

NEWS

18 February 2010

2010 Half-Year Results

HIGHLIGHTS

- Net profit after tax of \$879 million, up 1 per cent, despite the foreshadowed significant fall in Resources' earnings¹
- Operating revenue of \$26.5 billion
- Group earnings before interest and tax ("EBIT") of \$1,547 million, down 11 per cent
- Group EBIT (excluding Resources) increased 44 per cent with EBIT from retail businesses up 23 per cent
- 18 per cent increase in operating cash flows to \$2,083 million
- \$0.76 earnings per share, down 26 per cent, reflecting increased shares on issue
- 10 per cent increase in fully-franked interim dividend declared to \$0.55 per share

Wesfarmers Limited announced today a net profit after tax of \$879 million for the half-year ended 31 December 2009, marginally ahead of the previous corresponding period despite the foreshadowed large drop in earnings from the Resources division.

The highlight for the period was strong growth in retail earnings which increased by 22.6 per cent as compared to the previous corresponding period. The improvement in results was driven broadly across Wesfarmers' retail businesses and reflected the continued turnaround of Coles, Kmart and Officeworks and the ongoing strong performance of Bunnings and Target.

Earnings from the Resources division were significantly down on last year's record result, due to materially lower global export coal prices, high Stanwell royalty and costs associated with the early close-out of a number of foreign exchange hedge contracts.

Earnings for both the Energy and the Chemicals and Fertilisers divisions improved, despite a \$25 million write-down of fertiliser inventory, following a return to full gas supply during the period.

The slower economy continued to impact the results of the Industrial and Safety and Insurance divisions, with the latter also affected by reduced investment income as a result of comparatively lower interest rates.

¹ EBIT from Resources for the six months to 31 December 2009 was \$2 million compared to \$664 million in the previous corresponding period.

The Group's earnings also benefited from an improved contribution from associate businesses, lower corporate overhead costs following a focus in this area, reduced impact from non-trading items and lower interest charges following debt repayment.

Cash flow generation continued to be very good. Operating cash flows were strong as strategies continue to deliver improvements in working capital, particularly in Coles, Kmart and Target, and fertiliser inventories returned to more historical levels following high carry over stock last financial year. Improvement in working capital more than offset increased capital expenditure.

Strong cash flows further strengthened the balance sheet with net debt reduced at the end of the period to \$3.8 billion, resulting in a closing net debt to equity ratio of 15.5 per cent and a rolling 12 month cash interest cover ratio of 6.6 times.

The directors have declared an increase in the fully franked interim dividend to 55 cents per share compared to 50 cents per share for the half last year.

Managing Director, Richard Goyder said it was a very good result to have achieved profit in line with last year given the significant fall in the contribution from the Resources division as a result of lower commodity prices. This showed the strength of having diversity of earnings across the Group.

"The quality of the Group's result was evident with most divisions recording improvement over the prior corresponding period, reflecting asset quality, sound strategic initiatives and the investment in management," Mr Goyder said.

"Collectively the retail businesses performed well although December trading was more challenging given the impact of rising interest rates on households and the federal government stimulus in the prior year.

"Continuing improvement in our turnaround retail businesses was evident. After two years of ownership of the former Coles Group of companies, gains have been achieved in areas such as business and management restructuring, and improvements in operations and working capital. While the results are pleasing and on track, there still remains significant work ahead to extract further value from these businesses.

"During the half, Coles' continuing focus on quality, service and value drove strong customer growth and increased earnings. Kmart's overall performance improvement was particularly pleasing, while Officeworks achieved solid sales growth from its retail stores.

"The very strong results from Bunnings and Target continue to highlight the quality of these businesses.

"Energy and the Chemicals and Fertilisers divisions showed improved performance on the back of higher production with gas supply having returned to normal levels. It was encouraging that Insurance, while being adversely affected by lower investment income, recorded an improvement in its underwriting result following restructuring and a more benign claims environment.

"While earnings from the Resources and Industrial and Safety divisions were lower in the period, largely due to external factors, the outlook for both of these businesses looks positive, especially Resources where the market fundamentals for high quality metallurgical coal are strong.

"Cash generation and capital management across the Group was strong and when combined with the earnings result and outlook, it is pleasing to announce an increase in the half year dividend to 55 cents per share."

