## Wesfarmers

## 14 February 2013

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir,

## HALF-YEAR REPORT TO 31 DECEMBER 2012

In accordance with ASX Listing Rule 4.2A, the following documents are attached for release to the market:

- Appendix 4D - Half-Year Report; and
- Half-year results announcement.

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Wesfarmers Limited for the period ended 30 June 2012, together with any public announcements made by Wesfarmers Limited in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

An analyst briefing will be held at 11:30 am (AWST) / 2:30 pm (EDST) following the release of this announcement. This briefing will be webcast and is accessible via our website at www.wesfarmers.com.au.

Yours faithfully,


L J KENYON
COMPANY SECRETARY

| RESULTS FOR ANNOUNCEMENT TO THE MARKET |  | \$m |
| :--- | ---: | :--- |
| Revenue from ordinary activities | up $3.2 \%$ to | $\mathbf{3 0 , 6 1 4}$ |
| Profit from ordinary activities after tax attributable to members | up $9.3 \%$ to | $\mathbf{1 , 2 8 5}$ |
| Net profit for the half-year attributable to members | up 9.3\% to | $\mathbf{1 , 2 8 5}$ |
|  | Amount <br> per security | Franked amount <br> per security |
| DIVIDENDS | 77 cents | 77 cents |
| Interim dividend | 70 cents | 70 cents |
| Previous corresponding period interim dividend | 5:00pm (WST) on 25 February 2013 |  |
| Record date for determining entitlements to the dividend | 5:00pm (WST) on 25 February 2013 |  |
| Last date for receipt of election notice for Dividend Investment Plan | 28 March 2013 |  |
| Date the interim dividend is payable |  |  |

## Dividend investment plan

The Company operates a Dividend Investment Plan ('the Plan') which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with Wesfarmers ordinary shares. The allocation price for shares under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers ordinary shares on each of the 15 consecutive trading days from and including the third trading day after the record date of 25 February 2013 for participation in the Plan, being 28 February 2013 to 20 March 2013.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (WST) on 25 February 2013. The Directors have determined that no discount shall apply to the allocation price and that shares to be allocated under the Plan will be acquired on-market and transferred to participants on 28 March 2013. A broker will be engaged to assist in this process.

## Net tangible asset backing

Net tangible asset backing per ordinary share (including partially protected and excluding reserved shares): \$4.63 (2011: \$4.38).

## Operating cash flow per share

Operating cash flow per share: $\$ 1.91$ (2011: $\$ 1.88$ ). This has been calculated by dividing the net cash flow from operating activities by the weighted average number of ordinary shares (including partially protected and reserved shares) on issue during the half-year.

## Previous corresponding period

The previous corresponding period is the half-year ended 31 December 2011. A 30 June 2012 balance sheet has been included to improve comparability.

## Commentary on results for the period

Commentary on the results for the period is contained in the press release dated 14 February 2013 accompanying this statement.

## Income statement

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

|  | Note | CONSOLIDATED |  |
| :---: | :---: | :---: | :---: |
|  |  | $\begin{gathered} \text { December } \\ 2012 \\ \$ m \end{gathered}$ | $\begin{gathered} \text { December } \\ 2011 \\ \$ m \end{gathered}$ |
| Revenue |  |  |  |
| Sale of goods |  | 29,432 | 28,579 |
| Rendering of services |  | 969 | 900 |
| Interest - other |  | 69 | 74 |
| Other |  | 144 | 121 |
| Total revenue |  | 30,614 | 29,674 |
| Expenses |  |  |  |
| Raw materials and inventory |  | $(20,277)$ | $(19,710)$ |
| Employee benefits expense | 5 | $(4,012)$ | $(3,809)$ |
| Net insurance claims, reinsurance and commissions |  | (690) | (705) |
| Freight and other related expenses |  | (518) | (466) |
| Occupancy-related expenses | 5 | $(1,165)$ | $(1,125)$ |
| Depreciation and amortisation | 5 | (531) | (496) |
| Impairment expenses | 5 | (25) | (182) |
| Other expenses | 5 | $(1,496)$ | $(1,500)$ |
| Total expenses |  | $(28,714)$ | $(27,993)$ |
| Other income | 5 | 126 | 282 |
| Share of profits/(losses) of associates |  | 17 | (26) |
|  |  | 143 | 256 |
| Earnings before interest and income tax expense |  | 2,043 | 1,937 |
| Finance costs | 5 | (229) | (264) |
| Profit before income tax |  | 1,814 | 1,673 |
| Income tax expense | 8 | (529) | (497) |
| Profit attributable to members of the parent |  | 1,285 | 1,176 |
| Earnings per share | 3 | cents | cents |
| - basic for profit for the period attributable to ordinary equity holders of the parent |  | 111.4 | 102.0 |
| - diluted for profit for the period attributable to ordinary equity holders of the parent |  | 111.2 | 101.8 |

Dilution to earnings per share arises as a result of the employee reserved shares issued under the employee share plan being accounted for as in-substance options.

## Statement of comprehensive income

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

|  | Note | CONSOLIDATED |  |
| :---: | :---: | :---: | :---: |
|  |  | $\begin{gathered} \text { December } \\ 2012 \\ \$ m \\ \hline \end{gathered}$ | $\begin{gathered} \text { December } \\ 2011 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ |
| Profit attributable to members of the parent |  | 1,285 | 1,176 |
| Other comprehensive income |  |  |  |
| Items that may be reclassified to profit or loss: |  |  |  |
| Foreign currency translation reserve |  |  |  |
| Exchange differences on translation of foreign operations |  | 5 | (18) |
| Available-for-sale financial assets reserve |  |  |  |
| Changes in the fair value of available-for-sale financial assets |  | 1 | (9) |
| Tax effect |  | - | 3 |
| Cash flow hedge reserve | 12 |  |  |
| Unrealised gains on cash flow hedges |  | 108 | 11 |
| Realised gains transferred to net profit |  | (74) | (61) |
| Realised losses transferred to non-financial assets |  | 36 | 16 |
| Share of associates reserve |  | (1) | - |
| Tax effect |  | (21) | 10 |
| Items that will not be reclassified to profit or loss: |  |  |  |
| Retained earnings | 7 |  |  |
| Actuarial loss on defined benefit plan |  | - | (6) |
| Tax effect |  | - | 2 |
| Other comprehensive income/(loss) for the period, net of tax |  | 54 | (52) |
| Total comprehensive income for the period, net of tax, attributable to members of the parent |  | 1,339 | 1,124 |

## Balance sheet

as at 31 December 2012 - Wesfarmers Limited and its controlled entities

## ASSETS

## Current assets

Cash and cash equivalents
Trade and other receivables
Inventories
Derivatives
Investments backing insurance contracts, reinsurance and other recoveries Other
Total current assets
CONSOLIDATED

|  | December | June | December |
| :---: | :---: | :---: | :---: |
|  | $\mathbf{2 0 1 2}$ | 2012 | 2011 |
| Note | $\mathbf{\$ m}$ | $\$ \mathrm{~m}$ | $\$ \mathrm{~m}$ |

## Non-current assets

Receivables
Available-for-sale investments
Investment in associates
Deferred tax assets
Property
Plant and equipment
Goodwill
Intangible assets
Derivatives
Investments backing insurance contracts, reinsurance and other recoveries
Other
Total non-current assets
Total assets

|  |  |  |  |
| ---: | ---: | ---: | ---: |
|  |  |  |  |
|  | $\mathbf{1 , 3 5 5}$ | 1,127 | 1,782 |
| $\mathbf{2 , 0 8 4}$ | 2,384 | 2,220 |  |
| $\mathbf{5 , 5 1 7}$ | 5,006 | 5,359 |  |
| $\mathbf{1 4 3}$ | 164 | 175 |  |
| $\mathbf{1 , 6 1 7}$ | 1,690 | 1,587 |  |
| $\mathbf{4 8 5}$ | 540 | 312 |  |
| $\mathbf{1 1 , 2 0 1}$ | 10,911 | 11,435 |  |
|  |  |  |  |
|  |  |  |  |
| $\mathbf{3 4}$ | 33 | 26 |  |
| $\mathbf{6}$ | 15 | 15 |  |
| $\mathbf{4 0 6}$ | 429 | 431 |  |
| $\mathbf{3 7 1}$ | 475 | 457 |  |
| $\mathbf{3 , 0 0 5}$ | 2,631 | 2,571 |  |
| $\mathbf{7 , 0 5 1}$ | 6,832 | 6,484 |  |
| $\mathbf{1 6 , 1 0 9}$ | 16,097 | 16,058 |  |
| $\mathbf{4 , 4 2 4}$ | 4,393 | 4,367 |  |
| $\mathbf{2 9 6}$ | 233 | 231 |  |
| $\mathbf{1 6 9}$ | 193 | 418 |  |
| $\mathbf{8 7}$ | 70 | 64 |  |
| $\mathbf{3 1 , 9 5 8}$ | 31,401 | 31,122 |  |
| $\mathbf{4 3 , 1 5 9}$ | 42,312 | 42,557 |  |
|  |  |  |  |

## LIABILITIES

Current liabilities
Trade and other payables
Interest-bearing loans and borrowings
Income tax payable
Provisions
Insurance liabilities
Derivatives
Other
Total current liabilities

|  |  |  |
| ---: | ---: | ---: |
|  |  |  |
| $\mathbf{5 , 9 9 0}$ | 5,420 | 5,928 |
| $\mathbf{9 4 1}$ | 1,621 | 1,102 |
| $\mathbf{3 1 0}$ | 455 | 350 |
| $\mathbf{1 , 2 5 6}$ | 1,289 | 1,126 |
| $\mathbf{1 , 5 8 1}$ | 1,635 | 1,509 |
| $\mathbf{1 3 0}$ | 126 | 66 |
| $\mathbf{3 2 7}$ | 201 | 289 |
| $\mathbf{1 0 , 5 3 5}$ | 10,747 | 10,370 |
|  |  |  |
|  |  |  |
| $\mathbf{1 4}$ | 20 | 23 |
| $\mathbf{4 , 8 6 7}$ | 3,881 | 4,551 |
| $\mathbf{1 , 1 4 4}$ | 1,206 | 1,155 |
| $\mathbf{5 8 3}$ | 682 | 787 |
| $\mathbf{9 9}$ | 116 | 172 |
| $\mathbf{4 3}$ | 33 | 24 |
| $\mathbf{6 , 7 5 0}$ | 5,938 | 6,712 |
| $\mathbf{1 7 , 2 8 5}$ | 16,685 | 17,082 |
| $\mathbf{2 5 , 8 7 4}$ | 25,627 | 25,475 |
|  |  |  |

