



**Wesfarmers Limited**

ACN 008 984 049

# Half yearly

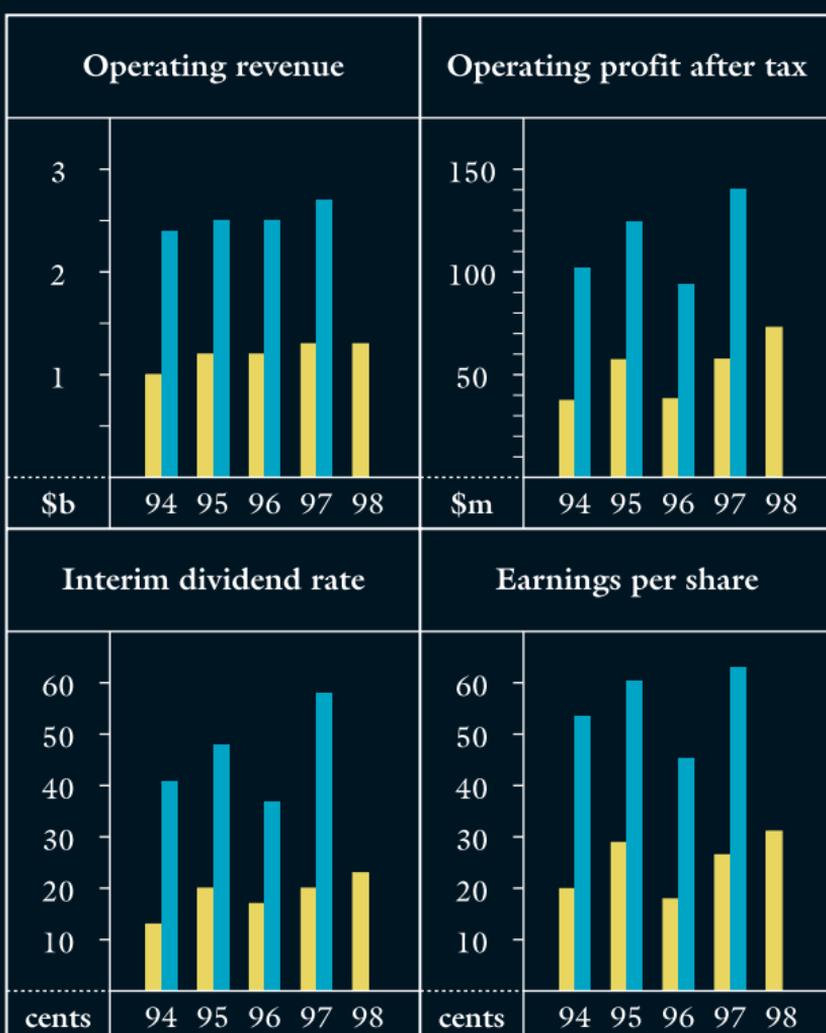
## Report to shareholders

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SIX MONTHS TO 31 DECEMBER 1997

# Interim highlights

- OPERATING REVENUE UP 4.0 PER CENT TO \$1.3 BILLION
- OPERATING PROFIT AFTER TAX UP 24.3 PER CENT TO \$71.6 MILLION
- INTERIM DIVIDEND RATE UP 15.0 PER CENT TO 23 CENTS
- EARNINGS PER SHARE (BEFORE GOODWILL AMORTISATION) UP 17.4 PER CENT TO 31.1 CENTS.



 SIX MONTHS ENDED 31 DECEMBER  
 YEAR ENDED 30 JUNE

# Report to shareholders

The directors of Wesfarmers Limited have pleasure in presenting this interim report to shareholders covering consolidated results of the company and its controlled entities for the six months ended 31 December 1997. The report also contains a brief overview of divisional activities for the half-year.

Operating revenue for the period totalled \$1.3 billion representing an increase of four per cent compared to the corresponding six months last year.

The group operating profit after tax was \$71.6 million for the half-year, an increase of 24 per cent on the previous half-year's result of \$57.5 million. Operating profit after tax before goodwill amortisation was \$75.1 million, 23 per cent higher than last year's \$61.0 million.