Results Summary

Half-year ended 31 December	2009	2008	Variance %
KEY FINANCIALS (\$m)			
Revenue	26,533	26,363	0.6
Group EBITDA [^]	1,996	2,160	(7.6)
Group EBIT [^]	1,547	1,737	(10.9)
Net profit after tax [^]	879	871	0.9
Operating cash flows	2,083	1,770	17.7
Net debt	3,824	9,312	(58.9)
KEY SHARE DATA (cents per share)			
Earnings per share [^]	76.3	103.6	(26.4)
Operating cash flows per share	180.0	219.7	(18.1)
Dividends per share	55	50	10.0
KEY RATIOS			
Net debt to equity (%)	15.5	48.9	33.4pt
Interest cover (R12, cash basis) (times) [^]	6.6	4.8	37.5
Return on shareholders' funds (R12) (%)	6.5	7.4	(0.9)pt

Divisional Summary

Half-year ended 31 December (\$m)	2009	2008	Variance %
EBIT			
Coles	486	431	12.8
Home Improvement	422	370	14.1
Office Supplies	27	25	9.0
Target	279	215	29.8
Kmart	154	75	105.3
Resources [^]	2	664	(99.7)
Insurance	58	67	(13.4)
Industrial & Safety	51	68	(25.0)
Chemicals & Fertilisers	27	4	575.0
Energy	56	30	86.7
Other (including non-trading items)	31	(138)	n.m.
Divisional EBIT [^]	1,593	1,811	(12.0)
Corporate overheads	(46)	(74)	37.8
Group EBIT [^]	1,547	1,737	(10.9)

[^] 2008 restated for change to Stanwell rebate accounting policy
n.m. = not meaningful

Retail

Performance across the retail businesses was strong with earnings increasing 22.6 per cent compared to the previous corresponding period. The economy and consumer spending began to show signs of recovery during the period. This was somewhat tempered by the impact of three interest rate increases and the cycling of the December 2008 federal government stimulus package, which resulted in a more challenging discretionary retail environment.

The Coles division's (supermarkets, liquor, fuel and convenience) performance over the period was pleasing, generating an increase in EBIT of 12.8 per cent on the previous corresponding period to \$486 million. This result reflects the significant amount of work underway on the long-term turnaround of that business.

Total food and liquor store sales growth for the period was 7.1 per cent with comparative food and liquor sales growth of 6.0 per cent and second quarter growth of 5.9 per cent. Increasing customer numbers continued to be a primary driver of growth as strategic initiatives continue to improve customer service and value, merchandise offer, on-shelf availability and store standards generally.

Bunnings delivered another strong result with EBIT of \$422 million, up 14.1 per cent on the previous corresponding period, driven by good merchandising and operational strategies. Cash sales growth of 14.1 per cent was achieved for the period, with underlying store-on-store cash sales increasing by 11.2 per cent and 7.9 per cent in the second quarter.

Officeworks generated EBIT of \$27 million, 9.0 per cent higher than the previous corresponding period in what were challenging market conditions for its small-to-medium size business customers. Sales from the retail network grew 12.7 per cent over the period with second quarter growth of 13.1 per cent.

Target delivered a very good result with EBIT of \$279 million for the period, up 29.8 per cent on the previous corresponding period. This performance was driven by good merchandise planning, a favourable sales mix and tight cost control. Total sales for the period increased 4.2 per cent with comparable store sales growth of 1.7 per cent for the period and 1.6 per cent for the second quarter.

Kmart's turnaround showed very good progress in the period, with EBIT more than double the previous corresponding period despite slightly reduced revenue. This strong result was due to higher margins, reflecting improved category management and promotional strategy, as well as benefits from supply chain restructuring. Tight cost control was also evident. Total sales for the period decreased 1.0 per cent with comparable store sales declining 1.6 per cent for the period and 1.1 per cent for the second quarter as the business continued to exit unprofitable product lines and reset its customer offer.

Industrial

EBIT from Resources was \$2 million compared with a record \$664 million in the previous corresponding period. The current period's result was affected by a significant reduction in global export coal prices following the March 2009 price settlements, and also included \$65 million of costs associated with the early close-out of a number of foreign exchange hedge contracts and the lag effect of the Stanwell royalty resulting in payments of \$106 million during the period. Benefiting the first half's results was a reduction in mine cash costs at Curragh following a strong focus in that area.

