2014 for the 14 week period 29 September 2013 to 4 January 2014 and Financial Year 2013 for the 14 week period 30 September 2012 to 5 January 2013

## WESFARMERS RETAIL OPERATIONS - STORE NETWORK

FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

	Open at 1 Jul 2013	Opened	Closed	Re- branded	Open at 31 Dec 2013
<b>COLES</b>					
<b>Supermarkets</b>					
Coles	722	11	(4)	4	733
Bi-Lo	34	-	(1)	(4)	29
<b>Total Supermarkets</b>	<b>756</b>	<b>11</b>	<b>(5)</b>	<b>-</b>	<b>762</b>
<b>Liquor</b>					
1st Choice	92	6	-	-	98
Vintage Cellars	79	-	(1)	-	78
Liquorland	639	14	(5)	-	648
Hotels	92	-	-	-	92
<b>Total Liquor</b>	<b>902</b>	<b>20</b>	<b>(6)</b>	<b>-</b>	<b>916</b>
<b>Convenience</b>	<b>636</b>	<b>6</b>	<b>(5)</b>	<b>-</b>	<b>637</b>
<b>Selling Area (m<sup>2</sup>)</b>					
Supermarkets	1,656,520	n.a.	n.a.	n.a.	1,678,813
Liquor (excluding hotels)	199,178	n.a.	n.a.	n.a.	204,449
<b>HOME IMPROVEMENT</b>					
Bunnings Warehouse	210	11	(3)	-	218
Bunnings smaller formats	67	2	(4)	-	65
Bunnings Trade Centres	36	1	(2)	-	35
<b>OFFICE SUPPLIES</b>					
Officeworks	149	6	(3)	-	152
Harris Technology	1	-	-	-	1
<b>TARGET</b>					
Target	183	8	-	-	191
Target Country	125	-	(2)	-	123
<b>KMART</b>					
Kmart	190	3	(2)	-	191
Kmart Tyre & Auto	263	1	(13)	-	251

## Coles division

### Performance summary

Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	18,946	18,047
EBITDA	1,076	984
Depreciation & amortisation	(240)	(229)
EBIT	836	755

Coles' operating revenue for the half increased 5.0 per cent to \$18.9 billion. Earnings before interest and tax (EBIT) increased 10.7 per cent to \$836 million. Food and liquor sales growth for the half<sup>1</sup> was 4.7 per cent with comparable store sales growth of 3.6 per cent, resulting in 18 consecutive quarters of industry outperformance.

Other key performance metrics also improved, with Coles' food and liquor EBIT margin increasing 31 basis points to 5.1 per cent. Coles' return on capital increased 80 basis points to 10.0 per cent, having almost doubled over the last five years.

Food and liquor experienced further price deflation of 1.8 per cent in the half, reflecting Coles' commitment to providing value for customers. Coles continued to reinforce its price leadership during the half through stronger long-term price investment under the "Down Down" campaign, strong weekly specials offerings, new private label innovations and personalised flybuys offers.

Coles' strategy of investing savings from operating efficiencies in lower prices, improving quality and a strong service focus continued to drive increased customer transactions as well as increases in volumes and basket size.

A strong focus on quality by Coles and its fresh food partners further enhanced customer confidence and trust in Coles' fresh food offer resulting in a stronger fresh food contribution to sales, volumes and basket size.

Productivity improved during the half through the "Right team, Right time" initiative delivering improved rostering efficiency in stores. Distribution centre efficiency also improved following a strong focus on productivity and inventory management.

Sales momentum increased in the liquor business during the half as a result of targeted value offers funded by efficiency savings. Format innovation continued, with three Liquorland Warehouse stores operating at the end of the

### Outlook

The strong foundation established over the last five years has provided a platform for the next wave of Coles' transformation. During the second wave, Coles' priority is to consolidate its improved brand reputation through extending value leadership, delivering consistent quality, building longer term strategic partnerships with suppliers, continuing investment in innovation and in-store offers, and building best in class multi-channel capabilities.

half. Initial customer responses were encouraging, with further pilots planned.

Coles Express delivered revenue of \$4.2 billion for the half, an increase of 5.9 per cent on the previous corresponding period. Convenience EBIT increased 3.8 per cent to \$81 million in the half, with higher fuel sales offset by increases in fuel discounts. Following fuel price increases during the half, fuel volumes fell by 0.5 per cent<sup>1</sup>, however, premium fuel and diesel volumes continued to grow.

Comparable convenience store sales, excluding fuel, increased 2.9 per cent in the half<sup>1</sup>. Sales growth was driven by strong customer transaction growth in response to improvements in value and range, extension to "Down Down" pricing, stronger weekly promotions and the introduction of new product ranges.

Coles continued to expand its customer offer with a range of multi-channel, loyalty and financial services initiatives. Coles Online was re-launched, a new and dynamic online shopping platform, the Coles insurance and credit card offers continued to grow and Coles commenced Australia's first consumer trial of its mobile Pay Tag<sup>TM</sup>.

Safety remains a key priority and, as a result of operational improvements, LTIFR reduced substantially to 6.8, 33.3 per cent below the prior corresponding period.

Consistent with Coles' development over recent years of a high quality new store pipeline, supermarket net selling area grew by 2.3 per cent over the 12 months to 31 December 2013. Coles opened 11 stores, closed five stores, and a further 31 stores were converted to the renewal format during the half. At 31 December 2013, 382 stores were in the renewal format, representing 50 per cent of Coles' fleet. During the half, three food service superstores were opened in New South Wales, featuring many of the innovative concepts trialed at Southland, Victoria, which have received very positive customer responses.

Consistent with its strong return on capital focus, Coles continued its strategy of recycling capital through property divestments.

Coles continued to reshape the liquor store network, adding 20 new liquor stores and closing six.

At 31 December 2013, Coles had a total of 762 supermarkets, 824 liquor stores, 637 Coles Express sites and 92 hotels.

<sup>1</sup> Growth reflects the 27 week period 1 July 2013 to 5 January 2014 and the 27 week period 2 July 2012 to 6 January 2013.

## Home Improvement and Office Supplies division

### Bunnings

#### Performance summary

Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	4,434	4,017
EBITDA	625	581
Depreciation & amortisation	(63)	(63)
EBIT	562	518

Operating revenue from the Bunnings home improvement business increased by 10.4 per cent to \$4.4 billion for the half-year. Earnings before interest and tax (EBIT) of \$562 million were 8.5 per cent higher than those recorded in the corresponding period last year.

Total store sales growth of 10.6 per cent was achieved for the half-year, with store-on-store sales increasing by 7.2 per cent. Strong sales growth was achieved for the half-year in consumer and commercial areas, building on growth achieved in prior periods. Pleasingly, sales increased across all key product categories and within all trading regions.