Earnings per share (before goodwill amortisation) of 31.1 cents for the six months compared to 26.5 cents in the corresponding period last year and cash flow per share of 51.1 cents was seven per cent higher than last year's 47.9 cents.

The improved result arose from higher contributions from the coal operations at Collie in Western Australia, the expanding Bunnings national hardware merchandising business and the Dalgety rural division.

The group's cash flow remained strong resulting in lower interest expense of \$9.0 million for the half-year compared to \$14.4 million last year. The positive cash flow is expected to continue in the second half, notwithstanding a heavy committed capital investment programme.

The group's net debt to equity ratio of 36 per cent at 31 December 1997 compared to 39 per cent at the same time last year.

The outlook for the full 1997/98 financial year is favourable although the percentage rate of profit growth recorded in the first half is not expected to be maintained over the full year.

### **Interim dividend**

Last year, the company increased its dividend payout ratio to 100 per cent of after-tax operating profit on a full year basis to



**HARRY PERKINS**  
*Chairman*



**MICHAEL CHANEY**  
*Managing Director*

respond to changes in the timing of corporate income tax payments which led to the creation of a significant surplus in the company's franking account.

The increased full year payout ratio is consistent with the company's policy to distribute franking credits expeditiously to shareholders while retaining around 50 per cent of profits (as reinvested dividends) for future growth. Shareholder participation in the company's dividend investment plan is steady at around 50 per cent of dividends declared.

The directors have approved a fully-franked interim dividend of 23 cents per share (last year 20 cents per share), representing a payout ratio of 80 per cent for the half-year (last year 82 per cent for the half-year). The interim dividend will be paid to shareholders on 20 April 1998.

Registrable transfers received by the company up to 5.00 pm on Friday 27 March 1998 will be registered before entitlements to the interim dividend are determined.

Shareholders may nominate a bank, building society or credit union account for the payment of dividends by direct credit. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders wishing to take advantage of payment by direct credit should contact the company's share registry.

## **Dividend investment plan**

Wesfarmers Limited operates a dividend investment plan which provides shareholders with a convenient method of reinvesting dividends in new Wesfarmers Limited fully-paid shares. Shares are issued under this plan at a five per cent discount to the market price without brokerage fees or stamp duty.

Shareholders already registered under the plan will automatically receive new shares unless they notify the company's share registry that they wish to withdraw. For other members wishing to register in time to participate in the plan for the 1998 interim dividend, a completed form will need to be lodged with the company or its share registry prior to 5.00 pm on Friday 27 March 1998.

Details of the plan are available from Corporate Registry Services Pty Ltd (telephone (08) 9322 1866).



C H PERKINS  
*Chairman*



M A CHANEY  
*Managing Director*

# Review of operations

## ENERGY

Wesfarmers Energy Limited incorporates the group's gas and coal operations.

Operating revenue for the six months to 31 December 1997 totalled \$241.8 million, an increase of seven per cent compared to the corresponding period last year.

Earnings before interest and tax increased by 16 per cent to \$56.0 million.

### Gas

The gas business comprises three operating segments: Wesfarmers Kleenheat Gas Pty Ltd (retailing), Wesfarmers LPG Pty Ltd (production and export) and Air Liquide WA Pty Ltd (industrial gases).

Kleenheat continued the expansion of its extensive Australia-wide network of branches and dealers supplying liquefied petroleum gas (LPG) to bulk consumers and domestic customers. Several new cylinder dealerships were established in North Queensland in the first half.

Sales revenue was in line with budget despite an unseasonably warm winter on the east coast reducing cylinder sales in Victoria and New South Wales. Ongoing discounting of retail autogas in the Melbourne and Adelaide markets resulted in lower margins in these sectors.

Further consolidation of Kleenheat's national autogas network has occurred with the commissioning of a number of key sites in rural and metropolitan areas.

Wesfarmers LPG continued to benefit from its upgraded LPG extraction plant at Kwinana in Western Australia.

Production was 15 per cent higher in the six months compared to last year and full year production is expected to surpass last year's record.

The volume of export LPG sales to Japan was higher than in the comparative six months last year but margins were lower.

