

# WESFARMERS LIMITED

ABN 28 008 984 049

## APPENDIX 4D HALF-YEAR REPORT

Information for the half-year ended 31 December 2004 given to ASX under listing rule 4.2A

(Comparative information is for the half-year ended 31 December 2003)

### Results for announcement to the market

		<i>\$000</i>
Revenues from ordinary activities	down 9.4% to	4,064,760 *
Profit from ordinary activities after tax attributable to members	down 51.5% to	291,184 **
Net profit for the period attributable to members	down 51.5% to	291,184 **
<b>Dividends</b>	Amount per security	Franked amount per security
Interim dividend	53 cents	53 cents
Previous corresponding period	48 cents	48 cents
Record date for determining entitlements to the dividend	18 February 2005	
	<b>2004</b>	<b>2003</b>
	<i>\$000</i>	<i>\$000</i>
* Consists of:		
Revenue from operating activities (up 7.4%)	4,064,760	3,786,224
Revenue from sale of rural services business	-	701,629
	<u>4,064,760</u>	<u>4,487,853</u>
** Profit attributable to members is down 1.9% compared to the previous corresponding period excluding the net profit on sale of the rural services business of \$304.3 million in 2003		

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Wesfarmers Limited as at 30 June 2004 together with any public announcements made by Wesfarmers Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

# Condensed Statement of Financial Performance

FOR THE HALF-YEAR ENDED 31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	Note	Consolidated	
		December 2004 \$000	December 2003 \$000
Revenues from ordinary activities		4,064,760	4,487,853
Expenses from ordinary activities		(3,615,677)	(3,711,259)
Borrowing expenses		(50,398)	(28,991)
Share of net profits of associates	2	23,257	83,014
Profit from ordinary activities before income tax expense		421,942	830,617
Income tax expense relating to ordinary activities		(129,699)	(231,406)
Profit from ordinary activities after income tax expense		292,243	599,211
Net (profit)/loss attributable to outside equity interests		(1,059)	1,835
<b>Net profit attributable to members of the parent entity</b>	4	<b>291,184</b>	601,046
Net increase in asset revaluation reserve relating to associate		811	756
Net exchange difference on translation of financial report of foreign controlled entities		11	(290)
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>292,006</b>	601,512
Net profit attributable to members of the parent entity consists of:			
Net profit before goodwill amortisation		335,428	642,741
Goodwill amortisation		(44,244)	(41,695)
<b>Net profit after goodwill amortisation</b>		<b>291,184</b>	601,046
Net profit attributable to members of the parent entity includes a significant item – net profit on sale of the rural services business		-	304,278
<b>Basic and diluted earnings per share (cents per share)</b>		<b>77.3¢</b>	160.2¢
- after goodwill amortisation and before significant item		77.3¢	79.1¢
- before goodwill amortisation		89.1¢	171.3¢
- before goodwill amortisation and significant item		89.1¢	90.2¢
Weighted average number of shares used in the basic and diluted earnings per share calculation		376,620,000	375,107,000

The statement of financial performance should be read in conjunction with the accompanying notes.

