



Wesfarmers Limited

ABN 28 008 984 049

NEWS

13 June 2001

WESFARMERS ANNOUNCES \$2.2 BILLION OFFER FOR HOWARD SMITH

Wesfarmers Limited today announced a takeover offer for all of the issued shares in Howard Smith Limited.

Wesfarmers' offer will be \$12.00 cash and two Wesfarmers shares for every five Howard Smith shares (the "Offer").

Over the last few weeks, Howard Smith's share price has been affected by the buy-back proposed by Howard Smith in mid May 2001 and widespread speculation of an offer from Wesfarmers following the sudden resignation of BBC hardware's chief executive on 30 May 2001.

The average weighted price for Howard Smith shares over the month prior to the announcement of the details of the proposed Howard Smith buy-back tender was \$8.85. This price was referred to by Howard Smith in setting the tender price range of \$8.50 to \$9.70. The directors of Howard Smith have stated that they intend to acquire shares within that price range, but at the lowest possible price in that range to purchase the amount of capital Howard Smith determines to buy back.

Based on Wesfarmers' closing share price on 12 June 2001, the Offer values each Howard Smith share at \$11.14 and represents:

- a premium of 26% to the \$8.85 pre buy-back announcement price referred to above;
- a premium of 22% over the mid point of the buy-back tender price range of \$9.10; and
- a premium of 14% over the closing price of Howard Smith shares on 12 June 2001.

The Managing Director of Wesfarmers, Mr Michael Chaney said Howard Smith's most significant business operation, BBC Hardware, was an attractive fit with Bunnings, one of Wesfarmers' major business units.

"By combining Bunnings and BBC Hardware, we will create an Australian owned hardware retailer with combined Australian hardware sales of \$2.4 billion, performing at international benchmark levels and with significant potential for growth in the \$19 billion Australian hardware market. Total hardware sales in Australia and New Zealand for the expanded group will be approximately \$3 billion" said Mr Chaney.

“Bunnings’ strong position in Victoria, Western Australia and South Australia complements BBC Hardware’s strengths in New South Wales, Queensland and New Zealand and there will be a number of advantages from merging the two operations.”

“The combined market share of the two businesses will amount to only 13.2% of the Australian hardware market. Wesfarmers intends to invest in BBC Hardware’s existing Hardwarehouse stores and staff, including reformatting and improving customer service levels”.

The Australian Competition and Consumer Commission has been advised of the Offer being made and has been provided with detailed hardware market and industry information over the last three weeks. Wesfarmers anticipates that the ACCC will be able to complete its usual market enquiries without delaying the offer period and is confident that the offer will not give rise to any material concerns for the ACCC.

In addition, Wesfarmers believes that Howard Smith’s distribution business, Blackwoods, will be an attractive fit for Wesfarmers.

The Offer provides Howard Smith shareholders with the opportunity to secure an immediate increase in the value of their Howard Smith shareholding.

By accepting the Offer, Howard Smith shareholders will maintain an involvement with Howard Smith’s businesses while benefiting from Wesfarmers’ outstanding record of shareholder returns and management expertise.

Over the period since its listing in 1984, Wesfarmers’ shares have been one of the top performers in Australia. Bloomberg shows total returns of capital and income for Wesfarmers shareholders has averaged more than 30% per annum over the last 17 years. This trend of continuing Wesfarmers profit growth was confirmed at the announcement of Wesfarmers’ third quarter results on 8 May 2001 and further growth is forecast for the remainder of the year to 30 June 2001 and for the 2002 financial year. Details of these financial forecasts are being separately announced.

In comparison, Howard Smith shares have significantly underperformed the market over recent years.

On 1 May 2001, Howard Smith made an ASX announcement advising that net profit for the year to 30 June 2001 is expected to be 12% below the previous year, an outcome attributed to depressed conditions in the housing sector and a general slowdown in the Australian economy. As a consequence, Howard Smith decided to accelerate its program of closure of underperforming conventional stores.

Mr Chaney, said the transaction would be immediately earnings per share positive for Wesfarmers on a pre-goodwill amortisation basis and that gearing (net debt to equity) following the transaction would be comfortably within Wesfarmers’ stated target gearing range.