#### Outlook

The focus on multiple growth drivers positions Bunnings to achieve further sales growth, particularly by creating more value and better experiences for customers, continued merchandising innovation and leveraging the commercial area of the business. Further productivity gains are anticipated from sustained work to enhance the supply chain and lower the costs of doing business.

Continued growth is also anticipated from greater brand reach, with accelerated store network expansion plans, a deeper digital presence and more in-home services. The past few years have seen markedly higher levels of network investment as the business capitalised on opportunities in the property market to secure a strong pipeline of new stores. High rates of conversion of that investment will be a feature of the remainder of this financial year as well as the next two financial years. Ongoing work to recycle capital during this period will support improved return on capital outcomes.

Bunnings' strategic objectives focus on multiple growth drivers to create value over the long-term. Good outcomes are being achieved across all growth drivers. The key elements of a winning offer to customers - value, range and service - were all strengthened through this work.

Increased EBIT resulted from a number of countervailing factors across the period. Strong creation of value for customers and higher network development costs were offset by ongoing productivity improvements and strong operating cost management. Benefits also arose from initiatives in service, merchandising and commercial.

Greater brand reach is a growth objective and during the period 14 trading locations opened, including 11 new warehouse stores, two smaller format stores and one new trade centre. Significant investment in expanding and upgrading the existing network also continued, with targeted store reinvestment focusing on a faster take-up of the best merchandising opportunities. Network development activity represented over 85 per cent of total capital expenditure for the period.

At the end of the period there were 218 warehouses, 65 smaller format stores and 35 trade centres operating in the Bunnings network across Australia and New Zealand.

## Home Improvement and Office Supplies division

### Officeworks

Performance Summary		
Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	745	712
EBITDA	53	50
Depreciation & amortisation	(11)	(12)
EBIT	42	38

Operating revenue for the Office Supplies business was \$745 million for the half, 4.6 per cent above the previous corresponding period. Earnings before interest and tax (EBIT) increased 10.5 per cent to \$42 million.

#### Outlook

Sales and earnings are expected to continue to grow during the second half, with the primary focus remaining on the execution of strategic initiatives to improve the 'every channel' offer to meet customer needs. Investment to further improve the customer offer and service will continue, as will work to reduce costs and remove operational complexity. Growing Officeworks' presence amongst B2B customers will remain a priority, as will the development and further engagement of Officeworks' team members.

Store sales gained momentum during the half with customers responding favourably to an improved store offer. The business-to-business (B2B) segment continued to grow as strategies gained further traction.

Officeworks continued to focus on its strategic agenda by expanding the store network and enhancing the 'every channel' offer to customers whilst reducing operational complexity and the cost of doing business.

Development of the Officeworks website to improve the online customer experience continued, with double digit sales growth achieved in the half.

During the period six new Officeworks stores were opened, including two relocations. At the end of the half there were 152 Officeworks stores and one Harris Technology business centre operating across Australia.

## Kmart division

Performance summary		
Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	2,321	2,299
EBITDA	299	281
Depreciation & amortisation	(39)	(35)
EBIT	260	246

Kmart's operating revenue for the half was \$2.3 billion, with earnings before interest and tax (EBIT) of \$260 million, 5.7 per cent higher than the prior corresponding period. The EBIT margin recorded of 11.2 per cent was 50 basis points above the prior corresponding period.

Total store sales growth was 1.7 per cent for the half, with comparable store sales increasing 0.3 per cent<sup>1</sup>.

Revenue growth during the first half was driven by increases in both customer transactions and units sold, with the second quarter representing the sixteenth consecutive quarter of growth in these metrics.

EBIT growth was achieved through continued improvements in product, range and margin management. The removal of Christmas lay-by from the mid-year Toy Event also contributed to earnings growth during the half.

Return on capital increased to 26.8 per cent from 22.8 per cent in the prior corresponding period.

During the half, investment in the store network continued, with three Kmart stores opened, including one replacement store. Store renewal activity accelerated during the half, with 12 Kmart store refurbishments completed. One new Kmart Tyre & Auto Service store was opened during the half.

At 31 December 2013, there were 191 Kmart stores and 251 Kmart Tyre & Auto Service stores.

<sup>1</sup> 2014 growth reflects the 27 week period 1 July 2013 to 5 January 2014 and the 27 week period 2 July 2012 to 6 January 2013.

### Outlook

Kmart's focus will remain on delivering growth through operational excellence, creating adaptable stores, driving a high performance culture and continuing to invest in the store network. Initiatives to further refine product ranges and improve team member safety will continue, and Kmart will remain focussed on strengthening its ethical sourcing standards through further close collaboration with suppliers who share this goal and who employ high standards of conduct.

Three new stores, including one replacement store, are expected to open in the second half of the 2014 financial year, with store refurbishment activity to be progressed.



## Target division

Performance summary		
Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	1,965	2,070
EBITDA	113	187
Depreciation & amortisation	(43)	(39)
EBIT	70	148

Target's revenue for the half declined by 5.1 per cent to \$2.0 billion, with earnings before interest and tax (EBIT) of \$70 million recorded.

Comparable sales declined 4.2 per cent during the half<sup>1</sup>, with comparable sales declining 3.3 per cent in the second quarter<sup>2</sup>.

Sales and margin during the half were negatively affected by high levels of winter clearance, which delayed the launch of the spring/summer range.

Range challenges in ladies youth, and some areas of home, also contributed to the reduction in earnings.

The 2014 financial year is a transitional year for the business, with significant work underway to build a platform for sustainable future growth. Some of these initiatives are, as expected, having an adverse impact on short-term performance.

### Outlook

Trading for the remainder of the 2014 financial year is expected to remain challenging as the business continues to be re-engineered with a view to delivering sustainable, long-term growth, in line with Target's purpose of making fashion, style and quality affordable for all Australians. Improved ranges will begin to be delivered through the autumn/winter launch in March 2014 and more fully through the spring/summer launch in July 2014. These improvements will be supported by better sourcing and the continued tight control of inventory and costs.

During the half progress was, however, made in a number of areas of Target's turnaround.

Inventory at the end of the half was lower than last year, driven by the active management of seasonal and aged stock, contributing to improved cash flow performance.

Costs were tightly managed, resulting in an improved cost of doing business performance for the half.

Customers responded positively where improvements have been made to ranges and better style and quality were delivered at great prices.

Progress was also made to improve store standards, customer service levels and reduce queue times.

Target's online store was re-platformed in October 2013, delivering a more stable foundation to support the future growth of this channel, as well as immediate enhancements including a new mobile optimised website and improved search functionality.

Good progress was made in recruiting stronger capability and leadership, with Target's new leadership team now in place.

Eight stores were opened during the half, including one replacement store. Customers have responded positively to investments made in new concepts.

<sup>1</sup> 2014 growth reflects the 27 week period 30 June 2013 to 4 January 2014 and the 27 week period 1 July 2012 to 5 January 2013.