## EQUITY

Equity attributable to equity holders of the parent
Issued capital
Reserved shares
Retained earnings
Reserves
Total equity

## Non-current liabilities

Payables
Interest-bearing loans and borrowings
Provisions
Insurance liabilities
Derivatives
Other
Total non-current liabilities
Total liabilities
Net assets

|  |  |  |  |
| :---: | ---: | :---: | ---: |
|  |  |  |  |
| 10 | $\mathbf{2 3 , 2 9 0}$ | 23,286 | 23,286 |
| 10 | $\mathbf{( 3 0 )}$ | $(31)$ | $(36)$ |
| $\mathbf{7}$ | $\mathbf{2 , 2 8 9}$ | 2,103 | 1,963 |
|  | $\mathbf{3 2 5}$ | 269 | 262 |
|  | $\mathbf{2 5 , 8 7 4}$ | 25,627 | 25,475 |

## Cash flow statement

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

|  | Note | CONSOLIDATED |  |
| :---: | :---: | :---: | :---: |
|  |  | $\begin{gathered} \text { December } \\ 2012 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} \text { December } \\ 2011 \\ \$ m \end{gathered}$ |
| Cash flows from operating activities |  |  |  |
| Receipts from customers |  | 33,569 | 32,043 |
| Payments to suppliers and employees |  | $(30,671)$ | $(29,217)$ |
| Dividends and distributions received from associates |  | 42 | 12 |
| Interest received |  | 69 | 73 |
| Borrowing costs |  | (207) | (237) |
| Income tax paid |  | (595) | (502) |
| Net cash flows from operating activities | 9 | 2,207 | 2,172 |
| Cash flows from investing activities |  |  |  |
| Net acquisition of insurance deposits |  | (82) | (118) |
| Payments for property, plant and equipment and intangibles | 9 | $(1,323)$ | $(1,428)$ |
| Proceeds from sale of property, plant and equipment and intangibles | 9 | 203 | 165 |
| Proceeds from disposal of controlled entities |  | 4 | 399 |
| Net investments in associates and joint ventures |  | 8 | (4) |
| Acquisition of subsidiaries, net of cash acquired |  | (10) | (16) |
| Net cash flows used in investing activities |  | $(1,200)$ | $(1,002)$ |
| Cash flows from financing activities |  |  |  |
| Proceeds from borrowings |  | 981 | 943 |
| Repayment of borrowings |  | (665) | (250) |
| Proceeds from exercise of in-substance options under the employee share plan | 10 | 2 | 3 |
| Equity dividends paid |  | $(1,097)$ | (981) |
| Net cash flows used in financing activities |  | (779) | (285) |
| Net increase in cash and cash equivalents |  | 228 | 885 |
| Cash and cash equivalents at beginning of period |  | 1,127 | 897 |
| Cash and cash equivalents at end of period | 9 | 1,355 | 1,782 |

## Statement of changes in equity

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

| CONSOLIDATED |  | Attributable to equity holders of the parent |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Note | Issued capital \$m | Reserved shares \$m | Retained earnings \$m | Hedging reserve \$m | Other reserves \$m | Total equity \$m |
| Balance at 1 July 2011 |  | 23,286 | (41) | 1,774 | 189 | 121 | 25,329 |
| Net profit for the period |  | - | - | 1,176 | - | - | 1,176 |
| Other comprehensive income |  |  |  |  |  |  |  |
| Exchange differences on translation of foreign operations |  | - | - | - | - | (18) | (18) |
| Changes in the fair value of available-for-sale assets, net of tax |  | - | - | - | - | (6) | (6) |
| Changes in the fair value of cash flow hedges, net of tax | 12 | - | - | - | (24) | - | (24) |
| Actuarial loss on defined benefit plan, net of tax |  | - | - | (4) | - | - | (4) |
| Total other comprehensive income for the period, net of tax |  | - | - | (4) | (24) | (24) | (52) |
| Total comprehensive income for the period, net of tax |  | - | - | 1,172 | (24) | (24) | 1,124 |
| Transactions with equity holders in their capacity as equity holders: |  |  |  |  |  |  |  |
| Proceeds from exercise of in-substance options | 10 | - | 3 | - | - | - | 3 |
| Equity dividends | 6,10 | - | 2 | (983) | - | - | (981) |
|  |  | - | 5 | (983) | - | - | (978) |
| Balance at 31 December 2011 |  | 23,286 | (36) | 1,963 | 165 | 97 | 25,475 |
| Balance at 1 July 2012 |  | 23,286 | (31) | 2,103 | 160 | 109 | 25,627 |
| Net profit for the period |  | - | - | 1,285 | - | - | 1,285 |
| Other comprehensive income |  |  |  |  |  |  |  |
| 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 |
| Transactions with equity holders in their capacity as equity holders: |  |  |  |  |  |  |  |
| 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 | $(1,099)$ | - | - | $(1,094)$ |
| Balance at 31 December 2012 |  | 23,290 | (30) | 2,289 | 208 | 117 | 25,874 |

## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

## 1 Corporate information

The financial report of Wesfarmers Limited (referred to as 'Wesfarmers' or 'the Company') for the half-year ended 31 December 2012 was authorised for issue in accordance with a resolution of the directors on 14 February 2013. 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 2012 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 should be read in conjunction with the annual financial report for the year ended 30 June 2012 and considered together with any public announcements made by the Company during the half-year ended 31 December 2012 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

All new and amended Australian Accounting Standards and Interpretations, issued by the Australian Accounting Standards Board ('the AASB'), mandatory as of 1 July 2012 to Wesfarmers and its subsidiaries ('the Group') have been adopted, including:

| Reference | Description | Application <br> of standard | Application <br> by Group |
| :--- | :--- | :---: | :---: |
| AASB 2010-8 <br> Amendments to | These amendments address the determination of deferred tax on <br> investment property measured at fair value and introduce a <br> rebuttable presumption that deferred tax on investment property <br> measured at fair value should be determined on the basis that the <br> carrying amount will be recoverable through sale. The amendments <br> also incorporate Interpretation 112 Income Taxes - Recovery of <br> Revalued Non-Depreciable Assets into AASB 112. | 1 January | 1 July 2012 |
| Tax: Recovery of <br> Underlying Assets | The amendments require entities to group items presented in other <br> comprehensive income (OCI) on the basis of whether they are | 1 July 2012 |  |
| potentially reclassifiable to profit or loss subsequently |  |  |  |
| AASB 2011-9 | (reclassification adjustments). Additionally, the amendments require <br> tax associated with items presented before tax to be shown <br> Amendments to |  |  |
| Australian Accounting <br> Standards - Presentation <br> of Other Comprehensive <br> Income option to present items of OCI either before tax or net of tax). |  |  |  |

The above amendments have no material effect on the Group's financial statements.

## Notes to the financial statements

for the half-year ended 31 December 2012 - 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.

Wesfarmers partially protected shares ('PPS') are ordinary shares that confer rights on holders that are the same in all respects to those conferred by other ordinary shares. In addition, PPS provide a level of downside price protection in that they may provide holders with up to an additional 0.25 ordinary shares per PPS, in certain circumstances at the expiration of a specified period. Full details and other terms and conditions applicable to the PPS are available from the Company website www.wesfarmers.com.au

Basic and diluted earnings per share calculations are as follows:

|  | CONSOLIDATED |  |
| :---: | :---: | :---: |
|  | $\begin{gathered} \text { December } \\ 2012 \\ \$ m \end{gathered}$ | $\begin{gathered} \text { December } \\ 2011 \\ \$ m \end{gathered}$ |
| Profit attributable to members of the parent | 1,285 | 1,176 |
|  | shares <br> (m) | shares (m) |
| Weighted average number of ordinary shares (including partially protected shares) for basic earnings per share | 1,154 | 1,153 |
| Effect of dilution - reserved shares | 2 | 3 |
| Weighted average number of ordinary shares (including partially protected shares) adjusted for the effect of dilution | 1,156 | 1,156 |
| Earnings per share (cents per share) | cents | cents |
| - basic for profit for the period attributable to ordinary equity holders of the parent | 111.4 | 102.0 |
| - diluted for profit for the period attributable to ordinary equity holders of the parent | 111.2 | 101.8 |

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 and the conversion of partially protected ordinary shares to 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 its 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 2012 financial report. Segment performance is evaluated based on operating profit or loss, which in certain respects, as explained in the table below, is presented differently from operating profit or loss in the consolidated financial statements.

Interest income and expenditure are not allocated to operating segments, as this type of activity is managed on a group basis.

## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

4 Segment information (continued)
Revenue and earnings of various divisions are affected by seasonality and cyclicality 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 on the retail business 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.

|  |  HOME <br>  IMPROVEMENT AND <br> COLES $^{1}$ OFFICE SUPPLIES <br> December December |  |  |  | KMART <br> December |  | TARGET <br> December |  | INSURANCE ${ }^{2}$ <br> December |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2012 \\ \$ m \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2012 \\ \$ m \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ |
| Segment revenue | 18,047 | 17,218 | 4,729 | 4,507 | 2,299 | 2,236 | 2,070 | 2,060 | 1,035 | 945 |
| Segment result |  |  |  |  |  |  |  |  |  |  |
| Earnings before interest, tax, depreciation, amortisation (EBITDA) Depreciation and amortisation | $\begin{gathered} 984 \\ (229) \\ \hline \end{gathered}$ | $\begin{aligned} & 875 \\ & (219) \\ & \hline \end{aligned}$ | $\begin{gathered} 631 \\ (75) \\ \hline \end{gathered}$ | $\begin{gathered} 589 \\ (70) \\ \hline \end{gathered}$ | $\begin{gathered} 281 \\ (35) \end{gathered}$ | $\begin{gathered} 230 \\ (33) \\ \hline \end{gathered}$ | $\begin{aligned} & 187 \\ & (39) \\ & \hline \end{aligned}$ | $\begin{gathered} 223 \\ (37) \\ \hline \end{gathered}$ | $\begin{gathered} 122 \\ (18) \end{gathered}$ | $\begin{gathered} 32 \\ (15) \\ \hline \end{gathered}$ |
| Earnings before interest, tax (EBIT) | 755 | 656 | 556 | 519 | 246 | 197 | 148 | 186 | 104 | 17 |
| Capital expenditure ${ }^{5}$ | 604 | 611 | 356 | 342 | 42 | 86 | 43 | 31 | 12 | 18 |
|  | RESOU <br> Dece |  | CHEMICA <br> ENERGY <br> FERTIL <br> Decen | ALS, <br> AND <br> ERS <br> er | INDUST AND SA Decem | IAL ETY ber | OTH |  | CONSOLID Decem | ATED <br> er |
|  | $\begin{gathered} 2012 \\ \$ m \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ | $\begin{gathered} 2012 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ | $\begin{gathered} 2011 \\ \$ \mathrm{~m} \end{gathered}$ |
| Segment revenue | 826 | 1,087 | 775 | 775 | 837 | 843 | (4) | 3 | 30,614 | 29,674 |
| Segment result |  |  |  |  |  |  |  |  |  |  |
| Earnings before interest, tax, depreciation, amortisation (EBITDA) | 161 | 323 | 154 | 144 | 101 | 111 | (47) | (94) | 2,574 | 2,433 |
| Depreciation and amortisation | (68) | (73) | (50) | (45) | (13) | (14) | (4) | 10 | (531) | (496) |
| Earnings before interest, tax (EBIT) | 93 | 250 | 104 | 99 | 88 | 97 | (51) | (84) | 2,043 | 1,937 |
| Finance costs |  |  |  |  |  |  |  |  | (229) | (264) |
| Profit before income tax expense |  |  |  |  |  |  |  |  | 1,814 | 1,673 |
| Income tax expense |  |  |  |  |  |  |  |  | (529) | (497) |
| Profit attributable to members of the | rent |  |  |  |  |  |  |  | 1,285 | 1,176 |
| Capital expenditure ${ }^{5}$ | 52 | 239 | 122 | 54 | 18 | 15 | 3 | 3 | 1,252 | 1,399 |

1 Coles division includes the food, liquor, convenience and Coles property businesses.
2 Insurance division's 2011 EBIT was adversely affected by:

- additional reserving of $\$ 26$ million above the reinsurance program limit relating to the February 2011 Christchurch earthquake; and
- estimated net claims expense in excess of allowances of $\$ 28$ million, relating to the bushfires in Western Australia, Christchurch earthquake on 23 December 2011, Melbourne hailstorm and other severe weather events.
32012 EBIT includes Stanwell royalty expense of $\$ 91$ million (2011: $\$ 88$ million).
42012 includes:
- interest revenue of $\$ 5$ million (2011: $\$ 11$ million);
- share of profit from associates of $\$ 9$ million (2011: $\$ 9$ million);
- share of loss of Gresham Private Equity Funds of $\$ 11$ million (2011: $\$ 46$ million); and
- corporate overheads of $\$ 57$ million (2011: $\$ 53$ million)

2011 included:

- gain on disposal of Energy Generation Pty Ltd of $\$ 43$ million;
- gain on disposal of Wesfarmers Premier Coal Limited of $\$ 92$ million;
- gain on disposal of Boddington forestry assets of $\$ 16$ million; and
- impairment of the Coregas related goodwill, plant and equipment of $\$ 181$ million.

5 Capital expenditure includes accruals to represent costs incurred during the period. The amount excluding movement in accruals is $\$ 1,323$ million (2011: \$1,428 million).

## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

|  | CONSOLIDATED |  |
| :---: | :---: | :---: |
|  | $\begin{gathered} \text { December } \\ 2012 \\ \$ m \\ \hline \end{gathered}$ | $\begin{gathered} \text { December } \\ 2011 \\ \$ \mathrm{~m} \\ \hline \end{gathered}$ |
| 5 Revenue and expenses |  |  |
| Employee benefits expense |  |  |
| Remuneration, bonuses and on-costs | 3,858 | 3,655 |
| Amounts provided for employee entitlements | 94 | 95 |
| Share based payments expense | 60 | 59 |
|  | 4,012 | 3,809 |
| Occupancy-related expenses |  |  |
| Minimum lease payments | 938 | 906 |
| Other | 227 | 219 |
|  | 1,165 | 1,125 |
| Depreciation and amortisation |  |  |
| Depreciation | 430 | 402 |
| Amortisation of intangibles | 46 | 46 |
| Amortisation other | 55 | 48 |
|  | 531 | 496 |
| Impairment expenses |  |  |
| Impairment of freehold property | 1 | 1 |
| Impairment of plant, equipment and other assets | 24 | 9 |
| Impairment of goodwill | - | 172 |
|  | 25 | 182 |
| Other expenses included in the income statement |  |  |
| Government mining royalties | 57 | 74 |
| Stanwell rebate | 91 | 88 |
| Repairs and maintenance | 188 | 213 |
| Utilities and office expenses | 543 | 484 |
| Insurance expenses | 112 | 137 |
| Other | 505 | 504 |
|  | 1,496 | 1,500 |
| Other income |  |  |
| Gains on disposal of property, plant and equipment | 11 | 19 |
| Gains on disposal of controlled entities | 3 | 135 |
| Other income | 112 | 128 |
|  | 126 | 282 |
| Finance costs |  |  |
| Interest expense | 194 | 216 |
| Capitalised interest | (4) | - |
| Discount rate adjustment | 21 | 31 |
| Amortisation of debt establishment costs | 4 | 4 |
| Other including bank facility and settlement fees | 14 | 13 |
|  | 229 | 264 |

## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities


## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

|  | CONSOLIDATED |  |
| :---: | :---: | :---: |
|  | $\begin{gathered} \text { December } \\ 2012 \\ \$ m \\ \hline \end{gathered}$ | $\begin{gathered} \text { December } \\ 2011 \\ \$ m \\ \hline \end{gathered}$ |
| 9 Reconciliation to cash flow statement |  |  |
| For the purposes of the cash flow statement, cash and cash equivalents are comprised of the following: |  |  |
| Cash on hand and in transit | 551 | 501 |
| Cash at bank and on deposit | 681 | 1,169 |
| Insurance broking trust accounts ${ }^{(1)}$ | 123 | 112 |
|  | 1,355 | 1,782 |
| (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. |  |  |
| Reconciliation of net profit after tax to net cash flows from operations |  |  |
| Net profit | 1,285 | 1,176 |
| Adjustments |  |  |
| Depreciation and amortisation | 531 | 496 |
| Impairment of freehold property, plant, equipment, goodwill and other assets | 25 | 182 |
| Net (gain)/loss on disposal of property, plant and equipment | 7 | (19) |
| Share of associates' net (profit)/losses | (17) | 26 |
| Gain on disposal of controlled entities | (3) | (135) |
| Dividends and distributions received from associates | 42 | 12 |
| Capitalised borrowing costs | (4) | - |
| Discount adjustment in borrowing costs | 21 | 31 |
| Amortisation of debt establishment costs, net of amounts paid | 4 | 4 |
| Non-cash issue of shares recognised in earnings | 4 | - |
| Other | (1) | (4) |
| (Increase)/decrease in assets |  |  |
| Trade and other receivables | 295 | (126) |
| Inventories | (509) | (374) |
| Prepayments | (74) | (57) |
| Reinsurance and other recoveries | 184 | 118 |
| Deferred tax assets | 82 | (8) |
| Other assets | (38) | (25) |
| Increase/(decrease) in liabilities |  |  |
| Trade and other payables | 653 | 813 |
| Current tax payable | (148) | 2 |
| Provisions | (95) | (28) |
| Other liabilities | (37) | 88 |
| Net cash flows from operating activities | 2,207 | 2,172 |
| Net capital expenditure |  |  |
| Payment for property | 447 | 481 |
| Payment for plant and equipment | 808 | 890 |
| Payment for intangibles | 68 | 57 |
| Payments for property, plant, equipment and intangibles | 1,323 | 1,428 |
| Proceeds from sale of property, plant, equipment and intangibles | (203) | (165) |
| Net capital expenditure | 1,120 | 1,263 |

## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

## 10 Contributed equity

| Contributed equity | Ordinary |  | Partially protected |  | Total contributed equity |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Movement in shares on issue | Thousands | \$m | Thousands | \$m | Thousands | \$m |
| At 1 July 2011 | 1,005,676 | 16,934 | 151,396 | 6,352 | 1,157,072 | 23,286 |
| Partially protected ordinary shares converted to ordinary shares at $\$ 41.95$ per share | 785 | 33 | (785) | (33) | - | - |
| At 31 December 2011 | 1,006,461 | 16,967 | 150,611 | 6,319 | 1,157,072 | 23,286 |
| Partially protected ordinary shares converted to ordinary shares at $\$ 41.95$ per share | 48 | 2 | (48) | (2) | - | - |
| At 30 June 2012 | 1,006,509 | 16,969 | 150,563 | 6,317 | 1,157,072 | 23,286 |
| Issue of ordinary shares under Wesfarmers Annual Incentive Plan at \$34.32 per share | 67 | 2 | - | - | 67 | 2 |
| Issue of ordinary shares under Wesfarmers Employee Share Plan at \$34.54 per share | 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 |


| Movement in reserved shares | Thousands | \$m |
| :---: | :---: | :---: |
| At 1 July 2011 | 3,780 | 41 |
| Exercise of in-substance options | (251) | (3) |
| Dividends applied | - | (2) |
| At 31 December 2011 | 3,529 | 36 |
| Exercise of in-substance options | (360) | (2) |
| Dividends applied | - | (3) |
| At 30 June 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 |

## 11 Borrowing and repayment of debt

As a result of the acquisition of the Coles group in 2007, Wesfarmers entered into financing arrangements with Coles group's note holders during the year ended 30 June 2008. The medium-term fixed rate notes outstanding had a principal of $\$ 400$ million, which matured, and was repaid on 25 July 2012. Interest on these notes was payable semi-annually in arrears at a coupon rate of six per cent per annum. There is no further debt outstanding in the name of the Coles group.