Global coal markets saw a progressive recovery over the period resulting in solid demand for export coal with sales of metallurgical coal from Curragh of 3.25 million tonnes, 6.8 per cent lower than the previous corresponding period which included initiatives to maximise output in a high price environment.

Rising demand has seen the forecast range for total metallurgical coal sales for the 2010 financial year increase to 6.3 - 6.8 million tonnes.

Wesfarmers' 40 per cent share of export steaming coal sales from the Bengalla mine was 1.2 million tonnes for the period, an increase of 5.6 per cent on the previous corresponding half.

Sales of domestic steaming coal from the Premier mine during the period was 1.3 million tonnes, down 26.9 per cent due to lower Verve Energy off-take.

The Energy, and Chemicals and Fertilisers divisions recorded improved results due to the return to full gas supply in June 2009 following the Varanus Island gas disruption. Chemicals and Fertilisers recorded EBIT for the half of \$27 million, including a \$25 million write-down of fertiliser inventory carried over from the 2009 financial year due to lower domestic prices. Energy recorded EBIT of \$56 million, compared to \$30 million in the previous corresponding period as a result of higher LPG production and improved Kleenheat Gas performance.

Industrial and Safety continued to experience sales and margin pressures due to a weaker economy resulting in broad cost reduction initiatives across its customer base. Despite reducing operating costs, EBIT was down 25.0 per cent to \$51 million in the half. Encouragingly, trading results improved progressively over the period as business activity increased.

Insurance

EBIT for the period decreased 13.4 per cent to \$58 million as a result of reduced investment income, from lower interest rates, and the exit from builders warranty insurance during the period.

Despite WFI experiencing higher than expected crop and property claims, underlying insurance performance improved following the recent restructuring in Lumley Australia and Lumley New Zealand. Broking EBITA was marginally lower than the corresponding period last year.

Other Businesses/Corporate

Other businesses and non-trading items contributed before-tax earnings of \$31 million this period as against a loss of \$138 million in the previous comparative period. This included earnings of \$29 million from Gresham Private Equity Funds, due to upward non-cash revaluations, compared to a loss of \$1 million in the same period last year.

In addition, Wesfarmers' investment in Bunnings Warehouse Property Trust generated earnings of \$10 million compared to a loss of \$5 million in the same period last year.

Non-trading and other one-off costs for the half totalled \$39 million, relating mainly to supply chain restructuring in Kmart, compared to a cost of \$148 million in the same period last year.

A focus on cost management saw corporate overheads reduce to \$46 million from \$74 million for the same period last year.

Capital Management

Cash realisation² of 157 per cent for the period was a very good result and reflects ongoing initiatives to improve working capital across the Group as well as a benefit from fertiliser inventories returning to historical levels following high carry over from the 2009 financial year.

Operating cash flows for the period were \$2,083 million, compared to \$1,770 million for the previous corresponding period.

Increased operating cash flows more than offset additional capital expenditure, which increased by \$204 million compared to the previous corresponding period. The increase in capital expenditure was mainly in Coles and related to freehold property acquisitions, refurbishments and ongoing improvements to store standards.

Free cash flows for the period were \$1,192 million, compared to \$1,083 million in the previous corresponding period.

During the period Wesfarmers issued A\$500 million in domestic 5-year corporate bonds while repaying \$972 million of debt. As a result, the Group's liquidity position improved with the closing net debt position reducing to \$3.8 billion and a closing net debt to equity ratio of 15.5 per cent.

The Group continues to look at opportunities to diversify its current debt profile.

Interim Dividend

Consistent with the Group's dividend policy, which was revised in January 2009, the directors have declared a fully-franked interim dividend of 55 cents per share.

The Board's decision is based on the company's current and projected cash position, having regard to capital expenditure requirements, retained earnings, franking credits, debt levels and business and economic conditions generally. Wesfarmers will seek to deliver stable and growing dividends in the future.

The dividend will be paid on 31 March 2010 to shareholders on the company's register on 1 March 2010, the record date for the interim dividend.

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 under the Plan will be calculated as the average of the daily volume weighted average price of Wesfarmers shares on each of the 10 consecutive trading days from and including the second trading day after 1 March 2010.