# Condensed Statement of Financial Position

AT 31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	Note	Consolidated		
		December 2004 \$000	June 2004 \$000	December 2003 \$000
<b>Current assets</b>				
Cash assets		134,036	103,374	124,739
Receivables		1,196,263	1,306,186	1,073,147
Inventories		1,421,328	1,260,096	1,344,941
Other insurance assets		643,673	721,028	513,332
<b>Total current assets</b>		<b>3,395,300</b>	<b>3,390,684</b>	<b>3,056,159</b>
<b>Non-current assets</b>				
Receivables		329,053	330,843	414,313
Investments accounted for using the equity method		416,975	395,375	395,895
Other financial assets		17,099	16,602	4,771
Property, plant and equipment		1,696,911	1,600,052	1,644,180
Deferred tax assets		59,014	65,118	61,001
Intangible assets		1,427,698	1,472,724	1,484,917
Other		-	2	233
<b>Total non-current assets</b>		<b>3,946,750</b>	<b>3,880,716</b>	<b>4,005,310</b>
<b>Total assets</b>		<b>7,342,050</b>	<b>7,271,400</b>	<b>7,061,469</b>
<b>Current liabilities</b>				
Interest bearing liabilities		575,022	309,822	617,197
Payables		827,887	840,681	885,563
Current tax liabilities		53,853	121,838	86,133
Provisions		162,618	154,894	180,209
Insurance liabilities		808,857	806,417	805,912
<b>Total current liabilities</b>		<b>2,428,237</b>	<b>2,233,652</b>	<b>2,575,014</b>
<b>Non-current liabilities</b>				
Interest bearing liabilities		1,155,357	1,302,096	932,663
Payables		10,430	17,612	6,627
Deferred tax liabilities		108,979	109,912	107,940
Provisions		104,399	111,058	124,403
Insurance liabilities		192,964	166,545	85,508
<b>Total non-current liabilities</b>		<b>1,572,129</b>	<b>1,707,223</b>	<b>1,257,141</b>
<b>Total liabilities</b>		<b>4,000,366</b>	<b>3,940,875</b>	<b>3,832,155</b>
<b>Net assets</b>		<b>3,341,684</b>	<b>3,330,525</b>	<b>3,229,314</b>
<b>Shareholders' equity</b>				
Contributed equity	3	2,410,066	2,345,633	2,345,633
Reserves		56,022	55,200	40,075
Retained earnings	4	876,717	931,779	840,360
Shareholders' equity attributable to members of Wesfarmers Limited		3,342,805	3,332,612	3,226,068
Outside equity interests in controlled entities		(1,121)	(2,087)	3,246
<b>Total shareholders' equity</b>		<b>3,341,684</b>	<b>3,330,525</b>	<b>3,229,314</b>

The statement of financial position should be read in conjunction with the accompanying notes.

# Condensed Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	Note	Consolidated	
		December 2004 \$000	December 2003 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		4,471,867	3,966,051
Payments to suppliers and employees		(3,937,164)	(3,580,458)
Dividends and distributions received from associates		11,047	71,364
Dividends received from others		428	679
Interest received		20,552	4,198
Borrowing costs		(51,440)	(31,037)
Income tax paid		(195,346)	(152,936)
<b>Net cash provided by operating activities</b>		<b>319,944</b>	<b>277,861</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(226,589)	(134,613)
Acquisition of goodwill		(4,809)	-
Proceeds from sale of non-current assets		20,669	20,434
Disposal of controlled entities		-	720,214
Acquisition of controlled entities		7,802	(311,066)
Redemption of insurance deposits		80,350	7,371
Acquisition of associated entities		(17,056)	(13,688)
Repayment of loans from associated entities		7,700	-
Return of capital from associated entities		2,000	-
<b>Net cash (used in)/provided by investing activities</b>		<b>(129,933)</b>	<b>288,652</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		166,113	657,370
Repayment of borrowings		-	(99,213)
Repayment of employee share plan loans		56,174	21,620
Payment of return of capital	3	-	(821,168)
Payment for share buyback	3	-	(78,891)
Dividends paid to ordinary shareholders		(333,985)	(306,478)
<b>Net cash used in financing activities</b>		<b>(111,698)</b>	<b>(626,760)</b>
Net increase (decrease) in cash held		78,313	(60,247)
Cash at the beginning of the half year		55,723	170,247
<b>Cash at the end of the half year</b>		<b>134,036</b>	<b>110,000</b>
<b>Reconciliation of cash</b>			
Cash on hand and at bank		93,287	49,806
Cash on deposit		40,749	74,933
Bank overdraft		-	(14,739)
		<b>134,036</b>	<b>110,000</b>

The statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Half-Year Financial Statements

31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## 1 BASIS OF PREPARATION OF THE ACCOUNTS

The half-year financial report is a general purpose financial report made out in accordance with the Corporations Act 2001 and applicable Accounting Standards including AASB 1029: "Interim Financial Reporting" and other mandatory reporting requirements (Urgent Issues Group Consensus Views). The half-year financial report has been prepared in accordance with the historical cost convention except for investment properties which are carried at market value in an associated entity. The half-year financial report does not include notes of the type normally included in an annual report.