<sup>2</sup> 2014 growth reflects the 14 week period 29 September 2013 to 4 January 2014 and the 14 week period 30 September 2012 to 5 January 2013.

## Insurance division

### Performance summary

Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	1,110	1,035
EBITDA	120	122
Depreciation	(14)	(12)
EBITA	106	110
EBITA (excluding EQ2) <sup>1</sup>	151	110
EBIT	99	104

<sup>1</sup> 2013: Excluding the \$45 million reserve increase in relation to the 22 February 2011 Christchurch earthquake.

Operating revenue of \$1.1 billion was 7.2 per cent higher than the previous corresponding period. Gross written premium from underwriting activities increased by 7.7 per cent and broking revenue increased 8.6 per cent.

The Insurance division's earnings before interest, tax and amortisation (**EBITA**) decreased by 3.6 per cent to \$106 million, compared with \$110 million for the previous corresponding period. The reported result of \$106 million included a \$45 million impact on underwriting earnings from reserve increases in relation to the 22 February 2011 Christchurch earthquake (**EQ2**). Excluding the impact of the EQ2 reserve increase, divisional EBITA increased to \$151 million, an increase of 37.3 per cent on the previous corresponding period.

The underlying combined operating ratio (excluding the impact of the EQ2 reserve increase) for the underwriting business was 90.2 per cent, representing a 4.7 percentage point improvement on the previous corresponding period.

The \$45 million increase in reserves associated with EQ2 reflects higher expected rebuild and repair costs for the domestic program of work. As at 31 December 2013, 70.2 per cent of claims relating to EQ2 were settled, well above the industry average of 59.9 per cent.

### Outlook

The sale of the underwriting operations to Insurance Australia Group announced on 16 December 2013 is expected to complete in the second quarter of calendar 2014 but timing remains dependent upon the receipt of all necessary regulatory approvals.

In the interim, underwriting performance is expected to continue to improve, in the absence of significant catastrophe events, as the businesses continue their focus on strong underwriting discipline and operational efficiencies. Premium rate growth is expected to moderate across Australia and New Zealand.

The on-going upgrade of broking systems and investment in capability to support future earnings growth is expected to affect margins in the short-term, but positions the business well for future growth. In addition, the pursuit of value accretive bolt-on acquisitions provides good opportunities for incremental future earnings growth, with OAMPS Australia purchasing TCIS Insurance Brokers in January 2014.

The increase in underlying underwriting earnings (excluding the EQ2 reserve increase) for the first half was driven by improved loss ratios through better risk pricing, exposure management and claims efficiencies.

Earned premiums continued to benefit from the rate increases achieved in the 2013 financial year. Most portfolios across Australia and New Zealand had favourable claims experiences, with claims from natural perils also below internal allowances for the first half. A stronger earnings contribution from the crop portfolio also contributed to an improved result in the first half.

Modest reductions in reinsurance costs benefited underwriting earnings across most classes of business.

Strong growth across the Coles Insurance home and motor portfolio continued with policies in force now exceeding 260,000. Continued promotion and increasing brand awareness of the Coles Insurance personal lines offering is expected to drive further growth in the second half.

Broking earnings were higher with EBITA increasing to \$41 million, up 7.9 per cent on the previous corresponding period. This growth was achieved organically with no significant acquisition activity in the 12 months to 31 December 2013.

The New Zealand business experienced continued strong broking revenue and earnings growth during the half. Investment in new broking systems resulted in higher expenses and affected margins in the half.

Revenue and earnings growth in OAMPS Australia and the United Kingdom were softer due to challenging trading conditions in the SME sector in Australia and subdued economic conditions in the United Kingdom. The business remains focused on new business growth and customer retention strategies combined with expense management initiatives.

## Resources division

### Performance summary

Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	764	826
EBITDA	135	161
Depreciation & amortisation	(76)	(68)
EBIT	59	93

Revenue of \$764 million for the six months to 31 December 2013 was 7.5 per cent below the prior corresponding period. Earnings before interest and tax (EBIT) of \$59 million were 36.6 per cent below last year, with revenue and earnings declines reflecting significantly lower US\$ export prices received across all products in line with global coal market movements. Higher export sales volumes and continued improvements in operational productivity, via further cash cost reductions, partially offset reduced revenues.

**Curragh (Qld):** Metallurgical coal sales volumes of 4.05 million tonnes were 7.5 per cent above the prior corresponding period. Steaming coal sales volumes of 1.83 million tonnes were 12.3 per cent higher and in line with contractual requirements. Metallurgical coal production for the half-year of

4.03 million tonnes was 4.2 per cent above the previous corresponding period and steaming coal production of 1.74 million tonnes was 4.7 per cent higher.

Curragh continued its strong focus on cost control in the half. Unit mine cash costs (excluding carbon tax) achieved for the period were approximately nine per cent lower than the previous corresponding period representing a reduction of approximately 28.0 per cent since the peak in cash costs recorded in the first half of the 2012 financial year.

In January 2014, the Resources division acquired Mineral Development Licence 162 (**MDL 162**) for \$70 million. MDL 162 is located between and adjacent to the Wesfarmers Resources' Curragh and Curragh North mining leases, with the acquisition to augment the total base of coal reserves potentially available for mining and processing at Curragh's coal handling and preparation plants.

The additional coal reserves are expected to extend Curragh's mine life and provide future options to further optimise mine operations, with further work required to convert MDL 162 to a mining lease.

**Bengalla (NSW):** Sales volumes from the Bengalla mine, in which Wesfarmers holds a 40 per cent interest, were up 18.8 per cent on the corresponding period last year and production volumes were up 13.2 per cent compared to the same time last year.

### Outlook

Curragh's metallurgical coal sales volume is expected to be in the range of 7.5 to 8.5 million tonnes for the 2014 financial year. For the March 2014 quarter, the weighted average US\$ free on board (FOB) pricing for new contract prices of Curragh's metallurgical coal (hard coking, semi-hard coking and PCI) decreased by approximately five per cent from the December 2013 quarter's prices and, whilst pricing is yet to be settled for Curragh's June 2014 quarter export metallurgical coal sales, current spot pricing for Australian export hard coking coal is below the March 2014 quarter.

The focus on operational productivity and cost control will continue and the recently commenced feasibility study evaluating development options for MDL 162 is expected to be completed by the end of calendar year 2014.

## Chemicals, Energy and Fertilisers division

Performance summary		
Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue <sup>1</sup>	772	775
EBITDA <sup>1</sup>	157	154
Depreciation & amortisation	(47)	(50)
EBIT (excl. sale of ALWA) <sup>1</sup>	110	104
Gain on sale of ALWA	95	-
EBIT	205	104

<sup>1</sup> Includes Air Liquide WA (ALWA) revenue and earnings for the period prior to its divestment in December 2013 (excludes \$95 million gain on sale of 40 per cent interest in ALWA).

