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Wednesday, 5 September 2007

## Enhanced Wesfarmers' Proposal Recommended

Coles Group and Wesfarmers today announced an enhanced Wesfarmers' proposal to be put to Coles' shareholders at a meeting planned for early November 2007.

The main features of today's joint announcement include:

- **The issue of a form of Wesfarmers' Price Protected Shares (WPPS)** for an equivalent of half of the share component to be offered to Coles shareholders.
- **Best Interests of Coles Shareholders** - the Independent Expert, Grant Samuel & Associates, has advised the Coles Group Board that the enhanced Wesfarmers' proposal is on an overall basis in the best interests of shareholders.
- **Re-confirmation of Coles Group Board recommendation** - the Coles Group Board confirms its unanimous recommendation that shareholders should support Wesfarmers' proposal in the absence of a superior proposal.
- **Modifications to the Scheme Implementation Agreement (SIA)** – Coles and Wesfarmers have agreed modifications to the SIA, including removal of the Wesfarmers share price termination right, an increase in the break fee to \$150 million and a strengthening of the 'no shop' and 'no solicitation' restrictions on Coles Group.
- **Formation of a Business Engagement and Integration Committee to accelerate integration and transition plans**

Coles Group Chairman Rick Allert said today's announcement enabled the transaction to move to completion.

"After an extensive review of all ownership options, including break-up, the Board believes that the acquisition of Coles Group by Wesfarmers in a whole of company transaction is the best outcome for Coles Group shareholders, employees and other stakeholders," Mr Allert said.

"The Coles Group Board unanimously believes shareholders should support the proposal as providing an opportunity to participate in the future growth of the combined Wesfarmers/Coles Group."

### **Wesfarmers' revised proposal**

The enhanced proposal is designed to give Coles' shareholders greater certainty about the value of the Wesfarmers' proposal in the current environment of market volatility. This will be achieved through price protection being provided for the equivalent of half of the share component of the offer.

The precise terms of the new WPPS are subject to consultation with the ASX and will be included in the Scheme Booklet when finalised but the enhanced proposal will in any event provide shareholders a consideration equivalent to:

- cash of \$4;
- 0.14215 Wesfarmers' Ordinary Shares; plus
- 0.14215 Wesfarmers' WPPS

Coles shareholders will also receive the Coles Group final fully franked dividend of \$0.25 per share.

It is intended that the WPPS will:

- o be listed on the ASX;
- o pay a fully franked dividend of at least \$2 per WPPS, subject to the availability of sufficient retained earnings and franking credits;
- o provide shareholders with additional Wesfarmers' Ordinary Shares in the event the Wesfarmers' Ordinary Share price is less than \$45 at their reclassification date – four years from the date of issue<sup>1</sup> – on the following basis:

<b>Price per Wesfarmers' Ordinary Share at reclassification date</b>	<b>Entitlement equivalent to additional Wesfarmers' Ordinary Shares</b>
At or above \$45	None
Between \$45 and \$36	Between 0 and 0.25 for each WPPS on a sliding scale to provide effective price protection of \$45 for each WPPS
At or below \$36	0.25 for each WPPS

- o be capable of being reclassified into Ordinary Shares at any time by the WPPS holder. In addition the WPPS will be reclassified into Ordinary Shares if the 20 day volume weighted average price exceeds \$45.

Wesfarmers' Managing Director Richard Goyder said the new arrangements would deliver positive outcomes for all concerned.

"This modification of our offer reflects our confidence in the value of the transaction to shareholders of both companies. We are confident that the improvement we will bring to the Coles' businesses, in conjunction with our existing businesses, will be reflected in a strengthening share price," Mr Goyder said.

<sup>1</sup> which may occur earlier or be subject to extension for up to four years in certain circumstances

## **Modifications to the SIA**

In recognition of the modified terms of the proposal, Coles Group and Wesfarmers have agreed to amend certain terms of the SIA.

These include:

- an increase in the break fee to \$150 million;
- a broadening of the circumstances in which the break fee is payable to Wesfarmers, including the sale of all or a substantial part of a Coles Group business;
- removal of the share price movement termination right; and
- considerable strengthening of the 'no shop' and 'no solicitation' provisions.

Wesfarmers and Coles Group have also agreed to form a Business Engagement and Integration Committee to accelerate integration and transition plans.

"Importantly, these changes will greatly assist planning as well as hasten new business initiatives," Mr Goyder said.

"The much greater certainty of completion that today's announcement brings will also enable us to have more definitive discussions with people we want to bring into the merged operations."

## **Mix and Match**

A mix and match facility similar to that announced by Wesfarmers on 9 August will be offered to shareholders enabling them to maximise the ordinary shares they receive (subject to off-setting elections for maximum cash) or maximise the cash they receive (subject to off-setting elections for maximum shares). WPPS will not be part of mix and match.

## **Next Steps**

It is intended that the Scheme Booklet will be despatched in early October and the shareholders' meeting will be held in early November.

Full details of the Grant Samuel report will be published in the Scheme Booklet.

Mr Allert and Mr Goyder said the companies would now be working more closely together to bring the transaction to completion in the interests of all parties.

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