



# Wesfarmers

half yearly report to shareholders

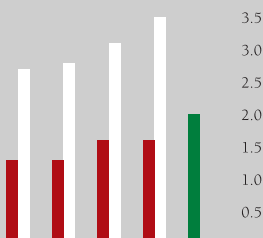
six months to 31 December 2000

# interim highlights

## Operating revenue \$b



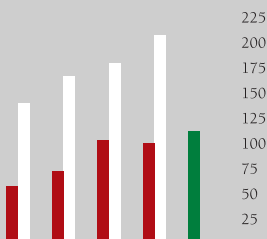
up 21 per cent  
to \$2.0 billion



## Operating profit after tax \$m



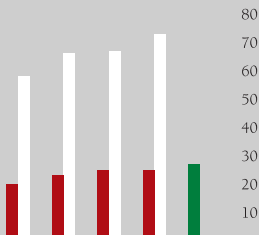
up 12 per cent  
to \$111.8 million



## Interim dividend cents



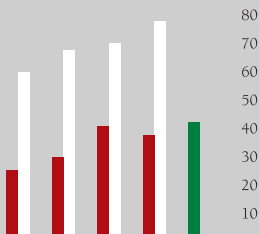
increased to  
27 cents





## Earnings per share cents



up 13 per cent  
to 42.2 cents



 First half  
 Full year to 30 June

1997

1998

1999

2000

2001



# 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 2000. The report also contains a brief overview of group business activities for the half year.

On a normalised basis, net profit for the half year increased 25 per cent over the previous period to \$111.8 million. The actual reported operating profit after tax increased 12 per cent from \$100.1 million to \$111.8 million, the lower increase reflecting the fact that the profit for the previous period included an abnormal gain of \$10.3 million arising from the change in the corporate tax rate. Under new accounting standards, such abnormal items are no longer differentiated.

The most recent half year's result included profit on the sale of non-current assets of \$3.3 million which compares with \$13.5 million earned in the same period last year. At a divisional EBIT level, group profit rose a pleasing 35 per cent.

The result was achieved on operating revenue of nearly \$2.0 billion which was 21 per cent higher than last year's \$1.6 billion.

A significant factor in the growth was the inclusion, for the first time, of the result of the Curragh coal mine in Queensland acquired just prior to the commencement of the half year. As detailed in the review of operations which follows, most other business units reported first half results ahead of the comparative period last year.

The group's reported earnings per share of 42.2 cents for the half year was 13 per cent above the 37.4 cents in the corresponding six months last year. After adjusting for the abnormal gain in the previous period, underlying earnings per share rose by 26 per cent. Cash flow per share of 71.6 cents was also higher than last year's 60.0 cents.

## Finance

The group's ratio of net debt to equity as at 31 December 2000 was 84.3 per cent, up from 52.3 per cent at 31 December 1999 as a result of new investments and higher working capital usage. Group gearing is traditionally higher at this time of year due to the seasonal build-up of fertiliser inventories. The rolling 12 month cash interest cover was 11.3 times, well above the group's minimum requirement of four times.

## Outlook

The directors are pleased with the reported result and remain confident about the prospects for the group and the immediate outlook for the second half of the financial year.

The key businesses of the Wesfarmers group continue to perform well and the full year result will also be positively affected by the acquisition of a 50 per cent interest in the Australian Railroad Group business.

The directors foreshadowed a few years ago the eventual resumption of company contributions to the Wesfarmers Staff Retirement Fund as the surplus in the fund was eliminated. The surplus has allowed the company to take a contribution holiday for over 10 years. The directors' current expectation is that contributions will recommence in the 2000/2001 year at a level of \$5 million, increasing by \$5 million per annum, with a full contribution of around \$25 million from 2004/2005.

The directors remain confident that the full year 2000/2001 result will exceed that recorded last year by a reasonable margin.

In the directors' view, the prospect of increased profits at a time when the economy is slowing reflect the value of the company's diversified portfolio of investments.

## Interim dividend

The directors have declared a fully franked interim dividend of 27 cents per share (last year 25 cents per share) payable to shareholders on 20 April 2001 and expect the company to maintain its dividend policy of paying out 100 per cent of profits for the full year.

## 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 discount to the market price (2.5 per cent for this dividend) and 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 2001 interim dividend, a completed form will need to be lodged with the company or its share registry prior to 5.00 pm on Wednesday 4 April 2001.

Details of the plan are available from Computershare Investor Services Pty Limited (telephone (08) 9323 2000).