Volume sales of LPG in both the export and domestic markets are expected to remain strong for the full financial year but the pressure on margins is also likely to continue.

Air Liquide is a 40 per cent owned company which produces and markets a range of process, industrial and medical gases. Sales in the six months to 31 December 1997 were higher than in the comparative period last year but earnings were affected by the higher cost of importing liquid oxygen from eastern Australia to overcome the lack of capacity at the Kwinana oxygen production plant. Expansion of the plant will be completed in July 1998.

## **Coal**

The volume of coal sold in the first half was eight per cent above the first six months last year and overburden removal was 35 per cent higher, mainly due to the introduction of a second electric shovel late in the 1997 financial year. The group's coal mining operations benefited from favourable weather conditions and lower production costs at its new Premier open-cut mine at Collie in Western Australia.

Infrastructure development at the Premier mine has continued on schedule with completion planned by June 1998. This development and refinement of workplace practices are being pursued to ensure that the Premier mine operates as a best practice minesite. The business focus includes stringent safety targets and responsible environmental management.

## **FERTILISERS AND CHEMICALS**

Wesfarmers CSBP Limited is a significant supplier of fertilisers and chemicals to Western Australia's agricultural, mining and industrial sectors.

Operating revenue for the six months to 31 December 1997 totalled \$135.5 million compared to \$201.4 million in the

comparative period last year. Last year's result, however, included \$41.6 million from the sale of Wesfarmers CSBP's 50 per cent shareholding in explosives company Dyno Wesfarmers Limited and was also inflated by a spillover of urea sales from the previous year as a result of a late break in the cropping season.

Earnings before interest and tax of \$16.4 million were lower, but comparative earnings last year included a one-off profit of \$2.8 million from the sale of Dyno Wesfarmers.

## **Fertilisers**

The volume of fertiliser sales in the first half was below the same period last year. Despatches of pasture fertiliser - Super Phos - were particularly affected by a decision to defer commencement of early collection incentives until January 1998. As a result, sales were 60 per cent below last year but this shortfall is expected to be recovered early in the second half. Urea sales were also lower, reflecting a return to a more normal seasonal demand pattern.

Strong demand for cropping fertiliser is expected during the second half, but the long awaited recovery in demand for pasture fertiliser is likely to be suppressed by the short-term impact of the Asian crisis on wool and beef prices.

A 15 per cent decrease in the value of the Australian dollar has increased the cost of product which will further suppress the demand for phosphate fertilisers. Nitrogen fertiliser prices will be less affected due to the continued weakness in world prices.

## **Chemicals**

Sales of the company's chemical products remained firm with the exception of sulphuric acid, where the comparative six month period included a significant one-off sale.

Offtake of ammonium nitrate by the mining industry was satisfactory, although sales to the gold sector were constrained late in the half-year. Construction of a duplicate cyanide plant at Kwinana progressed during the period. Wesfarmers CSBP's shareholding in Australian Gold Reagents Pty Ltd was increased to 75 per cent.

Design and construction of the new ammonia plant at Kwinana progressed satisfactorily and the project remains on schedule for completion in September 1999.

## HARDWARE AND FOREST PRODUCTS

Wesfarmers Bunnings Limited has interests in hardware retailing and in the production and marketing of timber and forest products.

Operating revenue for the six months to 31 December 1997 totalled \$459.4 million, an increase of 14 per cent compared to the comparative period last year.

Earnings before interest and tax increased by 19 per cent to \$37.5 million.

### **Home and hardware products**

The hardware retailing business performed strongly in all States with sales growth from both new and existing stores. The result was driven by a very effective marketing programme based on the "everyday low prices" strategy. Housing starts remain depressed affecting trade sales in both Western Australia and the Northern Territory.

Most growth has come from the 14 warehouse stores now operating in Victoria, Western Australia and South Australia. The company is focussed on consolidating this business in these States and expanding the chain into New South Wales, the Australian Capital Territory and Queensland during 1998.

The outlook for the hardware merchandising business in the second half remains positive.

WA Salvage sales in Western Australia were generally weaker in the first half and the business relied on new stores in Albany and Kalgoorlie for its growth. Despite aggressive promotions over recent months, sales at McEwans Variety Bargains in Victoria fell short of budget.