On 2 August 2012, Wesfarmers issued $€ 650$ million unsecured fixed rate medium term notes maturing in August 2022. The notes were priced at 110 basis points over the EURO ten-year mid swap rate and have been fully swapped back in Australian dollars, resulting in a total fixed interest cost of around 5.8 per cent per annum payable semi-annually in arrears.

## 12 Cash flow hedge reserve

The change in cash flow hedge reserve to 31 December 2012 comprised the after-tax net movement from 30 June 2012 in respect of foreign exchange contracts of $\$(20)$ million (2011: $\$(35)$ million) and interest rate swaps of $\$ 68$ million
(2011: \$11 million).

## Notes to the financial statements

for the half-year ended 31 December 2012 - Wesfarmers Limited and its controlled entities

## 13 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 of non-current assets when the existence of an indication of impairment has been identified. Throughout the half-year ended 31 December 2012, the carrying value of these assets did not exceed their recoverable amount determined for impairment testing purposes.

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 and business forecasts. Any significant changes in the corporate plan from previous periods could cause the carrying value of non-current assets to exceed their recoverable amount.

## 14 Events after the balance sheet date

## Dividend

A fully-franked dividend of 77 cents per share resulting in a dividend payment of $\$ 891$ million was declared for a payment date of 28 March 2013. The dividend has not been provided for in the 31 December 2012 half-year financial report.

## Wesfarmers

## NEWS

14 February 2013

## 2013 HALF-YEAR RESULTS

## Financial Highlights

- Operating revenue of $\$ 30,614$ million, up 3.2 per cent
- Net profit after tax of \$1,285 million, up 9.3 per cent
- Operating cash flows of $\$ 2,207$ million, up 1.6 per cent
- Net capital expenditure of $\$ 1,120$ million, down 11.3 per cent
- Strong liquidity position, fixed charges cover increased to 2.9 times
- Earnings per share of $\$ 1.11$, up 9.2 per cent
- Fully-franked interim dividend of $\$ 0.77$ declared, up 10.0 per cent

Wesfarmers Limited today announced a net profit after tax of \$1,285 million for the half-year ended 31 December 2012, up 9.3 per cent on the previous corresponding period. Excluding non-trading items in the prior period, net profit after tax increased 6.8 per cent for the half.

During the half, strong retail earnings before interest and tax (earnings) growth in Coles, Bunnings and Kmart, together with a turnaround in the Insurance division's performance, more than offset reduced earnings in Target and the Resources division.

Coles delivered strong earnings growth of 15.1 per cent to $\$ 755$ million, three times the rate of revenue growth and building on the earnings growth of 14.1 per cent achieved in the prior corresponding period. Return on capital for Coles increased by 100 basis points to 9.2 per cent. During the period, good progress was made in continuing to improve the quality, value and service of Coles' offer, resulting in further solid growth in customer transactions and above market sales performance.

Bunnings achieved a solid result with earnings up 6.8 per cent on the prior corresponding period to $\$ 518$ million. Execution of Bunnings' strategic agenda delivered good growth in consumer and commercial customer segments, with sales increasing across all key product categories and trading regions.

Kmart recorded very strong earnings growth of 24.9 per cent to $\$ 246$ million. Customers continued to respond positively to Kmart's strategy of providing the lowest prices on everyday items for families.

Target reported earnings of $\$ 148$ million, 20.4 per cent below the prior corresponding period. From a trading perspective, early progress in implementing Target's transformation plan was encouraging with sales momentum improving through the half and a positive customer response received on a number of new initiatives aimed at strengthening Target's offer. However, significant additional expenditure on repositioning Target's strategy, management resources and customer offering was incurred during the half.

Earnings growth of 11.8 per cent to $\$ 38$ million was achieved by Officeworks, with improved cost control and strong growth in online sales offsetting ongoing deflation in technology related categories and challenging sales conditions in the small to medium sized business customer segment.

The Resources division reported earnings of $\$ 93$ million, 62.8 per cent below the prior corresponding period due to lower export coal prices, a strong AUD:USD exchange rate and the lagged effect of the Stanwell rebate. In a difficult trading environment, strong cost control was a highlight at both the Curragh and Bengalla mines.

The Insurance division recorded earnings of $\$ 104$ million, $\$ 87$ million above the prior corresponding period ${ }^{1}$. Earnings improved mainly through better underwriting performance, which was driven by higher premiums and a reduction in claims, including catastrophe costs. Growth in broking earnings remained solid.

The Chemicals, Energy and Fertilisers division reported earnings of $\$ 104$ million, up 5.1 per cent on the first half last year. Higher chemicals earnings were achieved due to good plant performances and improved pricing, but were partially offset by a lower contribution from Kleenheat Gas and the fertilisers business.

Earnings for the Industrial and Safety division were $\$ 88$ million, 9.3 per cent below the prior corresponding period, mainly due to lower sales and increased margin pressure, particularly from customers in the resources industry.

The Group's first half operating cash flows of $\$ 2,207$ million remained strong with a cash realisation ratio of 121.5 per cent. While the Group's first half is seasonally a stronger period of cash generation, the result benefited from an ongoing emphasis on working capital management.

Gross capital expenditure for the Group was $\$ 1,323$ million, 7.4 per cent or $\$ 105$ million below the prior corresponding period. Lower net capital expenditure was also recorded, supported by disposals of the Group's trading retail freehold property accelerating during the half.

Free cash flows for the half decreased 13.9 per cent to $\$ 1,007$ million. Excluding the cash proceeds associated with the sale of the Premier Coal mine and the enGen business recorded in the prior corresponding period, underlying free cash flows increased 30.4 per cent.

The directors declared a fully-franked interim dividend of 77 cents per share, compared to 70 cents for the 2012 half-year.

[^0]Managing Director Richard Goyder said he was pleased with the 9.3 per cent increase in the Group's profit, especially given the challenging conditions experienced by the Resources division.
"Continued improvements in the customer offers of our retail businesses contributed strongly to the increased earnings recorded by the Group. The earnings growth achieved at Coles and Kmart was pleasing, reflecting the ongoing turnaround of these businesses and a strong customer response to their improving offers.
"Bunnings achieved another solid result with good outcomes in all aspects of its business. Earnings growth of 6.8 per cent and store sales growth of 6.0 per cent were highlights.
"Higher costs associated with Target's transformation plan weighed on its earnings during the half. While trading results in the half provided encouragement for the division's strategy, Target remains in the early phases of its transformation.
"Strong earnings growth in the Insurance division was driven by a turnaround of performance in underwriting, where good progress has been made over recent years to improve risk selection.
"Earnings growth in the Chemicals, Energy and Fertilisers division was supported by solid demand for its products and good plant performance in its chemicals business, while reduced activity and a focus on cost reduction by resource and construction sector customers negatively affected earnings in the Industrial and Safety Division.
"Falling export coal prices, together with the continued strength of the Australian dollar, provided particularly challenging trading conditions for the Resources division, where earnings were significantly down despite reduced operating costs.
"Strong operational cash flows continued to support the current capital investment phase which is focused on optimising and strengthening the Group's retail networks and increasing ammonium nitrate production capacity."

Mr Goyder said he was cautiously optimistic for the Group's second half outlook, despite continuing economic and market uncertainty expected to give rise to continued challenging conditions in the Resources and Industrial and Safety divisions.
"We expect growth from the Group's retail businesses as we further improve customer offers and operating efficiencies, and strengthen all of our channels to market," he said.

## Results summary

| Half-year ended 31 December | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ | Variance \% |
| :--- | ---: | ---: | ---: |
| KEY FINANCIALS (\$m) |  |  |  |
| Revenue | 30,614 | 29,674 | 3.2 |
| Group EBITDA | 2,574 | 2,433 | 5.8 |
| Group EBIT | 2,043 | 1,937 | 5.5 |
| Net profit after tax (excluding non-trading items) | 1,285 | 1,203 | 6.8 |
| Net profit after tax | 1,285 | 1,176 | 9.3 |
| Operating cash flows | 2,207 | 2,172 | 1.6 |
| Net debt | 5,127 | 4,484 | 14.3 |
|  |  |  |  |
| KEY SHARE DATA (cents per share) |  |  |  |
| Earnings per share | 111.4 | 102.0 | 9.2 |
| Operating cash flows per share | 77 | 187.7 | 1.6 |
| Dividends per share |  | 70 | 10.0 |
| KEY RATIOS |  |  |  |
| Interest cover (R12, cash basis) (times) | 11.8 | 10.3 | 1.5 times |
| Fixed charges cover (R12) (times) | 2.9 | 2.7 | 0.2 times |
| Return on shareholders' funds (R12) (\%) | 8.8 | 7.7 | $1.1 p t$ |

${ }^{1}$ December 2011 half-year excludes post-tax non-trading items of $\$ 27$ million related to non-cash writedown of the carrying value of Coregas, partially offset by gains associated with the disposals of the Premier Coal mine, the enGen business and the Boddington forestry assets.

## Divisional earnings summary

| Half-year ended 31 December (\$m) | 2012 | 2011 | Variance \% |
| :---: | :---: | :---: | :---: |
| EBIT |  |  |  |
| Coles | 755 | 656 | 15.1 |
| Home Improvement | 518 | 485 | 6.8 |
| Office Supplies | 38 | 34 | 11.8 |
| Target | 148 | 186 | (20.4) |
| Kmart | 246 | 197 | 24.9 |
| Insurance ${ }^{1}$ | 104 | 17 | 511.8 |
| Resources | 93 | 250 | (62.8) |
| Chemicals, Energy \& Fertilisers ${ }^{2}$ | 104 | 99 | 5.1 |
| Industrial \& Safety | 88 | 97 | (9.3) |
| Divisional EBIT | 2,094 | 2,021 | 3.6 |
| Other ${ }^{3}$ | 6 | (31) | n.m. |
| Corporate overheads | (57) | (53) | (7.5) |
| Group EBIT | 2,043 | 1,937 | 5.5 |

${ }^{1 .}$ Earnings for the December 2011 half were affected by a high level of catastrophe claims across the industry, a $\$ 26$ million increase in reserves required for the February 2011 Christchurch earthquake as well as higher crop claims and reinsurance costs from 1 July 2011.
${ }^{2}$ Includes enGen and Bangladesh gas earnings for the period prior to divestment in August 2011 and January 2012 respectively.
${ }^{3}$ Non-trading items for the December 2011 half reduced earnings by $\$ 30$ million and included a $\$ 181$ million non-cash writedown of the carrying value of Coregas following the significant restructure of BlueScope Steel's Port Kembla operations, partially offset by a gain of $\$ 151$ million associated with the disposals of the Premier Coal mine, the enGen business and the Boddington forestry assets.