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Wesfarmers Limited as at 30 June 2004 together with any public announcements made by Wesfarmers Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The same accounting policies have been applied in this half-year financial report as were applied in the most recent Annual Financial Report.

	<b>Consolidated</b>	
	<b>December 2004 \$000</b>	December 2003 \$000
<b>2 AGGREGATE SHARE OF PROFITS OF ASSOCIATES AND JOINT VENTURE ENTITIES</b>		
Profit from ordinary activities before tax	29,604	87,837
Income tax on ordinary activities	<u>(6,347)</u>	<u>(4,823)</u>
Share of profits of associates and joint venture entities	<u>23,257</u>	<u>83,014</u>
Included in the above is the share of profits of Gresham Private Equity Fund 1, which for 2003 includes the sale of its interest in Repco Corporation Ltd	<u>1,539</u>	<u>64,385</u>
<b>3 MOVEMENTS IN CONTRIBUTED EQUITY</b>		
Balance at the beginning of the period	2,345,633	3,159,466
Issue of shares under the employee share plan during the period	64,433	71,011
Shares repurchased on-market during the period	-	(78,891)
Return of capital of \$2.50 per share paid on 18 December 2003	-	(934,121)
Tax losses in relation to the 2001 ownership simplification plan not previously recognised now brought to account	-	128,168
Balance at the end of the period	<u>2,410,066</u>	<u>2,345,633</u>
<b>4 MOVEMENTS IN RETAINED EARNINGS</b>		
Balance at the beginning of the period	931,779	559,370
Net profit attributable to members of Wesfarmers Limited	291,184	601,046
Dividend of 92 cents per share paid on 30 August 2004 (85 cents per share paid on 25 September 2003)	<u>(346,246)</u>	<u>(320,056)</u>
Balance at the end of the period	<u>876,717</u>	<u>840,360</u>
<b>5 NON CASH FINANCING AND INVESTING ACTIVITIES</b>		
Share capital issues – employee share plan	<u>64,433</u>	71,011
Employee share plan loan repayments from:		
Long term incentive plan	2,632	-
Dividends	12,261	13,578
Return of capital	-	37,866
	<u>14,893</u>	<u>51,444</u>
Distribution receivable recorded as acquisitions of investment in associates	<u>3,952</u>	<u>3,497</u>

# Notes to the Half-Year Financial Statements

31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## 6 NET TANGIBLE ASSET BACKING

	<b>Consolidated</b>	
	<b>December</b>	<b>December</b>
	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Net tangible asset backing per share	<b>\$5.07</b>	<b>\$4.63</b>

## 7 SEGMENT INFORMATION

	<b>Earnings before goodwill amortisation</b>		<b>Goodwill amortisation</b>		<b>Earnings after goodwill amortisation</b>	
	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
<b>Segment result</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Hardware	<b>230,407</b>	208,702	<b>(24,915)</b>	(25,038)	<b>205,492</b>	183,664
Energy	<b>126,738</b>	115,053	<b>(489)</b>	(320)	<b>126,249</b>	114,733
Industrial and safety	<b>51,357</b>	53,032	<b>(13,062)</b>	(12,630)	<b>38,295</b>	40,402
Insurance	<b>69,071</b>	35,848	<b>(5,647)</b>	(2,010)	<b>63,424</b>	33,838
Chemicals and fertilisers	<b>29,052</b>	20,584	<b>(131)</b>	(131)	<b>28,921</b>	20,453
Rural services	-	8,414	-	(1,566)	-	6,848
Other*	<b>35,524</b>	488,550	-	-	<b>35,524</b>	488,550
	<b>542,149</b>	930,183	<b>(44,244)</b>	(41,695)	<b>497,905</b>	888,488
Consolidation adjustments	<b>(180)</b>	(4,746)	-	-	<b>(180)</b>	(4,746)
Interest paid and corporate overheads	<b>(75,783)</b>	(53,125)	-	-	<b>(75,783)</b>	(53,125)
Operating profit before income tax	<b>466,186</b>	872,312	<b>(44,244)</b>	(41,695)	<b>421,942</b>	830,617
Income tax expense*	<b>(129,699)</b>	(231,406)	-	-	<b>(129,699)</b>	(231,406)
Net (profit)/loss attributable to outside equity interests	<b>(1,059)</b>	1,835	-	-	<b>(1,059)</b>	1,835
Net profit attributable to members of the parent entity	<b>335,428</b>	642,741	<b>(44,244)</b>	(41,695)	<b>291,184</b>	601,046