Integration of BBC Hardware with Bunnings

Wesfarmers first entered the hardware business in 1987 through the acquisition of a substantial shareholding in Bunnings Limited and achieved full control in 1994. Between 1991 and 2000, Bunnings has generated annual sales growth in excess of 28% per annum. Today, sales exceed \$1.3 billion per annum.

As noted by market analysts, Bunnings has a significantly better performance record than Howard Smith's hardware division as measured by sales and margins. Based on results to 30 June 2000, the average sales per Bunnings Warehouse store is approximately 60% higher than the corresponding average for BBC Hardware's Hardwarehouse stores. On a whole of business basis, Bunnings' earnings before interest and tax ("EBIT") margins are about 50% higher than BBC Hardware's.

Bunnings has developed a highly successful operating model that in recent years has consistently achieved results comparable with international benchmark levels. Wesfarmers believes that it can substantially improve the operating performance of BBC Hardware by utilising its management expertise and operating approach.

Bunnings and BBC Hardware are highly complementary with limited geographic overlap. In total, the combined hardware business will have more than 270 stores throughout Australia and New Zealand, of which 107 will be larger format warehouse stores. In order to bring Howard Smith's Hardwarehouse stores up to Bunnings' standards, Wesfarmers intends to make a further investment in existing warehouse stores and staff. Wesfarmers also intends to utilise the best of both management teams and to maintain the Hardwarehouse brand for warehouse stores in NSW and New Zealand. In other States, Bunnings Warehouse branding will be adopted for warehouse stores.

Given the limited warehouse stores overlap, Wesfarmers expects limited store closures. As part of the integration, Wesfarmers intends to conduct a detailed review of BBC Hardware's stores and operations. Based on public information, and subject to detailed review, current expectations are that there may be closures of up to nine Hardwarehouse stores over the next 12 months.

Blackwoods

The acquisition of Howard Smith will also enable Wesfarmers to expand its range of existing distribution businesses through the acquisition of Blackwoods, a national distributor of industrial products. Wesfarmers currently has substantial distribution operations in industrial gases and generally within Australia's rural industry.

Wesfarmers intends to pursue opportunities to further grow and develop the Blackwoods business and believes its management strategy will facilitate future growth.

Blackwoods will become a separate operating business unit of Wesfarmers.

Howard Smith Buy-back

On 16 May 2001, Howard Smith announced that it intended to initiate an off-market share buy-back. The buy-back has been structured as a tender offer at prices between \$8.50 and \$9.70 per share, with the ultimate price being the lowest possible price in that range to purchase the amount of capital Howard Smith determines to buy-back. This price range, set by the Directors of Howard Smith, followed a volume weighted average share price in the month prior to announcement of the buy-back details of \$8.85, as referred to by Howard Smith Directors in the Buy-Back Tender booklet.

The maximum aggregate cash sum to be returned to Howard Smith shareholders under the buy-back is \$250 million and will be subject to capital gains tax.

By comparison, Wesfarmers' Offer is for all Howard Smith shares, is at a 26% premium to the \$8.85 average weighted share price over the month prior to the announcement of the

details of the proposed buy-back and should provide capital gains tax rollover relief on that portion of the Offer represented by Wesfarmers shares.

“Howard Smith shareholders are encouraged to carefully consider the lower value tender proposal in the light of the Wesfarmers offer”, Mr Chaney said.

Wesfarmers' Bidder's Statement will today be served on Howard Smith and lodged with the Australian Stock Exchange and the Australian Securities and Investments Commission. A copy of the Bidder's Statement will be available on Wesfarmers website at www.wesfarmers.com.au. It is proposed that Offer documents will be dispatched to Howard Smith shareholders in approximately two weeks.

The Offer is subject to conditions, including a 90% minimum acceptance condition, and a condition that no adverse regulatory intervention occurs. Further details of the Offer conditions are attached.

Wesfarmers intends to make an offer for the outstanding options issued by Howard Smith to certain of its employees. The terms of that offer will be determined once Wesfarmers has received confirmation from Howard Smith of the relevant exercise prices and terms and conditions of each class of options. The option offer will be subject to a condition that Wesfarmers becomes entitled to move to 100% control of Howard Smith.