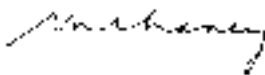
## Environment, safety & health report

In November 2000 Wesfarmers published its third annual environment, safety & health progress report. The report reviews the performance of the following operating businesses: coal; gas retailing and production; forestry and timber; fertilisers and chemicals; rural services and insurance; and transport.

This report can be downloaded from the company's website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au) or is available to shareholders on request from the Public Affairs Co-ordinator on (08) 9327 4257.



**C H PERKINS**  
Chairman



**M A CHANEY**  
Managing Director

# review of operations



## Hardware and forest products

Wesfarmers has interests in hardware retailing and in the production and marketing of Western Australian timbers.

Operating revenue for the six months to 31 December 2000 increased by 11 per cent to \$820 million and earnings before interest and tax of \$86 million were 17 per cent higher than the \$73.2 million earned in the corresponding period last year.

### Hardware

Bunnings Building Supplies Pty Ltd is a specialist retailer of home and garden improvement products and building materials.

The Bunnings hardware merchandising business recorded another robust performance in the first half with operating revenue of \$706 million, 11 per cent above the comparative six months last year. The actual increase in revenue was 17 per cent after adjusting for the change of accounting treatment of GST compared to the wholesale sales tax system.

Underlying earnings growth was slightly higher than adjusted revenue growth. This result was particularly pleasing in the light of uncertain market conditions, particularly in the building industry. Revenue and profit growth have continued at a healthy level during January 2001.

During the first half, four new Bunnings warehouse stores were opened, expanding the national chain to 43. Warehouse stores accounted for 80 per cent of total Bunnings hardware sales. This is up from 77 per cent of total sales in the full 1999/2000 financial year, reflecting the strength of the Bunnings warehouse brand and concept. The introduction of seven day trading in Queensland from 1 July 2000 was also a positive factor for the seven warehouse stores currently trading in that State.

A further five warehouse stores are expected to be opened in the second half and the business is well placed to accelerate the number of new store openings over the coming years.

### Forest products

Sotico Pty Ltd is a producer and supplier of Western Australian timbers and forest products to Australian and international markets.

Operating revenue of the forest products business in the first half was 13 per cent below the comparative period last year as a result of the sale of the woodchipping, plantation services and plantation assets to a subsidiary of Marubeni Corporation at the beginning of October 2000.

Whilst some improvement in results was achieved from the retained timber operations, overall earnings for the period were 19 per cent lower due to the divestments.

The Australian market was affected by the slow down in housing activity following the introduction of the GST but export sales increased by more than 40 per cent. Constrained Australian housing activity will impact on results for the second half of the year.

As foreshadowed in earlier reports apparent profit growth for the hardware and forest products segment as a whole will be modest over the full year. This will result from the loss of earnings for the last eight months from the sold woodchip and plantations business and from the pull-forward of earnings in the hardware business from the September 2000 quarter to the June 2000 quarter due to the GST introduction. As discussed above, however, the hardware operations individually are expected to produce good year on year growth in earnings.

## Energy

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

Operating revenue for the six months to 31 December 2000 increased by 67 per cent to \$470 million. This was mainly driven by the inclusion of the Curragh coal mining operations in Queensland for the first time, but the gas operating revenue was also up by 38 per cent compared to the same period last year.

Earnings before interest and tax of \$92.4 million were 77 per cent higher than the \$52.2 million recorded last year.

## Gas

The gas activities of Wesfarmers Energy comprise three operating units: Wesfarmers Kleenheat Gas Pty Ltd (distribution and retailing), Wesfarmers LPG Pty Ltd (production and export) and Air Liquide WA Pty Ltd (industrial gases).

Domestic sales volumes of LP gas for the half year were 10 per cent above the comparative period last year. This strong sales performance reflects the improved business focus arising from the reorganisation of the Kleenheat Gas national distribution chain in late 1999.

The growth in sales volumes was largely offset by reduced margins flowing from significantly higher international benchmark prices and weak Australian currency. Kleenheat's profit result was significantly below budget and only marginally above that of the previous corresponding period.

Conversely, earnings from export sales to Japan benefited from the same international price and currency factors. Export volumes were 31 per cent higher than last year, due to an additional shipment during the period.

The overall first half profit contribution from the group's gas activities was significantly above the comparative period last



year and full year earnings are expected to reflect this robust first half performance.