### **Forest products**

Earnings for the forest products business for the six months were below the comparative period last year. Timber sales to Australian markets improved slightly during the six months but were offset by a marked decline in overseas sales of rail track and decorative timber products.

A successful launch of the Bunnings jarrah premium branding into the Victorian market occurred in December 1997.

The forest products business will launch the jarrah premium branding into the Sydney market in the second half.

The Western Australian housing market and interstate demand is expected to show further, modest improvement during the remainder of the financial year. Recovery in international demand is expected to be slow.

## **RURAL AND INSURANCE SERVICES**

Wesfarmers Dalgety Limited - also encompassing Wesfarmers Federation Insurance - is Australia's largest provider of rural services.

Operating revenue for the six months to 31 December 1997 totalled \$346.5 million, an increase of 11 per cent compared to the comparative period last year.

Earnings before interest and tax of \$14.9 million increased from \$8.7 million in the first half last year, aided by a continued focus on overhead reduction.

### **Rural services**

Operating revenue increased as a result of higher revenue from wool handling, merchandising and real estate activities. Revenue from the livestock sector of the business was also higher due to an increase in cattle and sheep throughput at higher prices.

Seasonal conditions in most parts of Australia were reasonable with the exception of a few drought affected areas in New South Wales and Queensland.

Developments in Asia are expected to impact on wool prices and live cattle exports in the second half. Wool prices have fallen since auction sales resumed in January 1998. Cattle prices remain flat.

The outlook in the cropping sector remains buoyant and growth in fertiliser and agricultural chemical sales are expected.

### **Insurance**

Wesfarmers Federation Insurance continued to perform satisfactorily with an increase in earned premium revenue on the comparative period.

## SERVICE BUSINESSES

### **Transport**

Operating revenue from the group's transport businesses increased by nine per cent as a result of new contracts and higher volumes of heavy haulage and specialised freight. Earnings were six per cent higher than the comparative period last year.

Wesfarmers Transport has steadily improved its market share in most segments with continued focus on securing long-term contracted business.

In February 1998, Wesfarmers Transport announced the purchase of the transport business assets of Key Transport Pty Ltd. Wesfarmers Transport and Key Transport have both provided extensive transport services throughout Western Australia for many years. The acquisition provides Wesfarmers with enhanced service and operational presence in the State transport market.

### **Country supermarkets**

Operating revenue from the Charlie Carters supermarkets and Archie Martin Vox electrical/furniture stores was in line with the previous half-year when adjusted for store closures. Although margins were below expectations, the effect of the business rationalisation and cost reduction programme contributed to an improved result.

In February 1998, Wesfarmers announced the sale of its chain of 18 Charlie Carter country supermarket stores to the Coles Myer Group realising a before-tax profit of about five million dollars. Handover is expected to occur in April 1998. The sale did not include several country Archie Martin Vox electrical/furniture stores which will be sold during the next few months.

## PROFIT AND LOSS ACCOUNT

*For the half-year ended 31 December 1997  
Wesfarmers Limited and its controlled entities*

	<b>Consolidated</b>	
	<b>December 1997 \$000</b>	<b>December 1996 \$000</b>
<b>Operating revenue</b>	<b>1,321,864</b>	1,270,955
<b>Operating profit before income tax</b>	<b>113,840</b>	90,337
Income tax attributable to operating profit	<b>41,908</b>	32,609
<b>Operating profit after income tax</b>	<b>71,932</b>	57,728
Outside equity interests in operating profit after income tax	<b>372</b>	180
<b>Operating profit after income tax attributable to members of Wesfarmers Limited</b>	<b>71,560</b>	57,548
Retained profits at the beginning of the half-year	<b>205,921</b>	204,651
Adjustment on introduction of new accounting standard	<b>2,246</b>	-
<b>Total available for appropriation</b>	<b>279,727</b>	262,199
Dividends provided for or paid	<b>57,068</b>	47,384
<b>Retained profits at the end of the half-year</b>	<b>222,659</b>	214,815
Operating profit after income tax attributable to members of Wesfarmers Limited consists of:		
Profit before goodwill amortisation	<b>75,118</b>	61,042
Goodwill amortisation	<b>(3,558)</b>	(3,494)
<b>Profit after goodwill amortisation</b>	<b>71,560</b>	57,548

