

18 January 2005

Dear shareholder

**CAPITAL RETURN OF \$1.00 PER SHARE**

On 14 December 2004, the directors of Wesfarmers Limited (Wesfarmers) announced their intention to make a capital return of \$1.00 per fully paid ordinary share.

The capital return is being implemented to return surplus capital to shareholders and to ensure that Wesfarmers maintains an efficient capital structure. The company's strong earnings, cashflow and debt and equity fundraising capabilities mean it is able to undertake the capital return without adversely affecting its financial flexibility and growth objectives. Wesfarmers continues to evaluate a range of investment opportunities and remains committed to pursuing growth while maximising returns to shareholders.

The company has received a Class Ruling from the Australian Taxation Office in relation to the taxation treatment of the capital return for its shareholders.

It is expected that the capital return will not be taxable in the hands of the majority of shareholders but will reduce the cost base of their shares for capital gains tax purposes. For shareholders with a cost base per share below \$1.00 at the time of the capital return, a capital gain may arise on the difference (see the third page of the attached explanatory statement for more details).

The capital return is subject to shareholder approval. A notice of meeting to approve the capital return is enclosed, together with an explanatory statement. The meeting to approve the capital return is to be held in the Grand Ballroom, Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia on Friday, 18 February 2005 at 10.00 am WST.

Shareholders who have already requested that their dividends be paid into a nominated bank account will receive a direct credit authority form with this letter to enable them to elect to receive the proposed capital return by direct payment to their account.

We have also taken the opportunity to propose a minor change to the constitution of the company to take account of a proposed change to the ASX Listing Rules. Further detail is contained in the enclosed explanatory statement.

*Your directors recommend you vote in favour of the resolutions for the reasons set out in the explanatory statement.*

*If you are unable to attend the meeting, you are encouraged to return your completed proxy form in the enclosed reply paid envelope as soon as possible.*

Yours sincerely



**Trevor Eastwood AM**  
Chairman

## Notice of Meeting

**Time:** 10.00 am WST  
**Date:** Friday 18 February 2005  
**Place:** Grand Ballroom  
Burswood Convention Centre  
Great Eastern Highway  
Burswood, Western Australia

Notice is hereby given that a general meeting of Wesfarmers Limited will be held in the Grand Ballroom, Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia on Friday 18 February 2005 at 10.00 am.

### Business of the meeting

#### Special business

1. To consider, and if thought fit, to pass the following resolution as an ordinary resolution:  
"That in accordance with section 256C(1) of the Corporations Act 2001 (Cth), approval is given for the share capital of the company to be reduced by paying the sum of \$1.00 per fully paid ordinary share on issue on the Record Date (as defined in the explanatory statement) to each holder of fully paid ordinary shares in the company on the Record Date."
2. To consider and, if thought fit, to pass the following resolution as a special resolution:  
"That rule 83 of the company's constitution be amended with effect from the close of the meeting, by deleting the phrase "within the period specified in the Listing Rules" and replacing it with the phrase "on or before the date that is 35 Business Days before the date of the general meeting"."

#### By order of the Board



**L J Kenyon**  
Company Secretary  
18 January 2005

#### Explanatory statement

Shareholders are referred to the explanatory statement accompanying this notice of meeting. The explanatory statement is intended to be read in conjunction with and forms part of this notice of meeting.

#### Members entitled to attend and vote at the meeting

For the purposes of the meeting and in accordance with regulation 7.11.37 of the Corporations Regulations 2001, it has been determined that the members entitled to attend and vote at the meeting shall be those persons who are recorded in the register of members at 5.00 pm WST on Wednesday, 16 February 2005.

**Proxies**

Where a member is unable to attend the meeting, we encourage that member to complete and return the enclosed proxy form. Each member is entitled to appoint a proxy. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If the appointment does not specify the proportion or number of the member's voting rights, each proxy may exercise half the votes. A proxy need not be a member. To be effective, duly completed proxy forms, together with any relevant power of attorney, must be received not less than 48 hours before the time for holding the meeting (i.e. 10.00 am WST on Wednesday, 16 February 2005). Please direct proxy forms and any relevant power of attorney to the company's share registry, Computershare Investor Services Pty Limited, Level 2, 45 St George's Terrace, Perth (facsimile: within Australia (08) 9323 2033, outside Australia (+61 8) 9323 2033).