Growth highlights included the LP gas plant expansion at Kwinana that was commissioned in December 2000 on time and on budget; successful integration of the recently acquired Shoal gas business in New South Wales; continued success with ProPlus diesel substitution; securing the LP gas supply to Woolworths' service stations nationally; and progress of the market entry project in Bangladesh. The Western Australian Government initiative to subsidise autogas conversions and the introduction of LP gas vehicles by Ford should deliver strong growth in this sector.

## **Coal**

The coal interests of Wesfarmers Energy comprise open-cut operations at Collie in Western Australia's south-west, the recently acquired Curragh mine in Queensland's Bowen Basin and a 40 per cent interest in the Bengalla mine in the Hunter Valley in New South Wales.

The volume of first half coal deliveries from the Collie mine was seven per cent below the corresponding period last year due mainly to reductions in offtake from Western Power. Overburden removal was 14 per cent above last year and the profit contribution from the Collie operation for the period was eight per cent above the corresponding period last year.

Integration of the Curragh mine into Wesfarmers progressed smoothly, with all key staff retained and operational performance ahead of expectations. Earnings were significantly ahead of budget as a result of increased export volumes, prices and favourable exchange rates. Initial indications are that annual price renegotiations will reflect improved global supply/demand conditions and result in price increases that should underpin a strong full year result.

Bengalla sales volumes were ahead of budget and last year as the mine continues to ramp up to full production. Higher sales proceeds due to strengthening international prices for thermal coal combined with exchange rate benefits on export volumes to produce above budget earnings, which are expected to be sustained for the full year.

Development highlights include continued progress on quality and productivity improvements at Collie; granting of the Curragh East mining lease in November with commencement of mining in this area scheduled for September this year; and completion of the raw coal bypass facility at Bengalla together with commencement of engineering works for stage two of the main coal processing plant.

## **Fertilisers and chemicals**

Wesfarmers CSBP Limited is the major supplier of fertilisers and chemicals to Western Australia's agricultural mining and industrial sectors.

Operating revenue of \$160 million for the six months to 31 December 2000 was 28 per cent higher than the comparative period last year and earnings before interest and tax of \$7.5 million compared to last year's \$4.1 million. The low absolute level of these figures reflects the fact that 70 per cent of fertiliser sales occur in the second half of the financial year.

### **Fertilisers**

Total fertiliser despatches were 21 per cent above the corresponding trading period last year, mainly due to a carryover of demand to the first two months of the trading period and strong sales in November ahead of price increases which became effective late in that month. Demand for the remaining months was similar to last year.

Cropping and mixed farming enterprises continued to apply more nitrogen and potassium while the demand for superphosphate remained subdued. Firming international fertiliser prices, coupled with a significantly weaker Australian dollar throughout the critical procurement period led to higher domestic prices, which became effective from late November. Whilst most agricultural areas face challenging financial circumstances in light of reduced harvest outcomes, the recent improvement in commodity prices, particularly wool and beef, will provide some offset to potentially lower levels of overall demand in the coming six months.

Wesfarmers CSBP currently estimates that it will sell around 970,000 tonnes of fertiliser in the full year, which is about 120,000 tonnes below last year and 160,000 tonnes below the original budget for 2000/2001.

### **Chemicals**

Overall sales volumes of the company's chemical products were some 43 per cent higher than in the corresponding period last year, mainly due to the commencement of contractual deliveries of ammonia.

The new ammonia plant at Kwinana has been operating with increasing reliability. After an extended shutdown in the September/October period to repair equipment, the plant has regularly achieved its nameplate capacity. That shutdown, however, necessitated an import cargo, supplied to customers at very low margins, with the result that EBIT from ammonia sales was about \$5 million below budget for the period.

Sales of ammonium nitrate, including a small tonnage sold in liquid fertilisers, were stronger than in the previous corresponding period. Offtake of sodium cyanide increased by 14 per cent, despite the lack of development activity in the gold sector.

Joint venture operations at Queensland Nitrates were disappointing over the period. Whilst the facilities have proven themselves capable of running at capacity, achieving continuous production over prolonged periods remains a challenge.

The outlook for chemicals in the second half is mixed - with improvements expected in ammonia, offset by higher raw material costs in sodium cyanide.

## Rural services and insurance

Wesfarmers Dalgety Limited - also encompassing Wesfarmers Federation Insurance - is one of Australia's largest suppliers of agribusiness services.

First half operating revenue of the group's rural services and insurance business of \$425 million was 14 per cent above the comparative figure of \$374 million last year. Earnings of \$26.0 million were 77 per cent above last year's \$14.7 million.