## BALANCE SHEET

At 31 December 1997

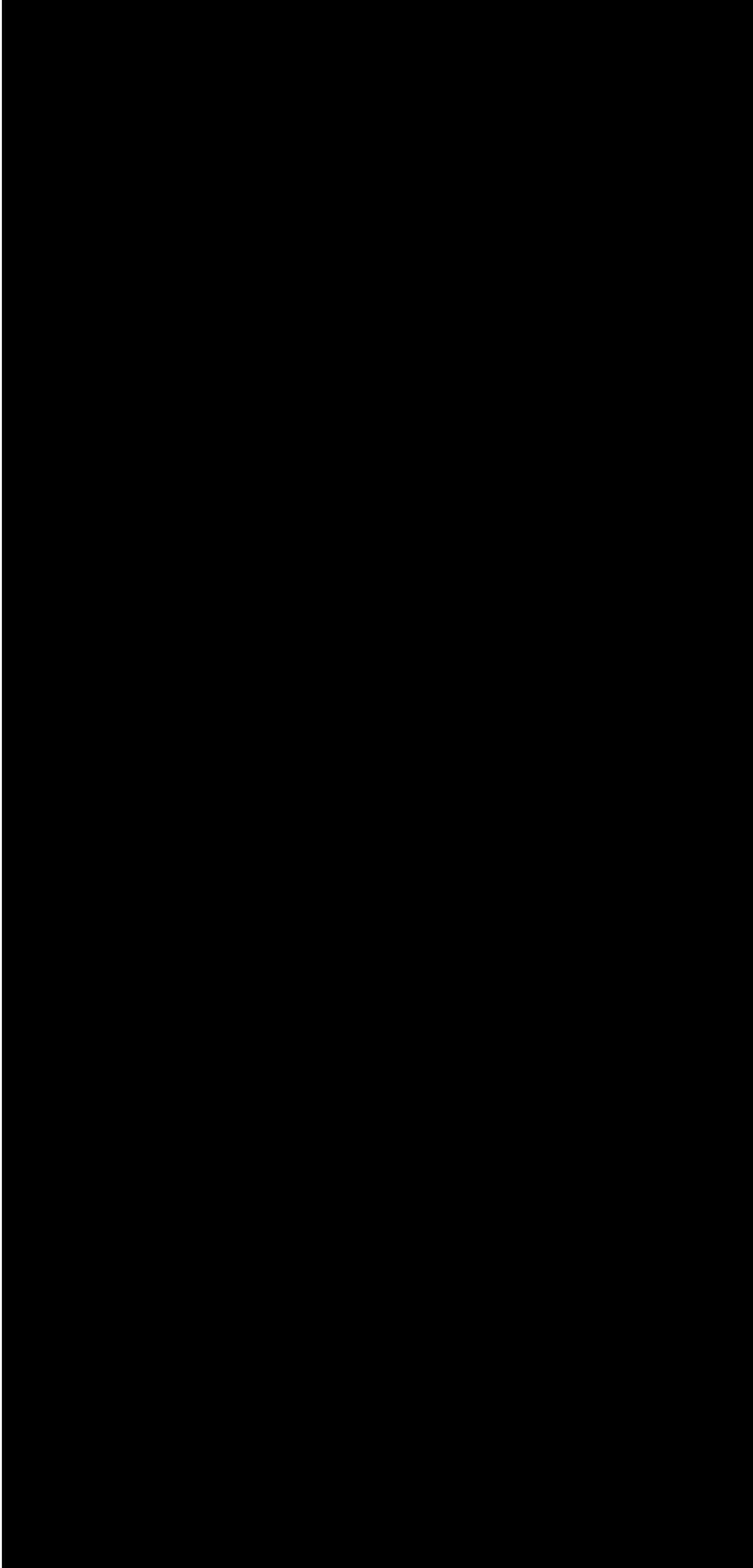
Wesfarmers Limited and its controlled entities

