

14 December 2018

Demerger of Coles Group Limited – ATO Class Ruling

The Australian Commissioner of Taxation has today issued Class Ruling CR 2018/59 (**Class Ruling**) covering the Australian income tax implications of the demerger of Coles Group Limited (**Coles**) for shareholders of Wesfarmers Limited (**Wesfarmers**).

The Class Ruling confirms the availability of demerger tax relief for certain Wesfarmers shareholders.

Demerger tax relief gives certain Wesfarmers shareholders the choice to defer the Australian capital gains tax (**CGT**) consequences that arise as a result of a Wesfarmers shareholder receiving Coles shares under the demerger. This broadly means that where a Wesfarmers shareholder chooses demerger tax relief, they will not be subject to Australian CGT until they sell their Coles or Wesfarmers shares.

The Class Ruling also confirms the dividend component of the demerger distribution of Coles shares is not subject to tax in Australia.

Wesfarmers has prepared a tax information guide to assist Australian resident shareholders of Wesfarmers in calculating the cost base allocation of their Wesfarmers and Coles shares. A copy of the tax information guide is attached to this announcement and is also made available on the Wesfarmers website.

The Class Ruling can be accessed via the Investor Centre section of Wesfarmers website at www.wesfarmers.com.au.

For more information:

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Demerger of Coles Group Limited

Tax information guide for Australian resident Wesfarmers shareholders

Wesfarmers Limited (**Wesfarmers**) completed the demerger of Coles Group Limited (**Coles**) on 28 November 2018.

A general guide to the Australian tax implications of the demerger is contained within Section 5 of the scheme booklet. The scheme booklet was previously sent to shareholders and is available on the Wesfarmers website at www.wesfarmers.com.au. As indicated in the scheme booklet, it is recommended that all Wesfarmers shareholders consult with a professional tax advisor regarding the taxation implications of participating in the demerger given the particular circumstances that apply to them.

The purpose of this tax information guide is to set out how an Australian resident shareholder of Wesfarmers (**Wesfarmers shareholders**) should allocate the capital gains tax (**CGT**) cost base of their Wesfarmers shares between their Wesfarmers and Coles shares.

The tax implications of the demerger may vary for Wesfarmers employee shareholders who hold their Wesfarmers shares within a Wesfarmers employee share plan trust. Wesfarmers will be providing separate guidance to employees in due course.

As part of the demerger, Wesfarmers applied to the Australian Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the demerger for certain Wesfarmers shareholders. The Commissioner issued Class Ruling CR 2018/59 (**Class Ruling**), in accordance with the application made by Wesfarmers. A copy of the Class Ruling is available on the Wesfarmers website at www.wesfarmers.com.au.

CGT cost base allocation calculation

Wesfarmers shareholders who hold post-CGT shares

Wesfarmers shareholders who acquired their Wesfarmers shares on or after 20 September 1985 (**Post-CGT shares**) will be required to apportion the total of the cost bases of their Wesfarmers Post-CGT shares held just before the demerger between:

- the Wesfarmers shares held by the shareholder just after the demerger; and
- the Coles shares distributed to that shareholder.

The apportionment must be done on a reasonable basis having regard to the market values of the Wesfarmers shares and the Coles shares just after the demerger and must be undertaken irrespective of whether a Wesfarmers shareholder chooses to apply demerger tax relief.

In the Class Ruling, the Commissioner confirmed that the cost base apportionment should be based on the volume weighted average prices (**VWAP**) of the Wesfarmers shares and the Coles shares, as traded on the Australian Securities Exchange on a deferred settlement basis over the first five trading days i.e. 21 November 2018 to 27 November 2018 inclusive.

In paragraph 68 of the Class Ruling, the Commissioner accepted the VWAP of the Wesfarmers and Coles shares to be as follows:

	VWAP \$	Relative Market Value (%)
Coles ordinary shares	\$12.8459	28.91%
Wesfarmers ordinary shares	\$31.5848	71.09%
TOTAL	\$44.4307	100.00%

The cost base of a Wesfarmers shareholder's Wesfarmers Post-CGT shares just before the demerger should therefore be allocated:

- 71.09% to their Wesfarmers Post-CGT shares; and
- 28.91% to their corresponding Coles shares.

Wesfarmers shareholders that apportion the cost base of their shares on this basis should adopt the methodology consistent with the approach accepted by the Commissioner.

For the purposes of applying the CGT discount on a subsequent disposal of Coles shares, the Coles shares received will be taken to have been acquired on the same date as the original Wesfarmers shares.

Example:

Under the Wesfarmers demerger of Coles, Wesfarmers shareholders received one Coles share for every Wesfarmers share they were registered as holding at 4pm Perth time on 22 November 2018 (**the Record Date**).

Jo held 200 Wesfarmers shares (all Post-CGT shares) on the Record Date. Jo worked out that the aggregated cost base of her Wesfarmers Post-CGT shares immediately before the demerger was \$9,000 or \$45 per share (\$9,000 / 200 shares).

The adjusted cost base of Jo's 200 Wesfarmers shares after the demerger would be \$6,398.10 (71.09% of \$9,000) or \$31.99 per share (\$6,398.10 / 200 shares) and the cost base of Jo's 200 Coles shares would be \$2,601.90 (28.91% of \$9,000) or \$13.01 per share (\$2,601.90 / 200 shares).

The adjusted cost bases will be relevant for determining the capital gain or capital loss arising from a future disposal of Jo's Wesfarmers and Coles shares.

Wesfarmers shareholders who hold pre-CGT shares

Wesfarmers shareholders who acquired their Wesfarmers shares before 20 September 1985 (**Pre-CGT shares**) and choose demerger tax relief, can also treat their Coles shares acquired as Pre-CGT shares. It is not necessary to undertake a cost base allocation calculation for Pre-CGT shares.

If a Wesfarmers shareholder does not choose demerger tax relief, none of the Coles shares acquired under the demerger will be treated as Pre-CGT shares. The Coles shares will be Post-CGT shares and will have an acquisition date of 28 November 2018 (being the demerger implementation date). The cost base in each Coles share received will equal the market value of the Coles shares on the demerger implementation date. A reasonable estimation of the market value of each Coles share on the demerger implementation date is the 5 day VWAP of \$12.8459.

Wesfarmers shareholders who have any further questions regarding the tax implications of the demerger should consult their professional tax advisor. For all other queries, please contact the Wesfarmers Shareholder Information Line on 1300 558 062 (within Australia) or +61 3 9415 4631 (international) on weekdays between 8:30am and 8:00pm (AEDT).