Operating revenue of \$772 million was in line with the previous corresponding period, with increases in revenue in the Chemicals and Kleenheat Gas businesses offset by a decline in fertiliser revenue.

Earnings before interest and tax (EBIT) for the period were \$205 million, which included a \$95 million gain on sale of the 40 per cent interest in Air Liquide WA (ALWA). Excluding this gain on sale, underlying earnings of \$110 million were 5.8 per cent above the previous corresponding period.

**Ammonium Nitrate Expansion:** The construction of the third nitric acid/ammonium nitrate plant (NA/AN3), which will increase production capacity by 260,000 tonnes per annum (tpa) to 780,000 tpa, was further progressed with commissioning now begun.

**Chemicals:** Continuing good demand and strong pricing resulted in an increase in earnings from the ammonia

### Outlook

The division remains focussed on the successful commissioning of the NA/AN3 plant at Kwinana, with the project expected to be completed within budget, with expanded production capacity expected to be available, as planned, in the first half of the 2014 calendar year.

Continued demand for chemical inputs in Western Australia is expected to support solid ammonia and ammonium nitrate sales and, together with an earnings contribution following the commissioning of the NA/AN3 plant, provides a positive long-term outlook for the division. Chemicals' short term earnings will, however, be significantly affected by reduced production and costs associated with the NA/AN2 plant's unscheduled outage (plant availability expected in March 2014) and remain dependent upon global pricing for ammonia, gas costs and sodium cyanide demand.

The Australian Vinyls business is expected to continue to be challenged, and Kleenheat Gas' LPG earnings continue to be dependent on international LPG prices and LPG content in the Dampier to Bunbury natural gas pipeline which is expected to remain at current low levels.

Fertiliser earnings remain dependent upon a good seasonal break in the second half of the financial year, when the majority of sales occur. A strong 2013 harvest, and therefore improved farmers' terms of trade, do support a positive outlook for the fertilisers business.

business. The ammonium nitrate business also experienced strong demand, however reduced production volumes due to planned shutdowns, as well an unscheduled outage on 11 December 2013 in the nitric acid/ammonium nitrate number two plant (NA/AN2) due to equipment failure, affected earnings in the period. Market conditions for the sodium cyanide business were less favourable during the period due to declining gold prices.

Australian Vinyls continued to face high input costs relative to PVC selling prices, although the impact on margins was partially offset by improvements in the A\$:US\$ exchange rate.

Equity accounted earnings from the 50 per cent interest in Queensland Nitrates were below the previous corresponding period, reflecting lower volumes.

**Fertilisers:** Sales volumes and earnings were down in the first half as a dry June led to reduced application rates.

**Kleenheat Gas:** Earnings for the LPG business were higher than the prior period due to higher LPG pricing. LPG production for the period, although higher than expected, was 16 per cent lower than the same period last year following further declines in LPG content in the Dampier to Bunbury natural gas pipeline. Domestic LPG sales volumes were also down on the prior year, but this was partially offset by increased exports.

LNG demand was in line with the prior period, with the business reporting reduced earnings on lower margins.

The performance of the natural gas retail business was in line with expectations.

**Air Liquide WA:** Earnings were in line with the same period last year<sup>2</sup>.

<sup>2</sup> Wesfarmers announced the sale of its 40 per cent holding in Air Liquide WA in December 2013.

## Industrial and Safety division

Performance summary		
Half-year ended 31 December	2013 (\$m)	2012 (\$m)
Revenue	804	837
EBITDA	88	101
Depreciation & amortisation	(15)	(13)
EBIT	73	88

Operating revenue declined in the period by 3.9 per cent to \$804 million. Earnings before interest and tax (EBIT) declined by 17.0 per cent to \$73 million, with reduced employee numbers and other savings only partially offsetting sales and margin impacts.

Industrial and Safety's first half result was adversely affected by weaker demand across most sectors, especially mining, manufacturing and construction. This environment saw customers continue their focus on cost reduction and resulted in heightened competitive pricing pressures during the half.

The New Zealand businesses did, however, experience more favourable market conditions and Coregas continued to improve and grow in new geographies and customer segments.

The division responded to challenging conditions with a continued focus on providing leading customer service while reducing costs, which included the closure of 14 branches over the period.

### Outlook

The Industrial and Safety division is expected to continue to be affected by difficult market conditions for the remainder of the 2014 financial year, but is well-placed to leverage new opportunities and respond to any market recovery.

The business continues to target a greater share of customers' spend through continuous improvement of its offer, growth in services and sales to major projects, as well as increasing customer diversification.

Supply chain, sourcing and cost structure improvements will remain a major focus, as will the development of new growth platforms and continuing to target acquisition opportunities that complement organic growth.

The restructure into three streams – Blackwoods (generalist), Safety Specialists and Industrial Specialists – provided improved organisational alignment and a stronger platform for continuous improvement and growth.

During the period the division acquired Greencap Limited, a safety, property and environmental risk management and compliance services business, which will provide a platform to further grow safety service capability and sales. The division also acquired Regional Gas, a NSW gas distributor.

Initiatives continued during the half to improve the customer offering, including product range and services extensions, and better alignment of sales resources to support specific customer needs by industry. With strong support from key suppliers and its own brand capabilities, the division remains well placed to provide a comprehensive competitive offering to customers.

Strong delivery performance continued to be supported by initiatives to improve supply chain operations, including distribution centre extensions in Perth and Brisbane. Over the next six months, major new facilities will be commissioned in Sydney, Mackay and Adelaide, incorporating latest technologies, which are expected to improve operational efficiency.

The division accelerated the development of its digital capability, including expanded eBusiness functionality, improved websites and the launch of a "low cost" online business. Work continued towards a new enterprise resource planning system.


## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration on page 40 forms part of the Directors' Report for the half-year ended 31 December 2013.

## 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 black ink, appearing to read 'R L Every', written in a cursive style.

