Wesfarmers Limited
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NEWS

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UPDATE ON WESFARMERS OFFER FOR COLES

Wesfarmers continues to work towards the implementation of the Scheme of Arrangement proposal which was announced to the market on 2 July.

The following announcement provides some further information on some aspects of the transaction which have been the subject of recent media and market speculation.

"Mix and Match" Proposal

Wesfarmers has put to the Coles Board a "mix and match" proposal as an enhancement to its offer to Coles' shareholders.

"We believe the mix and match proposal will be attractive to Coles shareholders," said Wesfarmers Managing Director Richard Goyder.

"Mix and match adds flexibility to the offer to address the particular preferences of individual shareholders. Based on Wesfarmers' assessment of the likely level of Coles shareholders' demand for scrip and cash, we expect this proposal should allow those seeking 100 per cent scrip consideration to receive it. This means that Coles shareholders with a preference for Wesfarmers shares could receive 100 per cent Capital Gains Tax rollover relief."

Under mix and match, Coles shareholders will be given the opportunity to choose from the following alternative forms of consideration:

- **Base Offer:** the previously announced mix of consideration, being $4 cash and 0.2843 Wesfarmers shares for each Coles share;
- **Maximum Scrip**: for Coles shareholders wishing to increase the scrip component of their consideration (to the extent possible based on the level of demand from other Coles shareholders for maximum cash);
- **Maximum Cash**: for Coles shareholders wishing to increase the cash component of their consideration (to the extent possible based on the level of demand from other Coles shareholders for maximum scrip).

For the purpose of the transfer of interests between Coles shareholders electing Maximum Scrip and those electing Maximum Cash, Wesfarmers shares would be valued at a volume weighted average price for a period between the scheme meeting and implementation date.[1]

[1] The Wesfarmers VWAP would be calculated ex the FY2007 Wesfarmers final dividend

All Coles shareholders would still receive the 25 cent fully franked 2006/2007 Coles final dividend.

Shareholders will be able to elect their preferred form of consideration in the same period as proxy nominations are made for the Coles shareholder meeting to approve the Scheme scheduled for 25 October 2007.

There would be no change to Wesfarmers' overall funding mix for the offer.

Wesfarmers understands that the Coles Board will formally consider the mix and match proposal as part of the finalisation of the Scheme book. The Scheme book is scheduled to be released in mid-September.

Wesfarmers Dividend Guidance

On the assumption that the Coles transaction proceeds, Wesfarmers expects to be able to pay fully franked dividends in excess of $2 per Wesfarmers share for the 2008 and 2009 financial years, subject to the availability of retained earnings and franking credits.

Coles shareholders are expected to receive a 2007 full year dividend of 44.5 cents per Coles share. [2] However, following Wesfarmers' acquisition of Coles, those shareholders would be expected to receive in excess of 76.9 cents per share in equivalent terms. [3] For Coles shareholders, this represents an increase in dividend income of approximately 72 per cent.

"The Wesfarmers Board has decided to provide guidance to the market in relation to its future dividends to highlight the confidence the Board has in the company's outlook," said Mr Goyder.

"We also believe that this strong dividend yield will be very attractive to Coles shareholders in their consideration of our acquisition proposal."

Coles Capital Expenditure

There has been some speculation that future capital expenditure of the Coles businesses under Wesfarmers ownership would significantly exceed the market consensus.

In conjunction with external specialist consultants, Wesfarmers has undertaken extensive due diligence in respect of Coles' anticipated capital expenditure requirements. That work confirms a requirement in line with the market consensus, being $1.0 - $1.2 billion in each of FY08 and FY09.[4]

It should be noted that Coles has already incurred significant capital expenditure in respect of its Transformation initiative and that any future outlays would only be undertaken where they met Wesfarmers' investment criteria.

[2] 19.5 cents per Coles share as a 2007 interim dividend and 25 cents per share as a 2007 final dividend
[3] Based on a Wesfarmers 2008 full year dividend in excess of $2 per share, Coles shareholders receiving Wesfarmers' offer consideration of 0.2843 Wesfarmers shares and $4 cash for each Coles share and investing the $4 in Wesfarmers shares at $39.97 per share, being the closing price on 8 August 2007
[4] Based on Reuters Consensus capital expenditure for Coles (as at 8 August 2007) of $1,217m in FY08 and $1,084 million in FY09.

Scheme Implementation Agreement Conditions

Wesfarmers has obtained the required approval from the Monetary Authority of Singapore in relation to the acquisition. Consequently, this condition of the Scheme Implementation Agreement has been satisfied.

Coles 2012 Notes

Wesfarmers is considering various options in relation to the Coles 2012 Notes following implementation of the Scheme, including paying out the Notes and the possibility of leaving them outstanding.

Further Information

Wesfarmers anticipates providing further information in relation to its proposed offer for Coles after the release of its 2006/2007 results on 16 August 2007.

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