	<b>Consolidated</b>	
	<b>December 1997 \$000</b>	<b>June 1997 \$000</b>
<b>Current assets</b>		
Cash	43,445	30,672
Receivables	292,354	362,695
Inventories	440,769	368,051
<b>Total current assets</b>	<b>776,568</b>	<b>761,418</b>
<b>Non-current assets</b>		
Receivables	91,537	64,842
Investments	57,287	57,524
Property, plant and equipment	1,114,383	1,008,643
Intangibles	153,263	152,241
Other	14,866	13,142
<b>Total non-current assets</b>	<b>1,431,336</b>	<b>1,296,392</b>
<b>Total assets</b>	<b>2,207,904</b>	<b>2,057,810</b>
<b>Current liabilities</b>		
Borrowings	234,395	161,846
Accounts payable	286,111	386,288
Provisions	135,666	170,618
Other	105,862	103,119
<b>Total current liabilities</b>	<b>762,034</b>	<b>821,871</b>
<b>Non-current liabilities</b>		
Borrowings	208,718	112,456
Accounts payable	2,587	2,591
Provisions	97,309	89,908
Other	18,989	18,989
<b>Total non-current liabilities</b>	<b>327,603</b>	<b>223,944</b>
<b>Total liabilities</b>	<b>1,089,637</b>	<b>1,045,815</b>
<b>Net assets</b>	<b>1,118,267</b>	<b>1,011,995</b>
<b>Shareholders' equity</b>		
Issued capital	124,060	119,826
Reserves	769,477	685,111
Retained profits	222,659	205,921
Shareholders' equity attributable to members of Wesfarmers Limited	<b>1,116,196</b>	<b>1,010,858</b>
Outside equity interests in controlled entities	<b>2,071</b>	<b>1,137</b>
<b>Total shareholders' equity</b>	<b>1,118,267</b>	<b>1,011,995</b>

## STATEMENT OF CASH FLOWS

*For the half-year ended 31 December 1997  
Wesfarmers Limited and its controlled entities*

	<b>Consolidated</b>	
	<b>December 1997 \$000</b>	<b>December 1996 \$000</b>
<b>Cash flows from operating activities:</b>		
Receipts from customers	<b>1,350,896</b>	1,255,976
Payments to suppliers and employees	<b>(1,271,473)</b>	(1,156,972)
Dividends received	<b>3,010</b>	1,915
Interest received	<b>6,107</b>	5,935
Interest paid	<b>(7,902)</b>	(15,286)
Income tax paid	<b>(56,958)</b>	(45,490)
<b>Net cash provided by operating activities</b>	<b>23,680</b>	46,078
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	<b>(169,478)</b>	(84,948)
Acquisition of investments	<b>(9,013)</b>	(153)
Proceeds from sale of non-current assets	<b>14,408</b>	51,433
Loans to other entities	<b>(573)</b>	-
Loans repaid by other entities	<b>20</b>	8,400
Repayment of employee share plan loans	<b>9,035</b>	3,367
<b>Net cash used in investing activities</b>	<b>(155,601)</b>	(21,901)
<b>Cash flows from financing activities:</b>		
Proceeds from issue of shares	<b>53</b>	-
Net proceeds (repayments) of borrowings	<b>169,434</b>	(6,594)
Dividends paid	<b>(24,172)</b>	(21,959)
<b>Net cash (used in) provided by financing activities</b>	<b>145,315</b>	(28,553)
Net increase (decrease) in cash held	<b>13,394</b>	(4,376)
Cash at the beginning of the half-year	<b>30,051</b>	54,230
<b>Cash at the end of the half-year</b>	<b>43,445</b>	49,854





# **Wesfarmers Limited**

## **Registered office**

11th Floor, Wesfarmers House  
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Perth, Western Australia 6000

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Web [www.wesfarmers.com.au](http://www.wesfarmers.com.au)

## **Share registry**

Corporate Registry  
Services Pty Ltd  
Level 36, Central Park  
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Perth, Western Australia 6000

Telephone (08) 9322 1866  
Facsimile (08) 9322 7620

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