No discount will apply to the allocation price and the Plan will not be underwritten. Given Wesfarmers' current capital structure and strong balance sheet, shares will be acquired on-market and transferred to participants on 31 March 2010 to satisfy any shares to be issued under the Plan.

Outlook

The Group is well-positioned to benefit from any further upturn in the Australian and global economies.

² Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation.

The current outlook for export coal, particularly metallurgical, is positive and is expected to result in earnings from the Resources division improving from the fourth quarter of this financial year.

The Industrial businesses and Insurance division are expected to continue to benefit from any further improvements in general economic conditions and, in the case of Insurance, increased investment income should further interest rate rises occur.

The Group is optimistic about the future performance of its retail businesses as customer offers and operations continue to improve, but it remains cautious of the Australian retail environment in the second half as retailers trade without the assistance of the prior year government stimulus and face potential impacts on consumer confidence and spending as a result of any further interest rate rises.

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Coles

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	15,161	14,626
EBITDA	688	628
Depreciation & Amortisation	(202)	(197)
EBIT	486	431

The Coles half-year result demonstrates that the five-year turnaround strategy is on track. Total food and liquor revenue of \$12.0 billion grew 7.5 per cent and comparable food and liquor sales grew 6.0 per cent in the half, which was a good result.

Coles' focus on quality, service and value is driving increased customer transactions across the store network. As a result, five consecutive quarters of volume growth in food and liquor have been achieved since the new management team was appointed.

On average during the first half there were over 17 million customer visits per week to Coles food and liquor stores and Coles Express stores. Customer satisfaction is rising and focus groups show a positive customer response to key quality and service measures across the stores. This reflects the significant investment made to improve store and service standards including equipment investment and replacement, cleaning, product availability and service.

Food and liquor deflation in the six months to December 2009 was 0.9 per cent as Coles passed on the benefits of lower prices to customers. Suppliers have also enjoyed higher sales volumes as a result.

The GST-free campaign on feminine hygiene products and uniform pricing initiatives at a national and state level has also started to build customer faith in Coles as a supermarket they can trust to deliver more consistently on value as well as quality and service.

It was particularly pleasing to see a strong customer response to the Coles Christmas campaign this year. Sales were significantly higher this Christmas as a result of the 'Feed The Family' campaign, an expanded Coles Finest range of quality Christmas private label products and improved availability and store service standards.

Sell-through of seasonal Christmas lines was well managed and this will allow Coles to move quickly to its 2010 Easter campaign.

Coles Express' operating revenue for the period was \$3.1 billion with lower petrol prices and solid fuel volumes through the period. Comparative store sales (ex-fuel) grew 4.8 per cent over the period.

During the period, Coles Express was awarded the convenience retailer of the year award by the Australasian Association of Convenience Stores.

The supermarket renewal program continues with over 40 new stores now on the ground trialling new concepts that will be rolled out to other stores across the network in the next few years. Coles' focus on a better store network, including the transfer of smaller stores to FoodWorks, is resulting in higher sales densities and improved returns on capital across the store network.

During the first half Coles opened nine supermarkets, 18 liquor stores, three Coles Express sites and one hotel. In addition, Coles refurbished 19 supermarkets and 15 liquor stores and refreshed 90 Coles Express sites.

Coles also commenced the transfer of 45 supermarkets to FoodWorks in the first half. At the end of the period, 18 of these sites had been transferred with the remainder expected to be completed by the end of the 2010 financial year.

At 31 December 2009, Coles had 749 supermarkets, 781 liquor stores, 626 Coles Express sites and 95 hotels.



Outlook

Any increase in interest rates or rising global petrol prices in 2010 will likely affect household disposable income and result in customers remaining strongly value driven which will reinforce the benefits of Coles' strategic commitment to value in each of its businesses.

During the next six months, Coles will continue to put the foundations in place for future growth by fixing the basics in our store network. As standards are progressively raised, Coles will look to transition to the next phase of its turnaround strategy - delivering consistently well - so that Coles can become a supermarket that Australians truly trust to provide quality, service and value.