### Rural services

Merchandise and fertiliser sales rose by 18 per cent despite a dry season in Western Australia, floods in northern New South Wales and a generally flat market. Gross profit from livestock marketing rose by 18 per cent, largely as a result of buoyant cattle prices. Higher wool prices generated improved revenue from wool marketing activity.

Many parts of eastern Australia are enjoying an excellent season which will support livestock activity and crop prospects. Producers in Western Australia will be looking for a good autumn break to allow widespread seeding operations to commence.

### Insurance

Wesfarmers Federation Insurance has produced significantly improved results in the first half. Premium income growth resulted from higher new business levels and retention of existing business at above budget levels. Crop claims were below budget. Subject to normal conditions in the second half, this business will produce higher earnings than last year.

## Transport

In the context of a markedly higher operating cost environment the group's transport, logistics and express freight operations performed satisfactorily during the first half. In particular, Wesfarmers Transport's general freight operations performed above budget expectations and it is anticipated will show an improved result over last year.

The group's operations that provide services to primary producers in remote areas suffered as a result of inclement weather and poor growing seasons in some regions during the first half and this is expected to impact on Wesfarmers Transport's results for the full year.

A small contribution was achieved during the half from the 50 per cent owned Australian Railroad Group, which comprises South Australian and Western Australian rail freight businesses. Wesfarmers settled its investment in Australian Railroad Group on 17 December 2000.

## profit and loss account

FOR THE HALF YEAR ENDED 31 DECEMBER 2000  
WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	CONSOLIDATED	
	<b>December 2000 \$000</b>	December 1999 \$000
<b>Operating revenue</b>	<b>1,950,896</b>	1,611,294
<b>Operating profit before income tax</b>	<b>168,309</b>	134,408
Less income tax	<b>56,028</b>	33,963
<b>Operating profit after income tax</b>	<b>112,281</b>	100,445
Outside equity interests in operating profit after income tax	<b>460</b>	366
<b>Operating profit after income tax attributable to members of Wesfarmers Limited</b>	<b>111,821</b>	100,079
Retained profits at the beginning of the half-year	<b>225,121</b>	211,426
Aggregate of amounts transferred from (to) reserves	<b>302</b>	(1,231)
<b>Total available for appropriation</b>	<b>337,244</b>	310,274
Dividends provided for or paid	<b>73,466</b>	67,725
<b>Retained profits at the end of the half-year</b>	<b>263,778</b>	242,549
Operating profit after income tax attributable to members of Wesfarmers Limited consists of:		
Profit before goodwill amortisation	<b>115,368</b>	103,609
Goodwill amortisation	<b>(3,547)</b>	(3,530)
Profit after goodwill amortisation	<b>111,821</b>	100,079