A body corporate member may elect to appoint a representative, rather than appoint a proxy, in accordance with section 250D of the Corporations Act 2001 (Cth). Where a body corporate appoints a representative the company requires written proof of the representative's appointment to be lodged with or presented to the company before the meeting.

# EXPLANATORY STATEMENT

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## 1. Capital return to shareholders

### Terms of the proposal

Wesfarmers Limited proposes a return of capital to its shareholders of \$1.00 per fully paid ordinary share, to return a total of approximately \$378 million to its shareholders.

The proposed capital return is to be effected by way of an equal reduction of capital and requires shareholder approval by ordinary resolution. The proposed capital return will apply equally to each holder of fully paid ordinary shares in proportion to the number of fully paid ordinary shares they hold. No shares will be cancelled as a result of the proposed capital return.

The date for determining the persons entitled to participate in the proposed capital return is 25 February 2005 (Record Date).

### Reasons for the proposal

Wesfarmers seeks to maintain an efficient capital structure to minimise the overall cost of capital and to ensure there is adequate flexibility to fund existing operations and expansion opportunities.

To this end, Wesfarmers has a policy of maintaining its ratio of net debt to the equity in its balance sheet at between 50 and 75 per cent. The net debt to equity ratio of Wesfarmers was 45.5 per cent as at 30 June 2004, which is below the target range. The forecast net debt to equity ratio at 30 June 2005 before the proposed capital return is approximately 44 per cent, and after the proposed capital return is approximately 62 per cent.

Wesfarmers' net debt to equity ratio has reduced significantly since 30 June 2001 (when it was 63.4 per cent) as a result of the issue of Wesfarmers shares in August 2001 as consideration for the acquisition of Howard Smith Limited, the operation of Wesfarmers' employee share plan, the consistently strong take up of Wesfarmers' dividend reinvestment plan prior to its suspension in 2003 and strong operating cashflow.

In February 2003, Wesfarmers implemented an on-market buy back as one element of its capital management strategy designed to bring the net debt to equity ratio within target levels. As at 18 January 2005, 6,982,162 of the company's shares were bought back for a total cost of \$177.5 million. Notwithstanding the on-market buy back programme, Wesfarmers' net debt to equity ratio has remained below target levels.

The proposed capital return is an additional element of the company's capital management strategy. It follows a return of capital to shareholders in December 2003 of \$2.50 per fully paid ordinary share which returned a total of approximately \$934 million to shareholders. The proposed capital return is being implemented to return surplus capital to shareholders and ensure that Wesfarmers maintains an efficient capital structure. The company's strong earnings and cashflows mean it is able to undertake the proposed capital return without adversely affecting its financial flexibility. The proposed capital return will not prejudice the company's ability to pay its creditors.

The directors have assessed various capital management methods to restore target gearing levels and have determined that the proposed equal capital return is in the best interests of the company.

### Directors' recommendation

The directors are of the opinion that the proposed capital return is fair and reasonable to all shareholders and unanimously recommend that shareholders vote in favour of the proposed resolution.

No director of the company will receive any payment or benefit of any kind as a consequence of the proposed return of capital other than as a shareholder of the company.

## **Effect on Wesfarmers**

### **Impact on capital structure of Wesfarmers**

The company has 378,042,439 fully paid ordinary shares on issue at 18 January 2005.

After the proposed capital return, the number of fully paid ordinary shares on issue will remain the same but the share capital of the company will be reduced by approximately \$378 million, representing a return per ordinary share of \$1.00.

### **Financial implications for Wesfarmers**

#### **Key financial impacts**

The key financial implications of the proposed capital return on Wesfarmers are:

- the proforma net debt to equity ratio at 30 June 2004 would have been approximately 86 per cent, after taking into account the proposed capital return and the payment in August 2004 of the final dividend of \$346 million, if these transactions had taken place at 30 June 2004. This compares with the reported number of 45.5 per cent at that date.

The forecast net debt to equity ratio at 30 June 2005 is approximately 44 per cent before the proposed capital return and approximately 62 per cent after the proposed capital return.