**R L Every**  
Chairman  
Perth, 19 February 2014

# Income statement

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED	
		December	December
		2013	2012
		\$m	\$m
<b>Revenue</b>			
Sale of goods		30,591	29,432
Rendering of services		1,046	969
Interest - other		61	69
Other		155	144
<b>Total revenue</b>		<b>31,853</b>	<b>30,614</b>
<b>Expenses</b>			
Raw materials and inventory		(21,186)	(20,277)
Employee benefits expense	5	(4,131)	(4,012)
Net insurance claims, reinsurance and commissions		(747)	(690)
Freight and other related expenses		(527)	(518)
Occupancy-related expenses	5	(1,248)	(1,165)
Depreciation and amortisation	5	(556)	(531)
Impairment expenses	5	(16)	(25)
Other expenses	5	(1,529)	(1,496)
<b>Total expenses</b>		<b>(29,940)</b>	<b>(28,714)</b>
Other income	5	211	126
Share of profits/(losses) of associates		30	17
		<b>241</b>	<b>143</b>
<b>Earnings before interest and income tax expense</b>		<b>2,154</b>	<b>2,043</b>
Finance costs	5	(179)	(229)
<b>Profit before income tax</b>		<b>1,975</b>	<b>1,814</b>
Income tax expense	8	(546)	(529)
<b>Profit attributable to members of the parent</b>		<b>1,429</b>	<b>1,285</b>
Earnings per share attributable to ordinary equity holders of the parent	3	<b>cents</b>	cents
– basic earnings per share		<b>124.2</b>	111.4
– diluted earnings per share		<b>123.9</b>	111.2

# Statement of comprehensive income

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED	
		December 2013 \$m	December 2012 \$m
<b>Profit attributable to members of the parent</b>		<b>1,429</b>	<b>1,285</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
<b>Foreign currency translation reserve</b>			
Exchange differences on translation of foreign operations		62	5
<b>Available-for-sale financial assets reserve</b>			
Changes in the fair value of available-for-sale financial assets		1	1
<b>Cash flow hedge reserve</b>	12		
Unrealised gains on cash flow hedges		95	108
Realised gains transferred to net profit		-	(74)
Realised (gains)/losses transferred to non-financial assets		(112)	36
Share of associates reserve		-	(1)
Tax effect		5	(21)
<i>Items that will not be reclassified to profit or loss:</i>			
<b>Retained earnings</b>	7		
Actuarial gain on defined benefit plan		3	-
Tax effect		(1)	-
<b>Other comprehensive income for the period, net of tax</b>		<b>53</b>	<b>54</b>
<b>Total comprehensive income for the period, net of tax, attributable to members of the parent</b>		<b>1,482</b>	<b>1,339</b>



# Balance sheet

as at 31 December 2013 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED		
		December	June	December
		2013	2013	2012
		\$m	\$m	\$m
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	1,102	1,333	1,355
Trade and other receivables		2,337	2,341	2,084
Inventories		5,781	5,047	5,517
Derivatives		153	187	143
Investments backing insurance contracts, reinsurance and other recoveries		1,558	1,316	1,617
Other		466	362	485
<b>Total current assets</b>		<b>11,397</b>	<b>10,586</b>	<b>11,201</b>
<b>Non-current assets</b>				
Receivables		62	58	34
Available-for-sale investments		6	6	6
Investment in associates		482	420	406
Deferred tax assets		340	370	371
Property		2,704	2,947	3,005
Plant and equipment		7,349	7,217	7,051
Goodwill		16,202	16,151	16,109
Intangible assets		4,486	4,459	4,424
Derivatives		584	436	296
Investments backing insurance contracts, reinsurance and other recoveries		117	357	169
Other		147	148	87
<b>Total non-current assets</b>		<b>32,479</b>	<b>32,569</b>	<b>31,958</b>
<b>Total assets</b>		<b>43,876</b>	<b>43,155</b>	<b>43,159</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		6,441	5,999	5,990
Interest-bearing loans and borrowings		1,758	70	941
Income tax payable		293	310	310
Provisions		1,265	1,379	1,256
Insurance liabilities		1,591	1,540	1,581
Derivatives		50	52	130
Other		362	222	327
<b>Total current liabilities</b>		<b>11,760</b>	<b>9,572</b>	<b>10,535</b>
<b>Non-current liabilities</b>				
Payables		6	8	14
Interest-bearing loans and borrowings		4,675	5,709	4,867
Provisions		1,057	1,117	1,144
Insurance liabilities		538	613	583
Derivatives		55	66	99
Other		56	48	43
<b>Total non-current liabilities</b>		<b>6,387</b>	<b>7,561</b>	<b>6,750</b>
<b>Total liabilities</b>		<b>18,147</b>	<b>17,133</b>	<b>17,285</b>
<b>Net assets</b>		<b>25,729</b>	<b>26,022</b>	<b>25,874</b>
<b>EQUITY</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued capital	10	22,708	23,290	23,290
Reserved shares	10	(32)	(26)	(30)
Retained earnings	7	2,614	2,375	2,289
Reserves		439	383	325
<b>Total equity</b>		<b>25,729</b>	<b>26,022</b>	<b>25,874</b>

# Cash flow statement

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

	Note	CONSOLIDATED	
		December	December
		2013	2012
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers		34,742	33,569
Payments to suppliers and employees		(32,374)	(30,671)
Dividends and distributions received from associates		31	42
Interest received		61	69
Borrowing costs		(171)	(207)
Income tax paid		(532)	(595)
<b>Net cash flows from operating activities</b>	9	<b>1,757</b>	<b>2,207</b>
<b>Cash flows from investing activities</b>			
Net acquisition of insurance deposits		(86)	(82)
Payments for property, plant and equipment and intangibles	9	(1,160)	(1,323)
Proceeds from sale of property, plant and equipment and intangibles	9	603	203
Proceeds from disposal of controlled entities		2	4
Net investments in associates and joint ventures		(76)	8
Acquisition of subsidiaries, net of cash acquired		(24)	(10)
<b>Net cash flows used in investing activities</b>		<b>(741)</b>	<b>(1,200)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		888	981
Repayment of borrowings		(362)	(665)
Proceeds from exercise of in-substance options under the employee share plan	10	2	2
Equity dividends paid		(1,190)	(1,097)
Payment for return of capital and share consolidation	10	(585)	-
<b>Net cash flows used in financing activities</b>		<b>(1,247)</b>	<b>(779)</b>
Net (decrease)/increase in cash and cash equivalents		(231)	228
Cash and cash equivalents at beginning of period		1,333	1,127
<b>Cash and cash equivalents at end of period</b>	9	<b>1,102</b>	<b>1,355</b>