## Retail

Total earnings for the retail portfolio increased by $\$ 147$ million to $\$ 1,705$ million for the first half of the 2013 financial year.

Coles reported a strong result with earnings up 15.1 per cent to $\$ 755$ million. The result was achieved through the sound implementation of the turnaround agenda of the business which is focused on embedding customer loyalty and trust, improving operational productivity through supply chain efficiency and simpler instore processes, and the introduction of new and innovative merchandise initiatives. Coles also continues to overhaul its store network through the addition of new space and ongoing fleet refurbishment. Comparable sales growth for the half of 3.8 per cent ${ }^{2}$ was recorded for the food and liquor business, despite price deflation of 2.0 per cent driven by increased fresh produce supply as well as Coles' reinvestment in lower food prices.

During the half, Coles continued its focus on gaining customer trust in its value by continuing to hold prices down through its 'Down Down' price reductions as well as through offering market leading promotions. The business invested further in Coles branded product, particularly in Christmas ranges which helped drive record Christmas week sales in this important period. As evidenced by fresh produce participation, customer trust in Coles' fresh produce offer continued to grow, supported by greater commitments to longer term sourcing arrangements with Australian farmers and food manufacturers. Supply chain improvements also remained a strong focus during the half, as did driving improvements in store productivity.

The optimisation of Coles' store network accelerated during the half, with the opening of 11 new supermarkets, including ongoing format innovation with the launch of three new superstores, and the closure of seven smaller stores. The renewal program continued at pace with 37 refurbishments completed during the half.

Coles Liquor improved its performance in the period due to strong sales growth in higher margin categories, particularly wine, and a growing contribution from exclusive lines. Consistent with the business' focus on promotional effectiveness, a decline in low margin bulk beer sales was a notable drag on sales growth throughout the half, but excluding this impact underlying sales momentum was pleasing. Better pricing architecture, more effective marketing and improvements in direct and online channels were all positive contributors to an improving sales trend. Good progress was made on the restructure of the liquor network during the half with the opening of 26 liquor stores, which included six $1^{\text {st }}$ Choice stores, and the closure of 15 liquor stores.

Earnings in the convenience business increased by 20.0 per cent to $\$ 78$ million. The increased earnings were driven by strong fuel volume growth assisted by increased supermarket transaction numbers and a positive customer response to a higher level of fuel-based promotions. During the half, convenience store sales were adversely affected by the continued migration of tobacco and pre-paid mobile phone recharges to lower cost channels.

Bunnings reported solid first half earnings of $\$ 518$ million. The earnings improvement was driven by initiatives focused on service, merchandising, operational productivity and cost management. Good sales growth in both the commercial and consumer segments was achieved in the half.

Bunnings continued to expand its store network, opening seven new warehouses, five smaller format stores and three new trade centres during the half. At 31 December 2012, Bunnings had 11 sites under construction with six expected to open in the second half of the 2013 financial year. Bunnings' pipeline of stores remains strong, with previous warehouse roll-out guidance of 10 to 14 stores per annum expected to be exceeded over the next three years. Increased disposals of freehold property, accelerated during the half, reflect an ongoing focus to drive an appropriate return on capital.

[^1]Officeworks achieved solid earnings growth of 11.8 per cent to $\$ 38$ million during the half. A high level of activity to reduce operational complexity and costs of doing business, and improve the customer offer, offset ongoing deflation in technology related categories and challenging conditions for small to medium sized business customers. The business continued to improve its business to business channel and further developed the Officeworks website, resulting in a better online customer experience and strong online sales growth.

Kmart achieved a strong performance in the half, with earnings increasing by 24.9 per cent to $\$ 246$ million. Earnings growth was achieved through improvements in sourcing, reduced markdown activity and strong transaction growth in Kmart's everyday and seasonal ranges. Reduced markdown activity was achieved through good inventory management and further improvement in the price architecture of Kmart's everyday low priced products. During the half, Kmart continued to reduce prices for its customers who responded favourably through increased customer numbers and bigger basket sizes.

Target recorded earnings of $\$ 148$ million for the half, 20.4 per cent below earnings of $\$ 186$ million achieved in the prior corresponding period. Despite continued deflation in electrical and entertainment categories, improved sales momentum was achieved during the half as customers responded positively to a number of new merchandise initiatives, an increased focus on better sourcing and greater promotional effectiveness. The continued expansion of the Target Essentials range was also further progressed as were the 'Designers for Target' signature fashion collections.

Activity associated with the design and early implementation of Target's transformation plan resulted in significant additional expenditure during the half, with this expenditure not expected to be repeated in future periods.

## Insurance

The Insurance division reported earnings of $\$ 104$ million, significantly above the $\$ 17$ million reported for the prior corresponding period. Earnings growth was driven by premium rate increases achieved in the current and prior years, reduced claims expense including lower catastrophe costs and higher broking earnings.

Gross written premium growth of 8.7 per cent was achieved despite further reduction to exposures in higher risk categories and geographies, including flood prone areas in northern Queensland. Increases in reinsurance costs from 1 July 2012 were offset by increases in premium rates, particularly in property classes. A lower combined operating ratio of 94.9 per cent was supported by lower claims costs and cost reduction initiatives. Investment income was in line with last year.

The insurance broking business reported a solid result, with earnings growth of 10.3 per cent, however, planned investment in system upgrades did result in a small reduction in margin.

Claims settlements associated with the Christchurch earthquakes continued to accelerate with approximately 70 per cent of commercial claims and 38 per cent of domestic claims now settled. No further reserves have been made during the half.

## Industrial

Resources' earnings for the first half of $\$ 93$ million were below earnings of $\$ 250$ million recorded in the prior corresponding period. The reduction in earnings reflected significantly lower export coal prices together with the impact of a strong Australian dollar. Operational performance during the half was sound, with production volumes at the Curragh and Bengalla mines increasing 24.2 per cent and 46.9 per cent respectively, following the successful commissioning of recent mine expansions.

Good progress was made in cost management initiatives in response to the very difficult market conditions, with costs reduced in both mines. Operational changes made late in the half at the Curragh mine included the reduced use of contractors and a scheduled mine shutdown undertaken in December. Curragh reduced mine cash costs by approximately 20 per cent as compared to the same time last year.

Sales of metallurgical coal in the first half were affected by the scheduled mine shutdown and lower demand from Currgah's customers. High rainfall and localised flooding in January 2013, experienced in the aftermath of Cyclone Oswald, have affected mine site production and rail and port availability in recent weeks. As a result, Curragh's metallurgical coal sales volume is expected to be in the range of 7.5 to 8.0 million tonnes for the 2013 financial year, with the revised forecast being subject to no further significant wet weather and the satisfactory performance of rail and port operations.

The Chemicals, Energy and Fertilisers division reported a 5.1 per cent increase in earnings to $\$ 104$ million. The division achieved a solid increase in earnings from the chemicals business, driven by good plant performances and stronger pricing. Earnings at Kleenheat Gas were lower than the prior corresponding period due to lower feedstock LPG content and margin pressures. Fertiliser earnings for the half were also below the previous corresponding period due to a later and poorer harvest, which affected sales volumes and margins.

The construction of the expanded ammonium nitrate production capacity is progressing well, is currently on budget and remains forecast to be completed during the first half of the 2014 calendar year.

During the half, approval was granted for a $\$ 22$ million capacity expansion of the sodium cyanide facility at Kwinana. This work is expected to be completed in the 2013 calendar year and will increase production capacity of sodium cyanide solution to 78,000 tonnes per annum, from 64,000 tonnes per annum, and solid sodium cyanide capacity to 45,000 tonnes per annum, from 34,000 tonnes per annum.

The Industrial and Safety division's result for the first half was adversely affected by a general slowdown in business activity, most notably in its mining customers. Earnings for the half were $\$ 88$ million, 9.3 per cent below the prior period. Despite more difficult market conditions, strong customer retention rates were achieved, with key customer relationships strengthened through improved account management and online capability. Delivery performance was also strong during the half, reflecting supply chain improvements and increased warehouse productivity.

## Other businesses/corporate overheads

Other businesses, non-trading items and corporate overheads reported an expense of \$51 million, compared with an expense of $\$ 84$ million in the previous corresponding period.

Wesfarmers' share of the loss recorded by the Gresham Private Equity Funds was $\$ 11$ million, compared to a loss of $\$ 46$ million in the first half last year with the result largely due to mark-to-market revaluations of Fund 2 investments.

The Group's investment in the BWP Trust generated earnings of $\$ 12$ million compared with $\$ 7$ million in the first half last year.

Interest revenue declined to $\$ 5$ million from $\$ 11$ million in the previous corresponding period due to lower levels of cash on deposit across the half.

Corporate overheads increased by $\$ 4$ million to $\$ 57$ million due to an increase in corporate activity and higher costs associated with share-based payments.

No non-trading items were recorded for the half.

## Cash flows and capital management

Operating cash flows for the half increased by $\$ 35$ million to $\$ 2,207$ million, with a cash realisation ratio ${ }^{3}$ of 121.5 per cent recorded for the period. Operating cash flows for the Group are typically higher in the first half due to inventory build-up in the lead up to Christmas trading and the subsequent timing of creditor payments.