	<b>Consolidated</b>	
	<b>December</b>	<b>December</b>
	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>Segment revenues</b>		
Hardware	<b>2,135,503</b>	1,993,092
Energy	<b>520,201</b>	478,636
Industrial and safety	<b>587,458</b>	574,890
Insurance	<b>563,340</b>	295,873
Chemicals and fertilisers	<b>217,928</b>	171,460
Rural services	-	221,563
Other*	<b>40,332</b>	752,339
	<b>4,064,762</b>	4,487,853

\* Includes the following items in respect of the sale of the rural services business in the prior period:

Revenue	701,629
Earnings before and after goodwill amortisation	401,171
Income tax expense	(96,893)
Net profit on sale	<b>304,278</b>

# Notes to the Half-Year Financial Statements

31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## 8 INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated entity will be required to adopt Australian Accounting Standards Board (AASB) equivalents to International Financial Reporting Standards (IFRSs), for its financial reporting at the half-year ending 31 December 2005 and the full year ending 30 June 2006. At these dates a first time adopter of Australian equivalent IFRSs will be required to restate its comparative financial statements using all IFRSs, except for AASB132 Financial Instruments: Disclosure and Presentation, AASB139 Financial Instruments: Recognition and Measurement, AASB 4 Insurance Contracts and AASB 1023 General Insurance Contracts. For the consolidated entity this means the preparation of an opening balance sheet in accordance with IFRSs as at 1 July 2004, with the majority of restatement adjustments being made, retrospectively, against opening retained earnings. For those standards for which comparative information is not required, transitional adjustments will be made as at 1 July 2005.

Wesfarmers established an IFRS Project Team to manage the transition to Australian equivalent IFRSs at the end of 2003. This project team comprises a Project Sponsor, a Steering Committee, a full time Project Accountant and a Project Working party. The project accountant and working party members, together with guidance from the steering committee, have been working on the project for over 12 months and have achieved the following key milestones:

- identification of all key accounting policy changes;
- quantification of the majority of financial impacts, with the exception of those which have a transition date other than 1 July 2004 and those requiring interpretation by external parties;
- provision of training to all relevant staff;
- communication of IFRS impacts to relevant stakeholders within the Group;
- modification of internal reporting systems to cater for IFRS reporting; and
- commencement of an external review of quantitative impacts.

Key aspects of the project yet to be finalised include a review of contracts for embedded derivatives; external review of hedging documentation; quantification of mine rehabilitation impacts; interpretation by the standard setters of the treatment of the employee share plan; and, finalisation of the external review of quantitative impacts.

The figures disclosed below are the best estimates as at the date of these half-year financial statements; however, they could change due to further work being undertaken by the IFRS project team and any potential amendments to IFRSs and interpretations thereof being issued by the standard setters.

Subject to the above, key accounting policy changes, their financial impacts on transition and to comparatives for the half-year ended 31 December 2004, and likely impacts in future periods are as set out below:

### **AASB 2 Share Based Payments**

*Policy changes* – currently, employee loans issued under the employee share plan are recognised at full nominal value as a receivable asset. There is currently no charge to the Statement of Financial Performance in relation to the issue of shares under the plan or the granting of a limited recourse, interest-free loan to the employee. Wesfarmers Limited is currently seeking clarification from the Urgent Issues Group on the treatment of its employee share plan under IFRS. Under the new Australian equivalents to IFRS there appears to be two alternative accounting treatments. The first alternative applies AASB 2 to the share issue component and the benefit to the employee from the arrangement, with the loan component accounted for under the requirements of AASB 139. The second alternative treats the entire arrangement as an in-substance grant of options under AASB 2.