# Statement of changes in equity

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

CONSOLIDATED	Note	Attributable to equity holders of the parent					Total equity \$m
		Issued capital \$m	Reserved shares \$m	Retained earnings \$m	Hedging reserve \$m	Other reserves \$m	
<b>Balance at 1 July 2012</b>		23,286	(31)	2,103	160	109	25,627
Net profit for the period		-	-	1,285	-	-	1,285
<b>Other comprehensive income</b>							
Exchange differences on translation of foreign operations		-	-	-	-	5	5
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	12	-	-	-	48	-	48
Total other comprehensive income for the period, net of tax		-	-	-	48	6	54
Total comprehensive income for the period, net of tax		-	-	1,285	48	6	1,339
Share-based payment transactions		-	-	-	-	2	2
Issue of shares	10	4	-	-	-	-	4
Own shares acquired	10	-	(3)	-	-	-	(3)
Proceeds from exercise of in-substance options	10	-	2	-	-	-	2
Equity dividends	6,10	-	2	(1,099)	-	-	(1,097)
		4	1	(1,099)	-	2	(1,092)
<b>Balance at 31 December 2012</b>		23,290	(30)	2,289	208	117	25,874
<b>Balance at 1 July 2013</b>		23,290	(26)	2,375	229	154	26,022
Net profit for the period		-	-	1,429	-	-	1,429
<b>Other comprehensive income</b>							
Exchange differences on translation of foreign operations		-	-	-	-	62	62
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	12	-	-	-	(12)	-	(12)
Actuarial loss on defined benefit plan, net of tax		-	-	2	-	-	2
Total other comprehensive income for the period, net of tax		-	-	2	(12)	63	53
Total comprehensive income for the period, net of tax		-	-	1,431	(12)	63	1,482
Share-based payment transactions		-	-	-	-	5	5
Issue of shares	10	3	-	-	-	-	3
Capital return and share consolidation	10	(585)	-	-	-	-	(585)
Own shares acquired	10	-	(10)	-	-	-	(10)
Proceeds from exercise of in-substance options	10	-	2	-	-	-	2
Equity dividends	6,10	-	2	(1,192)	-	-	(1,190)
		(582)	(6)	(1,192)	-	5	(1,775)
<b>Balance at 31 December 2013</b>		22,708	(32)	2,614	217	222	25,729

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

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## 1 Corporate information

The financial report of Wesfarmers Limited (referred to as 'Wesfarmers' or 'the Company') for the half-year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 19 February 2014. Wesfarmers is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ('the 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 2013 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 be read in conjunction with the annual financial report for the year ended 30 June 2013 and considered together with any public announcements made by the Company during the half-year ended 31 December 2013 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

The adoption of new standards and interpretations has not resulted in a material change to the financial performance or position of the Company, however, it has resulted in some changes to the Company's presentation of, or disclosure in, its half-year financial statements.

All new and amended Australian Accounting Standards and Interpretations, issued by the Australian Accounting Standards Board ('the AASB'), mandatory as of 1 July 2013 to the Company have been adopted, including:

- AASB 10 *Consolidated Financial Statements (2011)*
- AASB 11 *Joint Arrangements*
- AASB 13 *Fair Value Measurements*
- AASB 119 *Employee Benefits (2011)*
- *Annual Improvements to Australian Accounting Standards 2009 - 2011 Cycle*

# Notes to the financial statements

for the half-year ended 31 December 2013 - 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 ordinary equity holders of the parent by the weighted average number of ordinary shares (including partially protected shares) outstanding during the period (excluding employee reserved shares).

Diluted earnings per share amounts are calculated as above with an adjustment for the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares. Dilution arises as a result of the employee reserved shares issued under the employee share plan being accounted for as in-substance options.

Wesfarmers' partially protected shares ('PPS') were ordinary shares that conferred rights on holders that were the same in all respects to those conferred by other ordinary shares. In addition, PPS provided a level of downside price protection in that they provided holders with up to an additional 0.25 ordinary shares per PPS, in certain circumstances at the expiration of a specified period. The PPS were reclassified into ordinary shares during the period ended 31 December 2013. Refer to note 11 for further details.

Basic and diluted earnings per share calculations are as follows:

	CONSOLIDATED	
	December 2013 \$m	December 2012 \$m
Profit attributable to members of the parent	1,429	1,285
	shares (m)	shares (m)
Shares on issue	1,143	1,157
Weighted average number of ordinary shares (including partially protected shares) for basic earnings per share	1,151	1,154
Effect of dilution - reserved shares	2	2
Weighted average number of ordinary shares (including partially protected shares) adjusted for the effect of dilution	1,153	1,156
Earnings per share (cents per share) attributable to ordinary equity holders of the parent	cents	cents
- basic earnings per share	124.2	111.4
- diluted earnings per share	123.9	111.2

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.

## 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 the leadership team (the chief operating decision makers) monitor the operating results of 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 2013 financial report. Segment performance is evaluated based on operating profit or loss, which in certain respects, as explained in the table over, is presented differently from operating profit or loss in the consolidated financial statements.

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

## 4 Segment information (continued)

Revenue and earnings of various divisions are affected by seasonality and cyclicity 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 of the Christmas holiday shopping period; and
- for the Resources division, the majority of the entity's coal contracted tonnages are renewed on an annual basis from April each calendar year and subject to price renegotiation on a quarterly basis which, depending upon the movement in prevailing coal prices, can result in significant changes in revenue and earnings throughout the financial 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 and are not considered material.

	<b>HOME IMPROVEMENT AND OFFICE SUPPLIES</b>									
	<b>COLES</b>		<b>December</b>		<b>KMART</b>		<b>TARGET</b>		<b>INSURANCE<sup>1</sup></b>	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Segment revenue</b>	<b>18,946</b>	18,047	<b>5,179</b>	4,729	<b>2,321</b>	2,299	<b>1,965</b>	2,070	<b>1,110</b>	1,035
<b>Segment result</b>										
Earnings before interest, tax, depreciation, amortisation (EBITDA)	<b>1,076</b>	984	<b>678</b>	631	<b>299</b>	281	<b>113</b>	187	<b>120</b>	122
Depreciation and amortisation	<b>(240)</b>	(229)	<b>(74)</b>	(75)	<b>(39)</b>	(35)	<b>(43)</b>	(39)	<b>(21)</b>	(18)
Earnings before interest, tax (EBIT)	<b>836</b>	755	<b>604</b>	556	<b>260</b>	246	<b>70</b>	148	<b>99</b>	104
Capital expenditure <sup>5</sup>	<b>486</b>	604	<b>279</b>	356	<b>86</b>	42	<b>38</b>	43	<b>14</b>	12

	<b>CHEMICALS, ENERGY AND FERTILISERS<sup>3</sup></b>									
	<b>RESOURCES<sup>2</sup></b>		<b>December</b>		<b>INDUSTRIAL AND SAFETY</b>		<b>OTHER<sup>4</sup></b>		<b>CONSOLIDATED</b>	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Segment revenue</b>	<b>764</b>	826	<b>772</b>	775	<b>804</b>	837	<b>(8)</b>	(4)	<b>31,853</b>	30,614
<b>Segment result</b>										
Earnings before interest, tax, depreciation, amortisation (EBITDA)	<b>135</b>	161	<b>252</b>	154	<b>88</b>	101	<b>(51)</b>	(47)	<b>2,710</b>	2,574
Depreciation and amortisation	<b>(76)</b>	(68)	<b>(47)</b>	(50)	<b>(15)</b>	(13)	<b>(1)</b>	(4)	<b>(556)</b>	(531)
Earnings before interest, tax (EBIT)	<b>59</b>	93	<b>205</b>	104	<b>73</b>	88	<b>(52)</b>	(51)	<b>2,154</b>	2,043
Finance costs									<b>(179)</b>	(229)
Profit before income tax expense									<b>1,975</b>	1,814
Income tax expense									<b>(546)</b>	(529)
<b>Profit attributable to members of the parent</b>									<b>1,429</b>	1,285
Capital expenditure <sup>5</sup>	<b>33</b>	52	<b>135</b>	122	<b>17</b>	18	<b>3</b>	3	<b>1,091</b>	1,252

1 The Insurance division's 2013 EBIT was adversely affected by an increase in the claims reserves relating to the 2011 Christchurch earthquakes of \$45 million.