Operating cash flows in the half included a $\$ 365$ million improvement in the Group's working capital position, which built on the $\$ 256$ million improvement recorded in the prior corresponding period. As well as due to a seasonal peak, working capital inflows of $\$ 545$ million in the Group's retail businesses reflected a strong focus on inventory management and improved trading terms in Kmart. These inflows were partially offset by working capital outflows in the non-retail businesses, mainly as a result of lower creditors in the Resources division following cost reduction initiatives.

Gross capital investment of $\$ 1,323$ million was partially offset by disposals of property, plant and equipment of $\$ 203$ million, mainly due to property sale and leaseback activity by Bunnings. Net capital expenditure as a result was $\$ 1,120$ million for the half-year, 11.3 per cent below the prior corresponding period. Significant investment continued to be made by Coles and Bunnings to improve and optimise their store networks, which includes the ongoing store refurbishment program forming part of the Coles renewal program. Other significant capital expenditure included the expansion of ammonium nitrate capacity at Kwinana.

The Group remains focused on timely retail freehold property disposal to ensure a satisfactory return on capital.

Excluding cash proceeds recorded in the prior corresponding period associated with the sale of the Premier mine and the enGen business, free cash flows increased 30.4 per cent during the half.

Strong cash flows and a continued focus on strengthening the Group's balance sheet resulted in further improvement in liquidity metrics, with fixed charges cover increasing to 2.9 times and cash interest cover ${ }^{4}$ ratio increasing to 11.8 times. Finance costs decreased to $\$ 229$ million compared with $\$ 264$ million in the first half of last year, with the Group's effective borrowing cost decreasing 98 basis points to 7.05 per cent for the half. The reduction in borrowing costs is a result of successful refinancing initiatives completed in the 2012 financial year and the progressive expiry of pre-GFC interest rate hedges.

Net debt, comprising interest bearing liabilities less cash at bank and on deposit, was $\$ 5,127$ million, 4.5 per cent above the net debt position at 30 June 2012. Gearing remained at a comfortable level, with net debt-toequity of 19.8 per cent at 31 December 2012.

During the half the Group issued its first 10-year bond raising EURO 650 million, consistent with its strategy to extend the debt maturity profile and ensure funding diversity.

[^2]Moody's Investors Service upgraded Wesfarmers' issuer and senior unsecured long term debt rating from Baa1 (positive) to A3 (stable) during the half, reflecting the cash generative nature of the Group's businesses, debt management initiatives and improving credit metrics. The Group's credit rating for Standard \& Poor's remained unchanged at A- (stable).

In November 2012, the Wesfarmers Board elected to extend the lapse date associated with Wesfarmers Partially Protected Shares for a period of 12 months. The lapse date is now 23 November 2013. The Board has the right to extend the lapse date for a further 12 months, up to another two times, subject to the terms and conditions of the shares.

## Interim dividend

The Board has declared a fully-franked interim dividend of 77 cents per share, compared to 70 cents per share in the previous corresponding period.

The interim dividend will be paid on 28 March 2013 to shareholders on the company's register on 25 February 2013, the record date for the interim dividend. The ex-dividend date is 19 February 2013.

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 28 February 2013 to 20 March 2013.

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, shares will be acquired on-market and transferred to participants on 28 March 2013 to satisfy any shares to be issued under the Plan.

## Outlook

The Group's retail portfolio is expected to provide resilience and growth in an overall challenging consumer environment. The Group remains optimistic about the outlook as the retail divisions invest in value, innovate merchandise offers, improve service levels, increase operational productivity and expand and improve customer trust.

For the Insurance division, claims associated with Cyclone Oswald and recent east coast fires are expected to be in the order of $\$ 30$ million and $\$ 10$ million respectively, reflecting the improved risk selection and exposure management efforts of recent years. In the absence of further significant catastrophe events, earnings for the division in the second half are expected to be substantially above the same period last year due to premium rate increases, ongoing disciplined risk selection and a focus on operational efficiency. Expansion of the personal lines insurance business through Coles is expected to continue and modest earnings growth from broking is anticipated.

Longer term, growth is expected in the Group's industrial portfolio given capacity expansions completed or underway in these divisions. The successful commissionings of the ammonium nitrate and sodium cyanide expansion projects are expected to support future earnings growth in the chemicals business. Similarly, recently commissioned additional capacity in the Resources division provides greater leverage to any improvement in export coal prices, notwithstanding that the high Australian dollar and the impact of Cyclone Oswald are likely to constrain potential benefits in the current financial year.

Despite targeting a greater share of customer spend, a focus on cost reduction in the mining sector is expected to continue to provide challenging near term conditions for the Industrial and Safety division. The Resources and Industrial and Safety divisions remain focused on cost efficiency to ensure they are well placed to benefit from any market recovery.

The Group's strong focus on improving return on capital, including through proactive management of freehold property, is expected to continue to enhance future shareholder returns.

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## Coles division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended | $\mathbf{2 0 1 2}$ | 2011 |
| 31 December | $\mathbf{( \$ m )}$ | $\mathbf{( \$ m )}$ |
| Revenue | $\mathbf{1 8 , 0 4 7}$ | 17,218 |
| EBITDA | $\mathbf{9 8 4}$ | 875 |
| Depreciation \& amortisation | $\mathbf{( 2 2 9 )}$ | $(219)$ |
| EBIT | $\mathbf{7 5 5}$ | 656 |

Coles' operating revenue for the half-year was up 4.8 per cent to $\$ 18.0$ billion, with earnings before interest and tax (EBIT) up 15.1 per cent to $\$ 755$ million. Food and liquor sales growth for the halfyear ${ }^{1}$ was 5.0 per cent with comparable store sales growth of 3.8 per cent.
Coles' EBIT of $\$ 755$ million grew at three times the rate of sales over the period, with the business continuing to invest savings generated through operating efficiencies into lower prices. Return on capital increased by 100 basis points to 9.2 per cent.

Coles' commitment to improve quality, value and service continued to drive increasing customer transactions during the half. The ongoing 'Down Down' and fresh produce 'Super Specials' campaigns continued to provide value for customers.

Coles achieved its most successful Christmas performance on record, with 21 million customer transactions and almost $\$ 1$ billion in sales across the division in the week leading up to Christmas. Growing customer confidence in Coles' fresh food
offer also saw Christmas fresh food sales at their highest ever levels.

Coles progressed its multichannel, loyalty and financial services strategies during the half. Membership of the 'flybuys' customer loyalty program continued to grow, with approximately half of supermarket sales now coming from flybuys members. The Coles Insurance and Mastercard offers continued to grow market share.

The liquor business improved its underlying sales and profitability in the half, driven by stronger performance in the wine category and a positive customer response to Christmas promotional activity. Coles Express delivered revenue of $\$ 3.9$ billion for the half-year, an increase of 4.2 per cent on the previous corresponding period. Customers responded positively to the extended double fuel discount offer, with comparable fuel volumes growing 2.0 per cent during the half. Comparable convenience store sales declined by 2.2 per cent during the half.
Coles' supermarket store network renewal continued at pace during the half-year, opening 11 supermarkets, and closing seven stores. A further 37 stores were converted to the renewal format during the half, taking the total renewal fleet to 301 stores. This included the opening of three new superstores and a new fresh store format at Coles Southland, in Victoria.

Coles also continued to realign its liquor store network, adding 27 new liquor stores and closing 16 underperforming liquor stores.

At 31 December 2012, Coles had a total of 753 supermarkets, 803 liquor stores, 634 Coles Express sites and 92 hotels.
${ }^{1}$ For the 27 weeks from 25 June 2012 to 30 December 2012.

## Outlook

Coles remains committed to earning customer trust through continued value initiatives, improved innovation and in-store offers, and ongoing investment in its loyalty platform. As the business prepares to move into the second phase of transformation, as well as maintaining its strong value position, it will continue to build stronger supplier partnerships, enhance store formats and ranges, and further invest in multichannel and financial services innovation.

Home Improvement and Office Supplies division

## Bunnings

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> 31 December | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| (\$m) | $(\$ m)$ |  |
| Revenue | $\mathbf{4 , 0 1 7}$ | 3,797 |
| EBITDA | $\mathbf{5 8 1}$ | 544 |
| Depreciation \& amortisation | $\mathbf{( 6 3 )}$ | $\mathbf{( 5 9 )}$ |
| EBIT | $\mathbf{5 1 8}$ | 485 |

Operating revenue from the Bunnings home improvement business increased by 5.8 per cent to $\$ 4.0$ billion for the half-year. Earnings before interest and tax (EBIT) of $\$ 518$ million were 6.8 per cent higher than those recorded in the corresponding period last year.
Total store sales growth of 6.0 per cent was achieved for the half-year, with store-on-store sales increasing by 3.4 per cent. Commercial sales were 8.1 per cent higher than the previous corresponding
period. Sales growth was achieved for the half-year in consumer and commercial areas, building on growth achieved in prior periods. Sales increased across all key product categories and trading regions.
Bunnings' strategic objectives focus on multiple growth drivers to create value over the long-term. Pleasingly, good outcomes are being achieved across all growth drivers. The increased EBIT is the result of initiatives across service, merchandising and commercial areas, together with network development, productivity improvements and disciplined operating cost management.

During the period, 15 trading locations opened, including seven new warehouse stores, five smaller format stores and three new trade centres. Significant investment in expanding and upgrading the existing network also continued. Network development activity represented over 85 per cent of total capital expenditure for the period.

At the end of the period there were 211 warehouses, 62 smaller format stores and 37 trade centres operating in the Bunnings network across Australia and New Zealand.

## Outlook

The focus on multiple growth drivers positions Bunnings to achieve further consumer and commercial sales growth with ongoing investments in value, continued service and merchandising initiatives and network development. Productivity gains are anticipated from sustained work to enhance the supply chain and lower the costs of doing business.

The past three 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. Conversion of that investment will be a feature in the medium term, with previously stated rollout targets for warehouse stores expected to be exceeded for the next three years, reverting to the stated range of 10 to 14 per annum thereafter. Ongoing work to recycle capital during this period will drive appropriate return on capital outcomes.