*Transition adjustment* – the impact on transition if the component approach is adopted will be to reduce the value of the loan receivable asset at 1 July 2005 to reflect the discounting of the interest free loan to fair value, and to recognise a put option liability to reflect the limited recourse nature of the loans. There will be a corresponding increase in deferred remuneration expense and a reduction in retained earnings for the effect of these two adjustments, based upon the expected average period of employee participation in the plan. These transition adjustments will be made under AASB 139 as all shares issued under the plan are fully vested at 1 January 2005, and the exemption available under AASB 1 in relation to application of AASB 2 will be utilised. If the employee share plan is treated as an in-substance grant of options the transition entry will de-recognise the balance of the employee share plan loan receivable asset of \$281.4 million at 1 July 2004, and correspondingly reduce contributed equity. No adjustment will be made to retained earnings, as a result of the exemption available in AASB 1 for fully vested share issues at 1 January 2005.

*Current half-year impact* – under both alternative treatments there will be no charge to the Statement of Financial Performance for the half-year ended 31 December 2004 due to the exemption under AASB 1 for fully vested share issues.

*Ongoing impact* – in future years if the current share plan arrangements remain in place, under the component approach there will be changes in the fair value of the put option liability each year which will be recorded through the Statement of Financial Performance. The loan balance will also be re-measured each reporting date to reflect the passage of time and any potential variations from initial recognition assumptions. Any new issues will result in a remuneration benefits expense being recorded in the Statement of Financial Performance over the vesting period, reflecting the difference in fair value between the shares issued, the put option liability incurred and the loan receivable received. Treating future issues under the employee share plan as in-substance grants of options, on the other hand, will result in a remuneration benefits expense being recorded in the Statement of Financial Performance over the vesting period equivalent to the option value of the in-substance calls issued to employees to subscribe for shares.

# Notes to the Half-Year Financial Statements

31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## 8 INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

### AASB 3 Business Combinations

*Policy changes* – goodwill is currently amortised over a period not exceeding 20 years. With the introduction of AASB 3, goodwill will no longer be amortised, but subject to annual impairment testing. Goodwill will be written down to the extent that it is impaired. Another significant change to arise from AASB 3 is in respect of restructuring provisions. A provision for restructure is currently recognised for the expected costs associated with restructuring upon acquisition of a business. Under IFRSs a provision for restructure will only be recognised if there is an existing provision in the books of the acquiree at the date of acquisition. In practice it is unlikely that a provision for restructure will be raised in these circumstances.

*Transition adjustment* – results from goodwill impairment testing as at 1 July 2004 have shown that there will be a write down of goodwill of \$6.5 million on adoption of this standard.

*Current half-year impact* – there will be an increase in profit reflecting the discontinuation of amortisation expense, which for the half-year ended 31 December 2004, was \$44.2 million. Further impairment testing of goodwill was not conducted at the half-year, as testing is only required annually unless there are changes in events or circumstances since the last reporting date that indicate it may be impaired.

*Ongoing impact* – reliable estimation of the financial effects in future years of the change in accounting policy from amortising goodwill to annual impairment testing is impracticable because conditions under which impairment will be assessed are not yet known. The change in accounting policy in respect of the recognition of restructuring provisions on acquisition is likely to result in a lower goodwill figure than that which would be recorded under existing policy, and also has the potential to result in significant charges to the Statement of Financial Performance in the first years of acquisition as restructuring costs are incurred.

### AASB 112 Income Taxes

*Policy changes* – currently, tax effect accounting is applied using the liability method, taking account of timing and permanent differences between accounting profit and taxable income. Under AASB 112 a balance sheet approach is required which focuses on the tax effect of transactions which affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The most significant impact will be the recognition of a deferred tax liability in relation to the share of undistributed earnings of associated entities upon which income tax has not been paid.

*Transition adjustment* – a deferred tax liability of \$22.7 million will be recognised at 1 July 2004, which will reduce retained earnings accordingly.

*Current half-year impact* – a deferred tax liability and equivalent income tax expense of \$3.6 million will be recognised for the half-year to 31 December 2004.

*Ongoing impact* – a liability and an expense will be recognised each reporting period for untaxed undistributed earnings. Upon distribution of these earnings by the associate, the liability will be extinguished by payment of income tax with any variation adjusted against income tax expense.