Home Improvement and Office Supplies

Bunnings

Performance Summary		
	2009	2008
Half year ended 31 December	(\$m)	(\$m)
Revenue	3,402	3,009
EBITDA	467	407
Depreciation & Amortisation	(45)	(37)
EBIT	422	370

Operating revenue of the home improvement business increased by 13.1 per cent to \$3.4 billion in the first half. Earnings before interest and tax of \$422 million were 14.1 per cent higher than that recorded in the corresponding period last year. Trading earnings (net of property sale contributions) increased by 16.5 per cent.

Cash sales growth in Bunnings of 14.1 per cent was achieved, with underlying store-on-store cash sales growth of 11.2 per cent, reflecting strong continued organic growth in the business driven by merchandising and operational strategies. Pleasing results were achieved in all Australian states, New Zealand performed ahead of expectations, and growth was achieved across all product categories.

Outlook

Continued retail sales growth is expected in the second half of the 2010 financial year, albeit at a likely lower growth rate given the impact of government stimulus in the comparative period last year. Trade sales are expected to be positively affected should housing construction pick up.

Trade sales were 7.2 per cent higher than the comparative period, a favourable outcome given ongoing challenges in the housing construction market which have been alleviated to some extent by government stimulus initiatives. The business continues to see good results coming from increased traction of its trade strategies.

Store network development activities increased over the period. Eight new warehouse stores, two small format stores and four trade centres were opened. Investment in bringing current building and merchandising standards into older parts of the network was sustained at similar levels to prior years. At the end of the period there were 181 warehouses, 58 smaller format stores and 25 trade centres operating across Australia and New Zealand.

The business is well positioned with an ongoing growth agenda driven by improvements to both the strength of the customer offer and the effectiveness and efficiency of operations as well as continued network expansion.

Home Improvement and Office Supplies

Officeworks

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	662	602
EBITDA	36	34
Depreciation & Amortisation	(9)	(9)
EBIT	27	25

Operating revenue of Officeworks increased 10.0 per cent to \$662 million for the first half, with earnings before interest and tax of \$27 million which was 9.0 per cent higher than that recorded in the corresponding period last year

Headline sales growth across the Officeworks retail store network in the reporting period was 12.7 per cent, a pleasing result given the challenging market conditions for small-to-medium size businesses. Sales growth was

underpinned by strong transaction growth whilst pressure on margins and costs continued.

Four new stores were opened during the half and another seven existing stores were totally upgraded. Results from the refurbished stores have been pleasing. Implementation of the new point of sale system in all stores is now complete.

The Officeworks Business channel continues to gain sales momentum despite the volatility in confidence amongst small-to-medium size businesses.

The business remains focused on delivering its strategic agenda, with core actions focused on driving sales, improving the offer to customers, expanding and upgrading the retail store network and continuing to remove unnecessary cost and complexity.

Outlook

In a competitive marketplace, the pressures on margins and costs are expected to continue during the second half of the 2010 financial year. Moderate sales growth is expected as the business continues to focus on delivering its strategic agenda.

Target

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	2,182	2,094
EBITDA	311	245
Depreciation & Amortisation	(32)	(30)
EBIT	279	215

Operating revenue for the period was \$2.2 billion. Sales increased 4.2 per cent on the corresponding period last year with comparable store sales growth of 1.7 per cent. Earnings before interest and tax of \$279 million were 29.8 per cent ahead of the same period last year.

Target's market share of the department store sector continued to grow over the period.

Good sales results were achieved in some high margin fashion related departments, with particularly strong sales in ladieswear and children's related product. Consumer electronics and interactive games were down in comparison to the corresponding period last year when these categories benefited substantially from the government's stimulus package.

Outlook

Current trading in this highly competitive market remains volatile.

The business will continue to take a cautious approach in setting expectations for the second half of the 2010 financial year given last year's significant government stimulus and the prospect of any further interest rate rises during the year.

Business priorities remain focused on maintaining flexibility through management of inventory, as well as delivering strong product offers to the customer.

Fifteen refurbishments and one new store are scheduled for the second half.

The business was acutely aware of the effect of the December 2008 government stimulus package and planned accordingly. By planning for a difficult sales period Target was able to close the period with appropriate inventory levels, especially in the key fashion related apparel categories. Pleasingly this was achieved without any substantial change to the marketing program compared to the prior year and, combined with a positive sales result in apparel, enabled the business to achieve a very good income result.

The business has continued its investment in the existing store network with 13 store refurbishments during the period. The focus remained on improving layout and customer traffic flow and enhancing in-store signage to assist with the customer experience.