Officeworks

Home Improvement and Office Supplies division Officeworks

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> 31 December | $\mathbf{2 0 1 2}$ | 2011 |
| $\mathbf{( \$ m )}$ | $(\$ m)$ |  |
| Revenue | $\mathbf{7 1 2}$ | 710 |
| EBITDA | $\mathbf{5 0}$ | 45 |
| Depreciation \& amortisation | $\mathbf{( 1 2 )}$ | $\mathbf{( 1 1 )}$ |
| EBIT | $\mathbf{3 8}$ | 34 |

Operating revenue for the Office Supplies business was $\$ 712$ million for the half-year, or 0.3 per cent above the previous corresponding period. Earnings before interest and tax (EBIT) grew 11.8 per cent to $\$ 38$ million.

Whilst headline sales across the Officeworks retail store network were in line with the previous
corresponding period, transaction numbers grew strongly. Momentum in the business-to-business channel continued to build as underlying strategies gained traction.

Officeworks continued to focus on its strategic agenda by expanding the store network and improving the customer offer, while reducing operational complexity and the cost of doing business.

Development of the Officeworks website to improve the online customer experience continued, with double digit transaction growth for the half-year.

During the period nine new Officeworks stores were opened. At half-year end, there were 146 Officeworks stores and one Harris Technology business centre operating across Australia.

## Outlook

Challenging retail trading conditions coupled with competitive pressure on sales and margin are expected to continue throughout the remainder of the 2013 financial year.

The primary focus remains on a series of strategic initiatives designed 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 lower costs and remove operational complexity. Growing Officeworks' presence in the business segment will also continue and the development and further engagement of Officeworks' team members remains a priority.

Target division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> 31 December | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Revenue | $\mathbf{2 , 0 7 0}$ | 2,060 |
| EBITDA | $\mathbf{1 8 7}$ | 223 |
| Depreciation \& amortisation | $\mathbf{( 3 9 )}$ | $\mathbf{( 3 7 )}$ |
| EBIT | $\mathbf{1 4 8}$ | 186 |

Operating revenue for Target grew by 0.5 per cent to $\$ 2.1$ billion ${ }^{1}$, with comparable store sales for the half-year declining 1.8 per cent. Reported comparable store sales growth was significantly affected by the decision to bring forward the timing of the mid-year toy sale into June 2012 and the continued focus on promotional effectiveness.

Earnings before interest and tax (EBIT) were \$148 million, delivering an EBIT margin of 7.1 per cent.

Trading performance showed encouraging improvement during the half through an improved focus on better sourcing and greater promotional effectiveness.

Target's mid-tier positioning during the half was strengthened with successful pilots conducted across key categories. Customers also responded positively to the continued expansion of the Target Essentials range and its 'Designers for Target' signature fashion collections in ladieswear and childrenswear.

Sound progress was achieved during the half in improving organisational capability to implement Target's transformation plan. Activity associated with the design and early implementation of Target's transformation plan resulted in significant additional expenditure during the half, with this expenditure not expected to be repeated in future periods.
Information system capability upgrades and expansion of the online store continued with a significant increase in item availability, which resulted in encouraging sales growth and improved profitability.
Inventory levels were higher than the same time last year as the business focused on improving the instock position of key product lines, while work to reengineer the replenishment supply chain was progressed.

Investment in the store network during the half included the opening of seven new stores, two replacement stores and the completion of nine store refurbishments.
${ }^{1}$ For the 27 weeks from 24 June 2012 to 29 December 2012

## Outlook

Target's transformation remains in its early stages with the business focused on delivering sustainable long-term growth through its five strategic pillars: strengthening the mid-tier position; diversifying and improving sourcing channels; re-engineering the supply chain; developing the store network and online offer; and building organisational capabilities. Target's cost position is expected to return to a more normal level in the second half of the financial year.
Customers remain the first priority in all decision making, and the improved use of customer insights will further refine the customer proposition to strengthen Target's offer. Focus will continue to be placed on enhancing promotional effectiveness, increasing the level of direct sourcing, improving execution in key merchandise categories and increasing operational efficiency. The online offer will be further refined and developed while investment in the store network will continue.

Kmart division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> $\mathbf{3 1}$ December | $\mathbf{2 0 1 2}$ |  |
| $\mathbf{( \$ m )}$ | 2011 <br> $(\$ m)$ |  |
| Revenue | $\mathbf{2 , 2 9 9}$ | 2,236 |
| EBITDA $^{1}$ | $\mathbf{2 8 1}$ | 230 |
| Depreciation \& amortisation $^{\text {EBIT }}$ | $\mathbf{( 3 5 )}$ | $\mathbf{( 3 3 )}$ |
| EBI $^{1}$ | $\mathbf{2 4 6}$ | $\mathbf{1 9 7}$ |

${ }^{1} 2012$ includes $\$ 1$ million earnings relating to Coles Group Asia overseas sourcing operations (2011: \$4 million).

Kmart's operating revenue for the half-year was $\$ 2.3$ billion with earnings before interest and tax (EBIT) of $\$ 246$ million and an EBIT margin of 10.7 per cent.
Total store sales growth was 3.5 per cent, with comparable store sales growth of 3.0 per cent ${ }^{2}$.

Sales growth for the first half was underpinned by a continued rise in customer transactions and units
sold. Quarter two represented the twelfth consecutive quarter of growth in these metrics.

Earnings growth of 24.9 per cent was achieved through continued improvements in sourcing, inventory management and strong performance in Kmart's everyday and seasonal ranges.

The continued focus on driving volume and improved operational execution also contributed to earnings growth achieved in the first half.

The strong improvement in return on capital (ROC) to 22.5 per cent reflects increased sales, reduced markdown activity, a strong focus on cost efficiency, and improved working capital management as a result of better sourcing and inventory management.

During the half, investment in the network continued, with six new Kmart stores opened, six Kmart store refurbishments and four new Kmart Tyre \& Auto Service stores opened.

At 31 December 2012 there were 190 Kmart stores and 263 Kmart Tyre \& Auto Service stores
${ }^{2}$ For the 27 weeks from 25 June 2012 to 30 December 2012.

## Outlook

Kmart remains committed to providing Australian and New Zealand families with everyday products at the lowest possible prices. Kmart's focus is to deliver growth through operational excellence, creating adaptable stores, driving a high performance culture and continued investment in the store fleet.

One new Kmart Tyre \& Auto Service store is planned to open in the second half of the 2013 financial year. Kmart is expected to maintain store numbers at 190 during the second half.

## Wesfarmers Insurance

## Insurance division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> 31 December | $\mathbf{2 0 1 2}$ | 2011 <br> $(\$ m)$ |
| Revenue | $\mathbf{1 , 0 3 5}$ | 945 |
| EBITDA | $\mathbf{1 2 2}$ | 32 |
| Depreciation | $\mathbf{( 1 2 )}$ | $(9)$ |
| EBITA | $\mathbf{1 1 0}$ | 23 |
| EBIT | $\mathbf{1 0 4}$ | 17 |

Operating revenue of $\$ 1,035$ million was 9.5 per cent higher than the previous corresponding period. Gross written premium from underwriting activities increased by 8.7 per cent and broking revenue increased 10.2 per cent.

The combined operating ratio for the underwriting business improved to 94.9 per cent, while earnings before interest, tax and amortisation (EBITA) for the broking businesses increased by 8.6 per cent on a slightly lower margin of 27.2 per cent.

Wesfarmers Insurance EBITA increased 378.3 per cent to $\$ 110$ million, compared with $\$ 23$ million for the previous corresponding period. Earnings before interest and tax (EBIT) for the period were \$104 million.

The significant increase in divisional earnings for the first half was driven by higher premiums, benefiting from premium rate increases achieved in the current and prior year and a reduction in claims, including lower catastrophe costs, within the underwriting business. Broking earnings were higher than the previous corresponding period, with EBITA increasing to $\$ 38$ million, an increase of 8.6 per cent on the previous year.
Claims settlement activity associated with the Christchurch earthquakes continues to accelerate
with no further increase in reserving required for the half.

Modest increases in reinsurance costs from 1 July 2012 have been offset by further increases in premium rates, particularly in property classes. Average rate increases achieved year to date were 7.5 per cent.

Higher gross written premiums were achieved in most classes due to the premium rate increases noted above and the growth in personal lines and corporate business. This was partially offset by a continued reduction in exposure to higher risk categories and geographies
Changes in reinsurance arrangements from 1 July 2012 together with improvements in underlying loss ratios have benefited underwriting earnings across most classes of business.

High levels of customer interest in Coles Insurance resulted in continued strong increase in sales of the Coles Insurance home and car policies.

Broking revenue and earnings were higher than the previous corresponding period. Planned expenditure on upgrades to broking systems however resulted in a small reduction in EBITA margin.

Strong revenue and earnings growth was achieved in the New Zealand broking business with recent acquisitions performing ahead of expectations and new business growth benefiting from increases in premium rates.

Revenue and earnings growth in OAMPS Australia have been challenging due to difficult trading conditions in the SME sector. The business remains focused on customer retention strategies and new business growth combined with expense management initiatives.

Subdued economic conditions in the United Kingdom have continued to affect the UK broking business, making it difficult to achieve top line growth.

## Outlook

Underwriting earnings are expected to continue to improve on the prior year. This is due to targeted premium rate increases, disciplined risk selection and cost efficiency initiatives involving claims management. For the Insurance division, claims associated with Cyclone Oswald and recent east coast fires are expected to be in the order of $\$ 30$ million and $\$ 10$ million respectively, reflecting the improved risk selection and exposure management efforts of recent years. In the absence of further significant catastrophe events, and no further decrease in interest rates, earnings for the second half are expected to be substantially above the same period last year due to premium rate increases, ongoing disciplined risk section and a focus on operational efficiency.

The business will continue to expand its personal lines business through the existing partnerships with Coles Insurance and OAMPS. Continued earnings growth in broking is anticipated, although challenging trading conditions in the SME sector within the Australian market and higher expenses associated with the ongoing upgrade of broking systems are expected to adversely affect margin in the second half.