### AASB 136 Impairment of Assets

*Policy changes* – existing accounting policy is for non-current assets to be carried on the balance sheet at an amount not greater than their recoverable amount. Recoverable amount of an asset is determined using a nominal cash flow basis, and the expected net cash flows to be generated from the non-current assets are not discounted. If the carrying amount exceeds the recoverable amount the asset is written down. AASB 136 requires the recoverable amount of an asset to be determined as the higher of net selling price or value in use. Net selling price is determined by reference to an active market. Value in use is calculated using a discounted cash flow method. If the net selling price or value in use is less than the carrying amount, an impairment loss will be recorded and the asset will be written down. The level at which impairment testing is conducted is at the individual cash generating asset level, or the lowest level of a group of assets to which independent cash flows can be ascribed. These groups of assets are called Cash Generating Units (CGUs). This change in accounting policy has resulted in the classification of CGUs which are at a lower asset level than was previously used to carry out impairment testing.

*Transition adjustment* – the results of impairment testing across the Wesfarmers Group as at 1 July 2004 will result in a write down of property, plant and equipment assets totalling \$11.1 million. The balance after tax will reduce retained earnings, and also reduce outside equity interests for their share of write downs by partly-owned controlled entities.

*Current half-year impact* – no further asset impairment write downs are required for the half-year ended 31 December 2004.

*Ongoing impact* – the ongoing impact of this change in method for calculating recoverable amount is likely to mean that impairment of assets is recognised sooner and that the amount of write downs will be greater. Reliable estimation of this change in accounting policy is impracticable because conditions under which impairment will be assessed in the future are not known.



# Notes to the Half-Year Financial Statements

31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## 8 INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

### AASB 137 Provisions, Contingent Liabilities and Contingent Assets

*Policy changes* – mine rehabilitation provisions to rehabilitate mine site areas of interest are recognised under current Australian accounting standards at undiscounted amounts over the life of each mine, with changes to the total estimated liability being recognised on a prospective basis. Mine rehabilitation provisions under IFRS will be required to be recognised on a discounted cash flow basis in the year the obligation first arises, and as the obligation varies over time. An asset equal to the value of the mine rehabilitation provision will be raised and amortised over the expected life of the mine. The provision balance will be decreased as costs are incurred, and the asset balance will be credited with amortisation expense. The periodic unwinding of the discount will be recognised in the Statement of Financial Performance as a finance cost.

*Transition adjustment* – changes to the recognition of mine rehabilitation provisions under IFRS will result in the recognition at 1 July 2004 of a large increment to the provision. Against this provision Wesfarmers will increase the value of its mine development assets to the extent of the amortised cost of the related rehabilitation asset, with the remaining difference being adjusted against retained earnings. Wesfarmers is still assessing the impact on the asset and retained earnings from this increase in liability.

*Current half-year impact* – as a result of the change in accounting policy for mine rehabilitation provisions, there will be an increase in amortisation expense relating to the additional mine development asset recognised on transition. There will also be a charge to the Statement of Financial Performance relating to the unwinding of the discounting effect on the provision. The amounts are not yet determinable as the transition adjustment has not yet been finalised, but are not likely to be material. Provisions for mine rehabilitation amounting to \$3.0 million previously charged to the Statement of Financial Performance during the half-year will be reversed. A large increment to the asset “production mineral reserves” and correspondingly to the rehabilitation provision will be recognised during the half in respect of the Curragh North development, consequent upon the granting of a mining lease and commencement of development activities during the half.

*Ongoing impact* – each reporting period a charge for amortisation of the asset and a charge relating to the unwinding of the discounting effect on the provision will be recognised. Adjustments to the provision to reflect changes in anticipated costs or scope of future rehabilitation will be adjusted to an amount not exceeding the carrying amount of the related asset. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in the Statement of Financial Performance. Rehabilitation assets and liabilities will be recognised for any new mining developments.

### AASB 138 Intangible Assets

*Policy changes* – Wesfarmers’ current accounting policy regarding expenditure incurred relating to the opening of new stores is to carry forward the costs and write them off over the periods to which the benefit of the expenditure relates. Under AASB 138 pre-opening store costs will be immediately expensed.