## balance sheet

AT 31 DECEMBER 2000

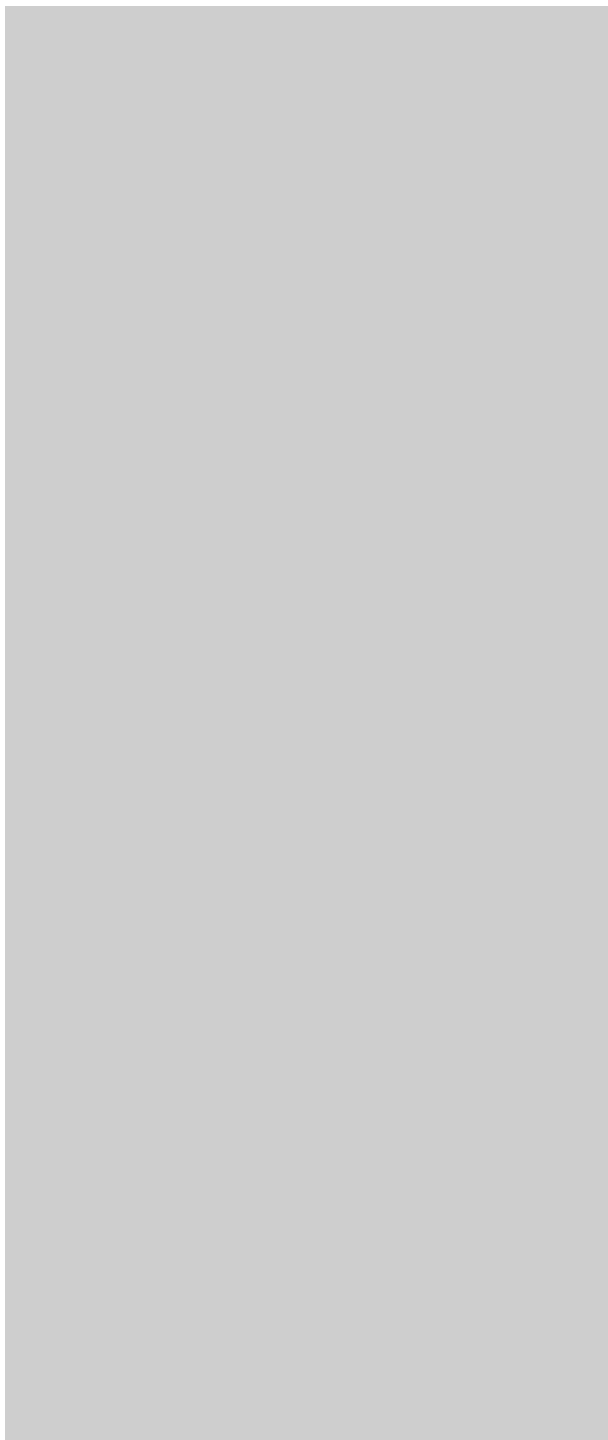
WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	CONSOLIDATED	
	December 2000 \$000	June 2000 \$000
<b>Current assets</b>		
Cash	63,203	57,999
Receivables	485,590	558,181
Inventories	653,789	544,580
<b>Total current assets</b>	<b>1,202,582</b>	1,160,760
<b>Non-current assets</b>		
Receivables	114,157	138,733
Investments	339,143	202,355
Property, plant and equipment	1,480,624	1,505,538
Intangibles	132,655	135,488
Other	37,009	25,886
<b>Total non-current assets</b>	<b>2,103,588</b>	2,008,000
<b>Total assets</b>	<b>3,306,170</b>	3,168,760
<b>Current liabilities</b>		
Borrowings	303,698	401,104
Accounts payable	398,144	560,399
Provisions	169,134	184,224
Other	139,418	128,832
<b>Total current liabilities</b>	<b>1,010,394</b>	1,274,559
<b>Non-current liabilities</b>		
Borrowings	830,404	483,905
Accounts payable	2,165	2,249
Provisions	164,004	151,424
Other	25,167	25,167
<b>Total non-current liabilities</b>	<b>1,021,740</b>	662,745
<b>Total liabilities</b>	<b>2,032,134</b>	1,937,304
<b>Net assets</b>	<b>1,274,036</b>	1,231,456
<b>Shareholders' equity</b>		
Share capital	945,951	892,192
Reserves	62,714	107,886
Retained profits	263,778	225,121
Shareholders' equity attributable to members of Wesfarmers Limited	<b>1,272,443</b>	1,225,199
Outside equity interests in controlled entities	<b>1,593</b>	6,257
<b>Total shareholders' equity</b>	<b>1,274,036</b>	1,231,456

## statement of cash flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2000  
WESFARMERS LIMITED AND ITS CONTROLLED ENTITIES

	CONSOLIDATED	
	December 2000 \$000	December 1999 \$000
<b>Cash flows from operating activities:</b>		
Receipts from customers	2,050,988	1,541,645
Payments to suppliers and employees	(1,852,218)	(1,487,507)
Dividends received	5,435	5,422
Interest received	4,766	2,778
Interest paid	(29,322)	(9,826)
Income tax paid	(59,738)	(45,120)
GST - payments (net)	(45,493)	-
<b>Net cash (used in) provided by operating activities</b>	<b>74,418</b>	<b>7,392</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(137,356)	(93,720)
Acquisition of investments	(156,766)	(24,652)
Proceeds from sale of non-current assets	73,687	37,229
Loans to other entities	-	(19,578)
Loans repaid by other entities	-	4,213
Other	(3,648)	(759)
<b>Net cash used in investing activities</b>	<b>(224,083)</b>	<b>(97,267)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issue of shares - Outside shareholders	-	592
Net proceeds of borrowings	195,687	191,416
Dividends paid	(66,808)	(108,392)
Repayment of employee share plan loans	25,990	9,686
Share buyback	-	(14,900)
<b>Net cash provided by financing activities</b>	<b>154,869</b>	<b>78,402</b>
Net increase (decrease) in cash held	5,204	(11,473)
Cash at the beginning of the half-year	57,999	56,366
<b>Cash at the end of the half-year</b>	<b>63,203</b>	<b>44,893</b>





**Registered office**

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**Share registry**

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