Six new stores were opened during the period, three full line Target and three Target Country, taking the total number of stores in the network to 291.

Kmart

Performance Summary		
	2009	2008
Half year ended 31 December	(\$m)	(\$m)
Revenue	2,226	2,249
EBITDA	182	100
Depreciation & Amortisation	(28)	(25)
EBIT	154	75

Operating revenue for the period was \$2.2 billion, slightly lower than the corresponding period last year. Underlying earnings before interest and tax and non-trading items for the period of \$154 million were more than double that of the corresponding period last year.

Comparable store sales declined 1.6 per cent for the period as sales were affected by the exit of unprofitable categories, the reduction of unprofitable promotional activity and the impact of the December 2008 government stimulus. Adjusting for these impacts, encouraging sales performance was recorded across the business, particularly in apparel, entertainment and household departments.

Underlying profitability of the business has improved significantly with benefits coming from

improved margins, due to the changes in product ranges, promotional program, and supply chain restructuring. Cost of doing business, having benefited from previous administration efficiencies, was also well controlled.

Final supply chain restructuring costs in the period (not included in underlying earnings) were \$33 million before tax.

In-store focus has centred on building a customer service culture by ensuring team members engage and serve, stores are cleaner, aisles are clear and checkouts are fast and friendly.

Two stores were opened during the period, three refits were completed and over 30 stores have now had floors and fitting rooms replaced. The business is continuing to actively look for new sites in the right locations.

Kmart Tyre and Auto Service results were ahead of last year, following sales growth across all categories.

As at 31 December there were 171 Kmart stores in Australia, 15 in New Zealand and 252 Kmart Tyre and Auto Service stores.

Outlook

The first stage of fixing the Kmart business model is progressing well, with a solid strategy and new leadership team in place delivering improved business profitability. Significant change still needs to occur to ensure that the offer continues to evolve to deliver everyday items to customers at low prices. Investment will continue in making stores cleaner, uncluttered and easier for customers to shop.

Kmart's strategy is now moving into its third phase, being 'Growth'. Whilst the first and second phases of 'Discovery' and 'Renewal' will remain active, customer engagement and the reintroduction of the Kmart brand to Australia and New Zealand is a major focus over the coming months.

It is expected that sales in the short-term will be moderate as the foundation and economics of the business model continue to be reset. The retail environment remains cautious given the prospect of any further interest rate rises and trading in the second half without the assistance of economic stimulus.

Resources

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008* (\$m)
Revenue	624	1,427
EBITDA	61	715
Depreciation & Amortisation	(59)	(51)
EBIT	2	664

Operating revenue of \$624 million for the period was 56.3 per cent below the \$1.4 billion recorded in the corresponding period last year. Earnings before interest and tax of \$2 million were 99.7 per cent below last year.

Earnings for the period reflected the significant fall in export coal prices from the March 2009 price settlements. Additionally, earnings were materially reduced by higher Stanwell royalty costs of \$106 million, reflecting the record prices Curragh received in the preceding financial year, and locked-in foreign exchange hedge losses of \$65 million.

- **Curragh (Qld):** Metallurgical coal sales volumes of 3.25 million tonnes were 6.8 per cent lower than the corresponding period last year while steaming coal volumes were also 24.9 per cent lower as a result of

reduced exports. Results in the corresponding period last year reflected initiatives to maximise export volumes as a result of record prices. Aggressive cost reduction programs have delivered lower mine cash costs of 8 per cent over the period compared with the previous corresponding period.

- **Premier Coal (WA):** Sales volumes for the period were 26.9 per cent down, due to lower off-take by Verve Energy which was positively affected last year by the Varanus Island gas disruption.
- **Bengalla (NSW):** Sales volumes were 5.6 per cent above the corresponding period last year.

A highlight of the period was the decision in November to proceed with the \$286 million expansion of the Curragh mine to 8.0 - 8.5 million tonnes export capacity. Works have commenced with completion expected in late 2011.

The Blackwater Creek diversion achieved practical completion on 10 December 2009, ahead of time and budget.

Outlook

The outlook is for improved earnings in the second half of the 2010 financial year, reflecting expectations of higher export coal prices for the upcoming Japanese financial year commencing April 2010 as well as lower Stanwell royalty obligations and foreign exchange hedge losses.