*Transition adjustment* – as a result of the above change in accounting policy Wesfarmers will de-recognise \$13.6 million of pre-opening store costs on transition to IFRS. The balance after tax will reduce retained earnings.

*Current half-year impact* – the impact of the above change in accounting policy will result in \$5.7 million of extra costs for the half-year ended 31 December 2004 being expensed under IFRS, being the difference between pre-opening costs incurred during the period of \$8.4 million less amortisation of previously incurred costs charged during the period of \$2.7 million.

*Ongoing impact* – all pre-opening costs will be written off to the Statement of Financial Performance as incurred, rather than being deferred and amortised.

# Notes to the Half-Year Financial Statements

31 DECEMBER 2004 - WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

## 8 INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

### AASB 139 Financial Instruments : Recognition and Measurement

*Policy changes* – current measurement of financial instruments is at amortised cost, with certain derivative financial instruments (including embedded derivatives) not being recognised on the Statement of Financial Position. Financial instruments under AASB 139 are required to be classified into one of four categories, which will in turn determine the accounting treatment of the item. The classifications are:

- loans and receivables - measured at amortised cost;
- held to maturity - measured at amortised cost;
- held for trading - measured at fair value with fair value changes reflected in the Statement of Financial Performance; and
- available for sale - measured at fair value with fair value changes taken to equity.

This will result in a change in the current accounting policy that does not classify financial instruments. Hedging activities will also be affected by the new IFRS. Hedging activities under existing accounting policies are monitored off balance sheet with any gains or losses on settlement recognised through the Statement of Financial Performance. In order to achieve hedge accounting for its derivative financial instruments under AASB 139 the Wesfarmers consolidated entity will be required to meet the following criteria:

- identify the type of hedge – fair value or cash flow;
- identify the hedged item or transaction;
- identify the nature of the risk being hedged;
- demonstrate that the hedge has and will continue to be highly effective; and
- document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Where effective cash flow hedges exist, fair value adjustments will be made at each balance sheet date, with the effective portion of the hedge going to a hedge reserve in equity, and any ineffective portion adjusted against profit in the Statement of Financial Performance. On settlement of the hedge the accumulated balance in the hedge reserve will be recognised through the Statement of Financial Performance.

Embedded derivatives in host contracts in certain circumstances are required to be separately identified and measured at fair value through profit and loss.

*Transition adjustment (1 July 2005)* – Wesfarmers will use the available for sale classification for investments in listed shares and other investments on transition to IFRS, including accounting for such investments through holdings by associated entities. This will result in those investments being restated to fair value (where appropriate through the investment in associates) and the creation of an equity reserve in the Statement of Financial Position. Wesfarmers expects that its interest rate swap agreements and foreign exchange contracts will qualify for hedge accounting, with the majority of fair value adjustments being reflected in the hedge reserve and the related hedge receivable or payable being recognised as an asset or liability. The financial impact of these changes is yet to be determined as fair values at date of transition for this standard, being 1 July 2005, are not yet known.

*Current half-year impact* – there will be no charge to the Statement of Financial Performance during the period as the transition date for AASB 139 is 1 July 2005.

*Ongoing impact* – changes in the fair value of assets available for sale and hedging assets and liabilities will increase volatility in the Statement of Financial Position from one year to another. The future financial effect of these changes cannot be quantified as conditions under which measurement will occur are not yet known. Significant changes are not expected in the way earnings from financial instruments are reported in the Statement of Financial Performance.

## 9 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

## 10 CHANGES IN THE COMPOSITION OF ENTITY

During the period there were no material acquisitions or disposals of controlled entities by the consolidated entity.

## 11 SUBSEQUENT EVENTS

An interim dividend of 53 cents per share has been declared after reporting date payable on 2 March 2005 in respect of the year ending 30 June 2005 (2004: 48 cents)

On 14 December 2004 Wesfarmers Limited announced its intention to pay a capital return of \$1.00 per share to all shareholders registered as at 25 February 2005. Subject to shareholder approval at an extraordinary general meeting to be held on 18 February 2005, the total payment on 2 March 2005 will be:

<b>Consolidated</b>	
<b>December 2004</b>	December 2003
<b>\$000</b>	\$000
<b>200,362</b>	180,650
<b>378,042</b>	-