2 2013 EBIT includes Stanwell royalty expense of \$62 million (2012: \$91 million).

3 The Chemicals, Energy and Fertilisers division's 2013 result includes a \$95 million gain on the disposal of Wesfarmers' 40 per cent interest in Air Liquide WA Pty Ltd.

4 2013 includes:

- interest revenue of \$3 million (2012: \$5 million);
- share of profit from associates of \$18 million (2012: \$4 million); and
- corporate overheads of \$59 million (2012: \$57 million).

5 Capital expenditure includes accruals to represent costs incurred during the period. The amount excluding movement in accruals is \$1,160 million (2012: \$1,323 million).

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	December	December
	2013	2012
	\$m	\$m
<b>5 Revenue and expenses</b>		
<b>Employee benefits expense</b>		
Remuneration, bonuses and on-costs	3,782	3,690
Superannuation expense	282	262
Share based payments expense	67	60
	<b>4,131</b>	<b>4,012</b>
<b>Occupancy-related expenses</b>		
Minimum lease payments	1,002	938
Contingent rental payments	27	28
Other	219	199
	<b>1,248</b>	<b>1,165</b>
<b>Depreciation and amortisation</b>		
Depreciation	451	430
Amortisation - intangibles	42	46
Amortisation - other	63	55
	<b>556</b>	<b>531</b>
<b>Impairment expenses</b>		
Impairment of freehold property	1	1
Impairment of plant, equipment and other assets	15	24
	<b>16</b>	<b>25</b>
<b>Other expenses included in the income statement</b>		
Government mining royalties	58	57
Stanwell rebate	62	91
Repairs and maintenance	193	188
Utilities and office expenses	584	543
Insurance expenses	106	112
Other	526	505
	<b>1,529</b>	<b>1,496</b>
<b>Other income</b>		
Gains on disposal of property, plant and equipment	18	11
Gains on disposal of controlled entities and associates	97	3
Other income	96	112
	<b>211</b>	<b>126</b>
<b>Finance costs</b>		
Interest expense	154	194
Capitalised interest	(9)	(4)
Discount rate adjustment	18	21
Amortisation of debt establishment costs	3	4
Other including bank facility and settlement fees	13	14
	<b>179</b>	<b>229</b>

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	December	December
	2013	2012
	\$m	\$m
<b>6 Dividends paid and proposed</b>		
<b>Declared and paid during the period</b>		
Final franked dividend for 2013: \$1.03 (2012: \$0.95) (fully-franked at 30 per cent)	1,192	1,099
Capital return	585	-
<b>Proposed and not recognised as a liability (fully-franked at 30 per cent)</b>		
Interim franked dividend for 2014: \$0.85 (2013: \$0.77)	972	891
<b>7 Retained earnings</b>		
<b>Balance as at 1 July</b>	2,375	2,103
Net profit	1,429	1,285
Dividends	(1,192)	(1,099)
Actuarial gain on defined benefit plan, net of tax	2	-
<b>Balance as at 31 December</b>	<b>2,614</b>	<b>2,289</b>
<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 for the period	1,975	1,814
At the statutory income tax rate of 30 per cent (2012: 30 per cent):	593	544
Adjustments in respect of current income tax of previous years	(16)	(26)
Deferred tax asset on capital losses not previously recognised	(35)	(4)
Non-deductible writedowns	-	4
Share of associated companies net profit after tax	(3)	(3)
Tax on undistributed associates' profit	4	3
Other	3	11
Income tax expense reported in the income statement	<b>546</b>	<b>529</b>



# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

	CONSOLIDATED	
	December	December
	2013	2012
	\$m	\$m
<b>9 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	520	551
Cash at bank and on deposit	394	681
Insurance broking trust accounts <sup>(i)</sup>	188	123
	<b>1,102</b>	<b>1,355</b>
(i) Trust cash cannot be used to meet business obligations or operating expenses other than to the extent of payments to underwriters and refunds to policy holders.		
<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit	1,429	1,285
<i>Adjustments</i>		
Depreciation and amortisation	556	531
Impairment of freehold property, plant, equipment, goodwill and other assets	16	25
Net (gain)/loss on disposal of non-current assets	(93)	7
Share of associates' net (profit)/losses	(30)	(17)
Gain on disposal of controlled entities	-	(3)
Dividends and distributions received from associates	31	42
Capitalised borrowing costs	(9)	(4)
Discount adjustment in borrowing costs	18	21
Amortisation of debt establishment costs, net of amounts paid	3	4
Non-cash issue of shares recognised in earnings	3	4
Other	13	(1)
<i>(Increase)/decrease in assets</i>		
Trade and other receivables	151	295
Inventories	(715)	(509)
Prepayments	(60)	(74)
Reinsurance and other recoveries	100	184
Deferred tax assets	36	82
Other assets	(21)	(38)
<i>Increase/(decrease) in liabilities</i>		
Trade and other payables	451	653
Current tax payable	(22)	(148)
Provisions	(179)	(95)
Other liabilities	79	(37)
Net cash flows from operating activities	<b>1,757</b>	<b>2,207</b>
<b>Net capital expenditure</b>		
Payment for property	361	447
Payment for plant and equipment	730	808
Payment for intangibles	69	68
Payments for property, plant, equipment and intangibles	<b>1,160</b>	<b>1,323</b>
Proceeds from sale of property, plant, equipment and intangibles	<b>(603)</b>	<b>(203)</b>
Net capital expenditure	<b>557</b>	<b>1,120</b>