Expected sales of metallurgical coal at Curragh for the 2010 financial year are in the range of 6.3 to 6.8 million tonnes. Achievement of targeted sales volumes is subject to satisfactory operating performance and infrastructure constraints.

* 2008 EBITDA, D&A and EBIT restated following Stanwell royalty accounting change. Stanwell expense now appears in EBITDA.

Industrial & Safety

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	637	687
EBITDA	58	75
Depreciation & Amortisation	(7)	(7)
EBIT	51	68

Operating revenue for the period of \$637 million was 7.3 per cent below the corresponding period last year. Earnings before interest and tax for the period decreased by 25.0 per cent to \$51 million.

The comparatively lower first half results reflect the business activity slow-down which followed the global financial crisis resulting in delays to capital projects, lower activity levels in the resources sector generally and a cost reduction/deferral focus by many customers.

Most of the division's businesses experienced lower sales compared to the corresponding period last year with the exception of Packaging House, which continued to deliver solid growth. Encouragingly, most businesses experienced an increase in sales in the second quarter of the period.

During the period, the division maintained a strong focus on cost management which is expected to be a benefit should economic conditions continue to improve. The division also

Outlook

The division is expected to benefit from a strong pipeline of significant resources, oil and gas and other infrastructure projects and any general improvement in industrial market conditions. In a very competitive market, pressure on margins is expected to continue.

The division will continue to have a focus on providing strong customer service and security of supply while investing in its people and strengthening capabilities and organisation effectiveness. Safety and sustainability will also continue to be a strong focus.

focused on working capital, resulting in stronger cash generation despite the lower earnings result.

The division continues to strengthen its delivery performance to customers, upgrade its distribution capabilities and networks, develop strong customer and supplier relationships and expand its direct sourcing capability.

Supply chain capability improvements included the completion of new purpose-built distribution centres for Blackwoods in Perth and Blackwoods Paykels in Auckland.

Other key achievements included the launch of new enhanced Blackwoods and Bullivants catalogues, the commissioning of Bullivants oil and gas equipment in Perth and the acquisition by Protector Alsafe in December of the three-branch Geminex business to strengthen its safety specialist offering in the Northern Territory.

On the technology front, a new telephony system was introduced and wireless warehousing technology was further rolled out. E-business sales grew significantly and a new Customer Relationship Management system was successfully developed which is currently being rolled out in Blackwoods and Protector Alsafe.



Chemicals and Fertilisers

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	433	458
EBITDA	57	34
Depreciation & Amortisation	(30)	(30)
EBIT	27	4

Operating revenue of \$433 million for the first half was 5.5 per cent below the comparative period last year. Earnings before interest and tax of \$27 million were significantly ahead of last year's result which was affected by the Varanus Island gas incident.

Earnings for the first half were affected by a \$25 million write-down of fertiliser inventories carried over from the 2009 financial year due to falling domestic market prices. The first half results also include \$4 million in profit from the sale of CSBP's Mt Weld phosphate rock assets.

The ammonia business improved earnings compared to the comparative period last year with historically high levels of sales and production volumes following full gas supply throughout the period.

Ammonium nitrate sales and production from

Kwinana were slightly higher than the corresponding period last year with good plant performance and increased demand. Earnings were also higher.

Earnings from the Queensland Nitrates joint venture were above the corresponding period last year reflecting higher sales and production levels.

Export sales from CSBP's sodium cyanide activities were similar to the corresponding period last year. Domestic sales were, however, higher due to increased activity in the gold extraction sector that included the commencement of the new mining operations at Boddington, Western Australia.

Sales, production and earnings from Australian Vinyls were all higher than the corresponding period last year. Despite this improved performance, the market for PVC in the construction sector remains depressed as does global pricing.

Fertiliser sales volumes were 16.9 per cent higher than the corresponding period last year. These higher volumes indicate a return to more traditional levels of fertiliser application, following low usage last year.

Outlook

The seasonal break in the second half of the 2010 financial year will determine the demand for fertiliser. CSBP continues to see growth in demand for its mining chemical products. Discussions with insurers in relation to the Varanus Island gas disruption claim are ongoing and the quantum of any claim or outcome is unknown at present. The FEED study into expanding ammonium nitrate production at Kwinana is progressing.