For further information please contact:

Mr Michael Chaney: (08) 9327 4203
Managing Director

Mr Keith Kessell: (02) 9232 0603
General Manager, Public Affairs 0419 949 082 (Mobile)

If you have any questions about the Offer, please call the shareholder information line (free call) on 1800 770 028 or visit the Wesfarmers website at www.wesfarmers.com.au.

BACKGROUND INFORMATION ON WESFARMERS AND HOWARD SMITH

Information on Wesfarmers

Wesfarmers is a major diversified Australian public company with a market capitalisation as at 12 June 2001 of over \$6 billion¹, positioning it in the top 30 Australian listed companies by market capitalisation. Wesfarmers is also ranked as a leading performer among Australia's top 50 listed companies in terms of total shareholder return.

Wesfarmers' current business interests include hardware retailing; fertilisers and chemicals manufacture; gas processing and distribution; coal mining and processing; rural merchandise and services (including insurance); road and rail transport and forest products.

Wesfarmers shares have recorded strong growth since listing on the ASX in 1984.

Today, the Wesfarmers Group employs about 15,000 people and has over 65,000 shareholders.

Further Information on Bunnings

Bunnings is a mass merchandiser of an extensive range of home improvement, home leisure and building products, catering mainly for the do-it-yourself customer, small to medium size builders and owner builders.

Bunnings' warehouse model was introduced in 1994 after two years of detailed planning. This model has a heavy emphasis on store layout, site selection and workplace culture, staff performance, recruitment and training.

Since 1994, Bunnings has pursued a strong expansion program to develop a nationwide chain of warehouse stores in all mainland States and Territories of Australia. Bunnings now has 68 stores nationally of which 47 are large Bunnings Warehouse format stores. Warehouse stores now account for over 82 per cent of total Bunnings sales with up to 45,000 product lines offered for sale.

Information on Howard Smith

Following the sale of its towage operations in May 2001, Howard Smith is now largely a distributor of hardware and industrial products to retail, trade and industrial customers in Australia and New Zealand. It has two operating divisions; hardware distribution and industrial products distribution.

Howard Smith has over 12,000 employees (excluding those from the towage operations).

Howard Smith's hardware division, which operates under the brands BBC hardware, Hardwarehouse and Benchmark Building Supplies (in New Zealand), distributes hardware, lifestyle, home improvement and building products largely to retail customers and principally through the Hardwarehouse chain of large warehouse type stores and distributes hardware, building and construction products to mainly trade customers, principally through the BBC hardware and Benchmark Building Supplies traditional stores.

¹ This number is after the proposed Wesfarmers buy-back which forms part of the recently completed Wesfarmers group restructure.

Howard Smith's warehouse type "Hardwarehouse" stores and conventional stores are located in New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania. Howard Smith also operates the Benchmark Building Supplies traditional stores in New Zealand.

Howard Smith's industrial products distribution division, which operates under the brand "Blackwoods", provides supply and distribution of industrial, safety and engineering products, power transmission and machinery and bearings, fasteners and metals. Its principal trading names are Blackwoods, AE Baker & Co, FPT Power Transmission, Motion Industries, Mullins Fasteners, Alsafe, NZ Safety and Packaging House.

CONDITIONS OF THE OFFER

The Offer conditions are summarised below.

- Wesfarmers Retail acquiring a relevant interest in at least 90 per cent of all Howard Smith ordinary shares.
- No action being taken by a regulatory authority which adversely impacts on the Offer or requires divestiture of Howard Smith shares or assets of any company within the Howard Smith Group or the Wesfarmers Group.
- No material acquisitions, disposals or changes in the business of Howard Smith or its subsidiaries having a value in aggregate greater than \$50 million, except for any proposed transaction publicly announced by Howard Smith prior to 13 June 2001.
- No material adverse change occurring in the business, financial or trading position or condition, assets, liabilities or profitability or prospects of Howard Smith or its subsidiaries from that publicly announced before 13 June 2001.
- Howard Smith not declaring or paying a dividend after 13 June 2001.
- No persons exercising rights under certain agreements or instruments which results in the business of Howard Smith or its subsidiaries being materially affected.
- The All Industrial Index does not fall more than 15 per cent below its closing level on 12 June 2001 for a period of three or more consecutive trading days of ASX prior to the end of the offer period.
- No "prescribed occurrence" occurs. This prohibits, among other things, Howard Smith buying back shares other than under the Howard Smith Buy-back Tender.