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

## 10 Contributed equity

Movement in shares on issue	Ordinary		Partially protected		Total contributed equity	
	Thousands	\$m	Thousands	\$m	Thousands	\$m
At 1 July 2012	1,006,509	16,969	150,563	6,317	1,157,072	23,286
Issue of ordinary shares under Wesfarmers Annual Incentive Plan	67	2	-	-	67	2
Issue of ordinary shares under Wesfarmers Employee Share Plan	55	2	-	-	55	2
Partially protected ordinary shares converted to ordinary shares at \$41.95 per share	20	1	(20)	(1)	-	-
At 31 December 2012	1,006,651	16,974	150,543	6,316	1,157,194	23,290
Partially protected ordinary shares converted to ordinary shares at \$41.95 per share	21	1	(21)	(1)	-	-
<b>At 30 June 2013</b>	<b>1,006,672</b>	<b>16,975</b>	<b>150,522</b>	<b>6,315</b>	<b>1,157,194</b>	<b>23,290</b>
<b>Partially protected ordinary shares converted to ordinary shares at \$41.95 per share</b>	<b>20</b>	<b>1</b>	<b>(20)</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
<b>Capital return and share consolidation</b>	<b>(12,241)</b>	<b>(510)</b>	<b>(1,739)</b>	<b>(75)</b>	<b>(13,980)</b>	<b>(585)</b>
<b>Issue of ordinary shares under Wesfarmers Employee Share Plan</b>	<b>61</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>61</b>	<b>3</b>
<b>Partially protected ordinary shares converted to ordinary shares at \$42.92 per share</b>	<b>484</b>	<b>21</b>	<b>(484)</b>	<b>(21)</b>	<b>-</b>	<b>-</b>
<b>Partially protected ordinary shares converted to ordinary shares on one for one basis</b>	<b>148,279</b>	<b>6,218</b>	<b>(148,279)</b>	<b>(6,218)</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2013</b>	<b>1,143,275</b>	<b>22,708</b>	<b>-</b>	<b>-</b>	<b>1,143,275</b>	<b>22,708</b>

Movement in reserved shares	Thousands	\$m
At 1 July 2012	3,169	31
Own shares acquired	89	3
Exercise of in-substance options	(202)	(2)
Dividends applied	-	(2)
At 31 December 2012	3,056	30
Exercise of in-substance options	(208)	(2)
Dividends applied	-	(2)
<b>At 30 June 2013</b>	<b>2,848</b>	<b>26</b>
<b>Own shares acquired</b>	<b>218</b>	<b>10</b>
<b>Exercise of in-substance options</b>	<b>(186)</b>	<b>(2)</b>
<b>Dividends applied</b>	<b>-</b>	<b>(2)</b>
<b>At 31 December 2013</b>	<b>2,880</b>	<b>32</b>

## 11 Capital management

### Capital return and share consolidation

On 15 November 2013, Wesfarmers undertook a capital return of 50 cents per fully-paid ordinary share and partially protected share, accompanied by a proportionate share consolidation at a rate of one for 0.9876.

### Reclassification of partially protected shares

On 21 November 2013, the trigger for the early reclassification of Wesfarmers partially protected shares into Wesfarmers ordinary shares occurred. As a result, all outstanding partially protected shares were reclassified into Wesfarmers ordinary shares on 9 December 2013 on a one for one basis.

## 12 Cash flow hedge reserve

The change in cash flow hedge reserve to 31 December 2013 comprised the after-tax net movement from 30 June 2013 in respect of foreign exchange contracts of \$(76) million (2012: \$(20) million) and interest rate swaps of \$64 million (2012: \$68 million).

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

## 13 Financial Instruments

### Fair values

The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following:

	CONSOLIDATED		
	December	June	December
	2013	2013	2012
	\$m	\$m	\$m
Corporate bonds: carrying amount	4,965	4,842	4,210
Corporate bonds: fair value	5,318	5,309	4,383

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

#### Cash

The carrying amount is fair value due to the liquid nature of these assets.

#### Receivables/payables

Due to the short-term nature of these financial rights and obligations, their carrying amounts are estimated to represent their fair values.

#### Other financial assets/liabilities

Market values have been used to determine the fair value of listed available-for-sale investments and corporate bonds using a quoted market price. The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates using market observable inputs. The fair values of loan notes and other financial assets have been calculated using market interest rates.

#### Interest-bearing liabilities

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held or based on discounting expected future cash flows at market rates.

### Valuation of financial instruments

For financial instruments measured and carried at fair value, the Group uses the following to categorise the method used:

- Level 1: the fair value is calculated using quoted prices in active markets;
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

All of the Group's financial instruments carried at fair value were valued using market observable inputs (Level 2) with the exception of \$6 million (2012: \$6 million) of shares in unlisted companies at fair value (Level 3).

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between Level 1 and Level 2 during the period. There were no material Level 3 fair value movements during the period.

### Financial risk factors

The Group's activities expose its financial instruments to a variety of market risks, including foreign currency, commodity price and interest rate risk. The half-year financial report does not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 30 June 2013. There have been no significant changes in the risk management policies since year end.

# Notes to the financial statements

for the half-year ended 31 December 2013 - Wesfarmers Limited and its controlled entities

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## 14 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.

Detailed impairment testing has been completed for non-current assets when the existence of an indication of impairment has been identified. Throughout the half-year ended 31 December 2013, the carrying values of these assets did not exceed their recoverable amounts determined for impairment testing purposes.

Consistent with prior periods, Wesfarmers will perform detailed annual impairment testing prior to the end of the financial year using cash flow projections based on Wesfarmers' five-year corporate plans, long-term business forecasts and market-based valuation assumptions. Where there are significant changes in the corporate plan, long-term business forecasts or market-based valuation assumptions from those used in impairment testing in previous periods this may cause the carrying values of non-current assets to exceed their recoverable amounts.

The recoverable amount of Target is based on assumed improvements in its operating and financial performance under new leadership, notwithstanding that the timing of cash flows arising from these improvements will be influenced by general market conditions. Reasonably possible adverse changes in trading conditions, discount rates or other key assumptions from those assumed in the impairment assessment could result in the carrying value of Target exceeding its recoverable amount and impairment arising.

## 15 Sale of underwriting business

On 16 December 2013, Wesfarmers entered into a binding agreement with Insurance Australia Group Limited to sell the Australian and New Zealand underwriting operations of its Insurance division for \$1,845 million subject to certain conditions. The sale remains subject to regulatory approval. At present, on successful completion of the transaction, Wesfarmers expects to record a pre-tax profit of approximately \$700 million to \$750 million.

At 31 December 2013 the underwriting business has not been classified as held-for-sale in these financial statements because the sale remains subject to a number of conditions precedent including regulatory approvals.

## 16 Events after the balance sheet date

### Dividend

A fully-franked dividend of 85 cents per share resulting in a dividend payment of \$972 million was declared for a payment date of 2 April 2014. The dividend has not been provided for in the 31 December 2013 half-year financial report.


## 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 Wesfarmers Limited for the half-year ended 31 December 2013 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 2013 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;
- (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**  
Chairman  
Perth, 19 February 2014

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, which comprises the balance sheet as at 31 December 2013, the income statement and statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### 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 a Financial Report 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 2013 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.

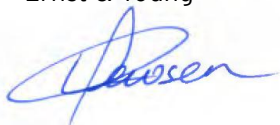
## Conclusion

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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



D S Lewsen  
Partner  
Perth  
19 February 2014

## 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 2013, 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.



Ernst & Young



D S Lewsen  
Partner  
19 February 2014