Energy

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	304	322
EBITDA	79	52
Depreciation & Amortisation	(23)	(22)
EBIT	56	30

Operating revenue reduced by 5.6 per cent to \$304 million, primarily due to lower international LPG prices. Earnings before interest and tax were \$56 million, compared to \$30 million for the same period last year. Last year's earnings were adversely affected by the Varanus Island gas incident and inventory write-downs following the sharp decline in international LPG prices towards the end of 2008.

Industrial, medical and speciality gases

Coregas: Earnings were lower than last year due to reduced demand from Coregas' major customer and subdued market activity in New South Wales and Victoria.

Air Liquide WA: Earnings were higher than last year when supply shortages were experienced during the Varanus Island gas disruption.

LPG and LNG

Wesfarmers LPG: Production volumes were 24.4 per cent above last year due to higher gas flow rates and LPG content in the Dampier to Bunbury pipeline. Export volumes were 47.6 per cent above last year due to the higher production. Earnings were higher than last year which was abnormally affected by the Varanus Island incident and LPG inventory write-downs.

LNG: The 175 tonne-per-day plant at Kwinana, commissioned in September 2008, has performed to expectations during its first year of operation. Earnings were higher than the same period last year due to the ramp up of production and sales.

Kleenheat Gas: LPG cylinder sales volumes were above last year due to growth in the Kwik-Gas cylinder exchange business, while bulk volumes were lower due to subdued industrial demand. Earnings were above last year due to improved margins and the adverse impact of the Varanus Island gas disruption in last year's results.

Power generation

enGen: Earnings were above last year, primarily due to a full contribution from LNG-fuelled power generation at Sunrise Dam and Darlot mine sites in Western Australia which were fully commissioned in the second half of last financial year.

Outlook

Continued industrial gas sales growth will be pursued and results in this segment are expected to benefit from any further improvement in economic conditions.

LPG earnings will continue to remain heavily dependent on international LPG prices, LPG content in the Dampier to Bunbury pipeline and domestic gas prices in Western Australia.





Insurance

Performance Summary		
Half year ended 31 December	2009 (\$m)	2008 (\$m)
Revenue	868	864
EBITDA	70	82
Depreciation	(7)	(7)
EBITA	63	75

Wesfarmers Insurance recorded modest revenue growth for the half to \$868 million. Revenue was affected by reduced investment income of \$19 million, driven by lower interest rates, and more disciplined risk selection. Underwriting performance improved from a combined operating ratio of 98.7 per cent in the corresponding period last year to 97.0 per cent for the current period driven mainly by better loss ratios.

Divisional earnings before interest, tax and amortisation (“EBITA”) was \$63 million compared to \$75 million for the corresponding period last year. The lower earnings were a

result of reduced investment income and losses associated with classes in run off.

Pleasing underlying improvement in earnings was driven by Lumley Australia and Lumley New Zealand. The benefits of portfolio remediation and better risk selection have improved net loss ratios, notwithstanding losses of \$6 million associated with the run off of the builders’ warranty portfolio.

Generally, benign weather conditions in Australia and New Zealand relative to the prior corresponding period also benefited the underwriting result. However, WFI experienced higher than expected crop and property claims from isolated storms and bushfires.

Broking EBITA was \$3 million lower than the corresponding period last year. This was affected by lower investment income and unfavourable movements in GBP and NZD exchange rates. Broking revenue growth was constrained by economic factors leading to lower levels of client insurance and fewer acquisitions.

Outlook

Any further improvement in economic conditions and rising interest rates are expected to benefit the performance of underwriting and broking operations, subject to weather conditions.

The continued focus on improved risk selection and the impact of premium rate increases in Lumley Australia and New Zealand are expected to lead to further improvements in underwriting margins. Modest to flat growth in gross written premium is expected following the exit from certain arrangements and classes of business that did not meet underwriting criteria.

Profitable growth in premiums is being targeted from a number of new initiatives including the expansion of commercial business placed with brokers through the Lumley “my.place” EDI system, the recruitment of a new Corporate Solutions team and personal lines initiatives.

There continues to be strong competition in commercial lines across most classes. Reinsurance markets remain robust following strong results globally in 2009 which is creating additional capacity with some softening of reinsurance rates apparent in recent months.

