Wesfarmers Limited
ABN 28 008 984 049

NEWS

5 November 2001

Wesfarmers reports solid first quarter result

The directors of Wesfarmers Limited today reported a solid start to the 2001/2002 financial year with a first quarter operating profit after tax of $79.3 million. This result was 86 per cent above the figure of $42.6 million recorded in the comparative period last year and is consistent with expectations following the successful completion of the Howard Smith acquisition in August 2001.

The result was achieved on operating revenue of $1.66 billion which was 85 per cent higher than last year's first quarter operating revenue of $899 million.

A significant factor in this growth was the inclusion, from August, of results from the Howard Smith hardware and industrial and safety product distribution businesses. As detailed below, most business units reported first quarter results on or above budget.

Earnings per share (before goodwill amortisation) of 29.3 cents for the three months were 74 per cent above the 16.8 cents in last year's comparative period. Cash flow per share of 44.7 cents was 43 per cent higher than last year.

Energy

Operating revenue from the group's energy business segment was 12 per cent higher than in the corresponding period last year. Earnings before interest and tax were 27 per cent higher, due to strong coal results.

Coal

Sales volumes from the Curragh coal mine in Queensland were above budget and above last year. Higher selling prices combined with favourable product mix and exchange rates resulted in earnings markedly higher than last year.

The Bengalla coal mine in New South Wales, in which Wesfarmers has a 40 per cent interest, produced sales volumes lower than in the comparative period last year. Earnings were below budget but were higher than last year as a result of firmer selling prices and favourable exchange rates. The bulk of Bengalla's export sales are made on a spot basis and with softness being experienced in steaming coal markets in Japan, sales volumes and prices for the balance of the year are expected to continue to be under pressure.

As previously announced, exchange rate risk on budgeted export coal volumes has been fully hedged for the 2001/2002 year.

Sales volumes and earnings from the Premier mine in Western Australia were slightly lower than both last year and budget. Satisfactory progress is being made in resolving the dispute with the main Premier customer over coal volumes.

The outlook for coal for 2001/2002 is positive, albeit with growing pressure on export steaming coal sales volumes.

Gas

Domestic LP gas sales volumes and revenue were ahead of budget but below last year. The above budget volumes and revenues resulted from a one month delay in the transfer of business into Unigas. Unigas, created from the merger of the Kleenheat and Elgas autogas wholesaling and retailing businesses in all states except Western Australia, commenced operations from August 2001.

Weaker than anticipated domestic LP gas demand conditions resulted in earnings below budget and last year.

Export volumes of LP gas were higher than last year but weaker international LP gas prices resulted in below budget earnings which were also lower than last year.

The outlook for the company's gas activities for 2001/2002 is for slightly reduced earnings.

Hardware

Operating revenue for the Bunnings hardware merchandising business was 107 per cent above the same quarter last year. First quarter earnings increased by 74 per cent over the same period last year. This increase was due to the inclusion of trading results from the Howard Smith hardware operations - Hardwarehouse, BBC and Benchmark - acquired in August 2001, as well as continuing strong growth in the underlying Bunnings business. This growth continued throughout the quarter.

Retail sales to the DIY consumer were strong in most regions and were above budget for the quarter. Trade sales were slightly behind expectations due to insurance industry related building approval delays.

Integration of the Hardwarehouse, BBC and Benchmark hardware operations into Bunnings is proceeding as planned and management is confident of achieving , on a full year basis, at least the synergies described in the bidder's statement dated 13 June 2001 issued in relation to the Howard Smith takeover offer ('bidder's statement'). The process of re-branding Hardwarehouse and BBC stores commenced this month. A consolidated store roll-out programme, which includes details of planned store closures arising from the integration of operations, will be finalised by year end. At this time, consolidated store numbers are not expected to differ greatly from those forecast in the bidder's statement.

The outlook for the expanded Bunnings business in both retail and trade sectors is for continued strong revenue and earnings growth in 2001/2002.

Industrial and Safety

The industrial and safety product distribution businesses - Blackwoods, Alsafe and NZ Safety - were acquired as part of the Howard Smith takeover. These businesses reported operating revenue of $204 million and earnings of $13 million for the August and September months, results which are consistent with expectations.

The Atkins Carlyle business acquired by Blackwoods in May 2001 and the Protector Safety Supply business acquired in July 2001 by Alsafe / NZ Safety are currently being integrated into the existing businesses. Synergy benefits from these acquisitions have already been realised and will continue to be achieved over the course of the financial year.

A more difficult outlook for the Australian industrial sector is expected to soften sales and earnings against earlier expectations over the remainder of the financial year.

Rural services and insurance

Operating revenue from the rural operations was 100 per cent above the first quarter last year with increases generated across all of Wesfarmers Landmark's areas of activity, except wool. This uplift reflects the contribution from the recently acquired IAMA business and generally positive trading conditions for the underlying activities.

Earnings in the same period increased by 27 per cent against last year's first quarter. Benefits from the merger of the IAMA and Wesfarmers Dalgety businesses continue to be attained as integration plans are successfully implemented.

Wesfarmers Federation Insurance reported a strong result for the first quarter due to higher premium income. As previously indicated, Wesfarmers Federation Insurance has no direct or indirect exposure of any significance to recent international events.

The full year outlook for the group's rural services and insurance businesses remains positive.

Fertilisers and chemicals

Although operating revenues for Wesfarmers CSBP were slightly lower than budget and than for the corresponding period last year, a strong result in chemicals produced increased earnings overall.

Fertiliser sales revenue was below budget and last year on lower tonnages related to revised marketing programmes for the next selling season. Earnings from the business exceeded last year and were in line with budget.

Chemical sales tonnages and earnings were higher than in the corresponding quarter last year and above budget due to increased ammonia demand from nickel producers and ammonium nitrate sales.

The outlook for Wesfarmers CSBP for 2001/2002 is for increased earnings from chemicals and fertilisers but ongoing difficult fertiliser market conditions.

Other operations

The forest products business unit reported revenues and earnings slightly ahead of budget but below last year's first quarter result. Good progress continues to be made in the orderly rationalisation of this business.

The earnings contribution from the 50 per cent owned Australian Railroad Group - which comprises the South Australian and Western Australian rail freight businesses acquired in mid-December 2000 – were slightly below budget. This was, however, after providing for retrenchment payments in respect of employee number reductions announced for the remainder of the year. In the absence of this charge, earnings were in line with budget.

The company's partly owned investment house associate, Gresham Partners, performed well during the quarter.

Operating revenue from the group's road transport business were below the first quarter last year due to the June 2001 sale of Niteroad Express. Earnings contribution exceeded budget and last year. The sale of the Western Australian freight services and logistics operations of Wesfarmers Transport was announced on 2 November. This sale, together with the earlier Niteroad Express disposal, represents the major component of the rationalisation of the group's road transport interests.

Outlook

The directors are pleased with the first quarter result and cautiously optimistic for the general prospects of the group in 2001/2002 notwithstanding present economic uncertainty.

Significant progress has been made in integrating the IAMA and Howard Smith acquisitions with further benefits expected to be realised over the course of the financial year.

At this time, the directors expect the full year result to reflect the positive outlook for the group as described in the bidder's statement.

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