New Zealand's Insurance Brokers

## Wesfarmers Resources

## Resources division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> 31 December | $\mathbf{2 0 1 2}$ | $2011^{1}$ <br> $(\$ m)$ |
| Revenue | $\mathbf{8 2 6}$ | 1,087 |
| EBITDA | $\mathbf{1 6 1}$ | 323 |
| Depreciation \& amortisation | $\mathbf{( 6 8 )}$ | $\mathbf{( 7 3 )}$ |
| EBIT | $\mathbf{9 3}$ | $\mathbf{2 5 0}$ |

${ }^{1} 2011$ includes Premier Coal results for the period until divestment on 30 December 2011. Gain on disposal of Premier Coal was excluded and reported as part of 'Other' earnings.
Revenue of $\$ 826$ million for the half-year was 24.0 per cent below the $\$ 1,087$ million recorded in the previous corresponding period. Earnings before interest and tax (EBIT) of $\$ 93$ million were 62.8 per cent below last year. Revenue and earnings declines occurred, notwithstanding higher export sales volumes, reflecting significantly lower US\$ export prices received across all products in line with global coal market movements. This impact was exacerbated by a relatively high AUD:USD exchange rate.
Curragh (QId): Metallurgical coal sales volumes of 3.77 million tonnes were 26.7 per cent above the
previous corresponding period. Steaming coal sales volumes of 1.63 million tonnes were 15.6 per cent higher. Metallurgical coal production for the half year of 3.87 million tonnes was 25.3 per cent above the previous corresponding period and steaming coal production of 1.66 million tonnes was 21.8 per cent higher. First half coal production increases reflect the completion of Curragh's new coal handling and preparation plant during the final quarter of FY12, which expanded the mine to $8.0-$ 8.5 million tonnes per annum export capacity.

Given the export market environment, there was a very strong focus on cost control in the half. Unit mine cash costs achieved for the period were approximately 20 per cent lower than the previous corresponding period.

Bengalla (NSW): Sales volumes from the Bengalla mine, in which Wesfarmers holds a 40 per cent interest, were up 43.4 per cent on the corresponding period last year and production volumes were up 46.9 per cent compared to the same time last year. These increases reflected expanded mine capacity of 9.3 million tonnes Run-of-Mine ('ROM') coal per annum (100 per cent basis) commissioned in FY12.

## Outlook

Curragh's metallurgical coal sales volume is expected to be in the range of 7.5 to 8.0 million tonnes for the 2013 financial year, with the revised forecast being subject to no further significant wet weather and the satisfactory resumption of rail and port operations following the impact of Cyclone Oswald. All of Curragh's metallurgical coal exports are subject to quarterly pricing.

The abovementioned strong focus on cost control will continue in the second half.

# Wesfarmers Chemicals, Energy \& Fertilisers 

## Chemicals, Energy and Fertilisers division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> $\mathbf{3 1}$ December | $\mathbf{2 0 1 2}$ | 2011 <br> $\mathbf{( \$ m )}$ <br> $(\$ m)$ |
| Revenue $^{1}$ | $\mathbf{7 7 5}$ | 775 |
| EBITDA $^{1}$ | $\mathbf{1 5 4}$ | $\mathbf{1 4 4}$ |
| Depreciation \& amortisation $^{\text {EBIT }^{1}}$ | $\mathbf{( 5 0 )}$ | $\mathbf{( 4 5 )}$ |

${ }^{1}$ Includes enGen and the Bangladesh LPG joint venture revenue and earnings until divestment in August 2011 and January 2012 respectively. Gain on disposal of both entities excluded and reported as part of 'Other' earnings within the Group's results.

Operating revenue of $\$ 775$ million was in line with the previous corresponding period, which included revenue from enGen and the Bangladesh LPG joint venture prior to their divestment. Excluding those sales, revenue increased 3.2 per cent.
Earnings before interest and tax for the period were $\$ 104$ million. This compared to earnings from the previous corresponding period of $\$ 99$ million, which included earnings from enGen and Bangladesh up until their divestments.

Ammonium Nitrate Expansion: In December 2011, the Wesfarmers Limited board approved a $\$ 550$ million (excluding capitalised interest) expansion of ammonium nitrate production capacity at Kwinana, Western Australia. The expansion will increase the current production capacity by 260,000 tonnes per annum (tpa) to 780,000 tpa.
The construction of the expanded ammonium nitrate production capacity is progressing well with long lead items delivered and assembly of major components underway. The project is currently on budget and remains projected to be completed during the first half of the 2014 calendar year.
Chemicals: Continuing good production performances and strong product pricing in ammonia, ammonium nitrate and sodium cyanide
resulted in an increase in earnings from these businesses. Australian Vinyls continued to be affected by higher input costs relative to PVC selling prices, and a relatively high AUD:USD exchange rate, affecting margins. Equity accounted earnings from the 50 per cent interest in Queensland Nitrates were significantly ahead of the previous corresponding period which included a major shutdown and some plant issues.
Both AGR venture partners have approved a $\$ 22$ million project to expand sodium cyanide production capacity at Kwinana. Solution capacity is expected to increase from 64,000 tpa to 78,000 tpa with solid capacity to increase from 34,000 tpa to 45,000 tpa. The project is expected to be completed by end of calendar year 2013.
The ammonia business continued to move sales contracts to an import parity pricing mechanism with all external sales now on this basis.
Fertilisers: As a result of a later and poorer harvest than the previous corresponding period, volumes and margins were down.
Kleenheat Gas: LPG production for the period was 8.8 per cent lower than the same period last year, following further declines in LPG content in the Dampier to Bunbury pipeline. The LPG plant also successfully completed its major 10-yearly shutdown during the period. Domestic LPG sales volumes were 7.9 per cent higher compared to the previous corresponding period, offset by lower exports. Margins, however, remain under pressure.
The LNG business performance improved on the previous corresponding period. The business recently signed a significant contract to supply up to 11,000 tpa of LNG for power generation to Silver Lake Resources' Murchison Gold Project, 650 kilometres northeast of Perth. Supply will commence in October 2013.

Air Liquide WA: Earnings were in line with the same period last year.

## Outlook

There remains an ongoing focus on the successful completion of both the ammonium nitrate expansion and sodium cyanide debottlenecking which is intended to underpin growth in earnings from these businesses.
Demand for chemical inputs to the Western Australian resources sector is expected to support strong performances from the ammonia, ammonium nitrate and sodium cyanide businesses. Higher gas input costs and ammonia pricing are expected to continue to offset this to some extent.

The Australian Vinyls business is expected to continue to be challenged by higher input costs relative to selling prices, and a strong Australian dollar in the near term.
Kleenheat Gas' LPG earnings continue to be dependent on international LPG prices and LPG content in the Dampier to Bunbury natural gas pipeline, with LPG content in particular expected to further decline.
Fertiliser earnings remain dependent upon a good seasonal break in the second half of the financial year, when the majority of sales occur, and on farmers' terms of trade.


# Wesfarmers Industrial and Safety 

## Industrial and Safety division

| Performance summary |  |  |
| :--- | ---: | ---: |
| Half-year ended <br> $\mathbf{3 1}$ December | $\mathbf{2 0 1 2}$ | 2011 <br> $\mathbf{( \$ m )}$ <br> $\mathbf{( \$ m )}$ |
| Revenue | $\mathbf{8 3 7}$ | 843 |
| EBITDA | $\mathbf{1 0 1}$ | 111 |
| Depreciation \& amortisation | $\mathbf{( 1 3 )}$ | $(\mathbf{1 4 )}$ |
| EBIT | $\mathbf{8 8}$ | 97 |

Industrial and Safety's half year result was adversely affected by a general slowdown in business activity, most notably with mining customers. The division continued to strengthen its market position and customer relationships, however it faced a reduction in customer demand due to lower commodity prices and the strong Australian dollar. Operating revenue declined in the period by 0.7 per cent to $\$ 837$ million.
Sales growth was achieved in Western Australia, supported by large natural gas projects, and also in the Bullivants, Coregas and New Zealand businesses. Reduced mining activity and lower commodity prices affected sales and margins in Queensland and New South Wales, while general business activity affected the metropolitan market in Sydney and Melbourne.
Earnings before interest and tax (EBIT) declined by 9.3 per cent to $\$ 88$ million, reflecting sales and margin pressures, as well as labour cost increases and additional investments for new growth initiatives.

Despite the difficult market conditions, the division continued to strengthen relationships with key customers through the further development of key account management and eBusiness capabilities.

Delivery performance continued to improve during the period, due to ongoing improvement in supply chain and warehouse operations. These improvements culminated in new delivery performance records being set for the division in the period.

Pleasingly, the performance of Coregas continued to improve, as the business delivered on key growth initiatives and started to leverage sales opportunities within the existing Industrial and Safety customer base.

During the period the division also streamlined its Australian and New Zealand operations into three business streams to better position the division for growth and synergies: generalists, safety specialists and industrial specialists.
Other key initiatives during the period included the continued development of the product range and relationships with key suppliers, the further growth of services within the division, and the ongoing upgrading of the branch network (including a major new facility for Blackwoods in Karratha, in Western Australia).
The division continued to strengthen its employee talent pool with initiatives targeting the recruitment, retention and development of employees.

## Outlook

The Industrial and Safety division is expected to be affected by reduced business activity and an increasingly competitive marketplace for the remainder of the financial year. While commodity prices and the outlook for some mining customers have improved recently, it is expected that the overall outlook will remain subdued, with business conditions and activity levels remaining flat.
The division remains well-placed to leverage opportunities in the resources sector and wider economy and to respond to any earlier recovery. The business continues to target a greater share of customers' spend through continual improvement of its offer, growth in services and sales to major projects, as well as increasing customer diversification and exposure to higher growth sectors.
Improving the cost of doing business is a major focus and will remain a priority over the next 12 months, as is developing new growth platforms and continuing to target acquisition opportunities to complement organic growth.



[^0]:    ${ }^{1}$ Earnings for the December 2011 half included catastrophe claims events exceeding allowances by $\$ 28$ million and a $\$ 26$ million increase in reserves associated with the February 2011 Christchurch earthquake.

[^1]:    ${ }^{2}$ For the 27 week period from 25 June 2012 to 3 January 2013.

[^2]:    ${ }^{3}$ Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant non-trading items.
    ${ }^{4}$ Calculated on a rolling 12 month basis.