- Wesfarmers' share capital will be reduced by approximately \$378 million, being the total amount of the proposed capital return.
- interest costs will increase as a result of increased debt required to fund the proposed capital return. The increased interest cost will be reflected in the after tax earnings and will reduce earnings per share and return on equity for the financial year ending 30 June 2005 and for later years.
- interest cover and gearing will remain at prudent levels following the proposed capital return.

#### **Funding for the capital return**

Wesfarmers will draw down existing bank and capital markets debt facilities to pay for the proposed capital return. Accordingly, borrowings will increase by the total amount of the proposed capital return.

#### **Taxation implications for Wesfarmers**

No adverse income tax consequences should arise for Wesfarmers from the proposed capital return.

#### **Growth strategies and future acquisitions**

Wesfarmers' corporate objective is "to provide a satisfactory return to shareholders" and, consistent with this objective, it pursues growth only if it leads to increased shareholder wealth. Adopting this philosophy, Wesfarmers has developed a diverse business mix with each business unit showing a strong position in its market. A further element of Wesfarmers' strategy is the ongoing review of the financial and operational performance of its business units and its overall capital management and balance sheet position. Wesfarmers will continue to assess opportunities consistent with its stated objective of providing a satisfactory return to shareholders and is committed to delivering growth that leads to increased shareholder wealth. The proposed capital return will not materially impact the company's capacity to fund new investment opportunities, given the profitability of its existing businesses, the strong operating cashflow of the group and the group's capacity to raise debt and equity financing, if required.

## **Effect on Wesfarmers shareholders**

### **Generally**

If the proposed capital return is approved by shareholders, shareholders will receive a cash payment of \$1.00 per Wesfarmers fully paid ordinary share that they hold on the Record Date. The proposed capital return will not result in the cancellation of any shareholder's shares or the dilution of any shareholder's shareholding in the company.

### **Taxation**

Wesfarmers received a Class Ruling from the Australian Taxation Office in relation to the tax treatment of the proposed capital return for its shareholders (Class Ruling CR 2004/153). The Class Ruling was published by the Australian Taxation Office in the Commonwealth Gazette on 22 December 2004.

The following contains a general description of the Australian income tax consequences that will arise for shareholders as a consequence of the proposed capital return, as supported by the Class Ruling.

This general description is only relevant to shareholders who hold shares on capital account. Shareholders who hold shares on revenue account, with a profit making intention or as trading stock, should seek their own advice in relation to the Australian tax consequences arising for their particular circumstances. Furthermore, shareholders who are not residents of Australia for tax purposes should seek their own advice in relation to the taxation consequences arising from the proposed capital return under the laws of their country of residence.

(a) Dividend

The capital return should not be treated as a dividend for Australian income tax purposes.

(b) Capital gains tax (CGT)

(1) **Resident shareholders**

(i) *Pre-CGT shares*

Shareholders who acquired their shares in Wesfarmers before 20 September 1985 will not be subject to CGT in respect of the capital return as any capital gain will be disregarded for Australian CGT purposes.

(ii) *Post-CGT Shares – capital return less than cost base*

Where shareholders acquired a share in Wesfarmers on or after 20 September 1985 and the capital return is less than the cost base of that share for CGT purposes, the shareholder will not realise a capital gain from the capital return in respect of that share but the cost base and reduced cost base of the share will be reduced by the amount of the capital return. Shareholders who received the capital return of \$0.50 per share in July 1998 and/or the capital return of \$2.50 in December 2003 would have had the cost base and reduced cost base of their shares reduced at the time by the amount of the capital return/s.

(iii) *Post-CGT shares – capital return exceeds cost base*

Where shareholders acquired a share in Wesfarmers on or after 20 September 1985 and the capital return is greater than the cost base of the share for CGT purposes, a shareholder will realise a capital gain from the capital return to the extent that the capital return exceeds the cost base of the share for CGT purposes (shareholders who received the capital return of \$0.50 per share in July 1998 and/or the capital return of \$2.50 per share in December 2003, would have had the cost base and reduced cost base of their shares reduced at that time by the amount of the capital return/s). The cost base and reduced cost base of the share will be reduced to nil. Shareholders who acquired a share on or after 20 September 1985 but on or before 11.45 am on 21 September 1999 (by legal time in the Australian Capital Territory) may be entitled to choose to calculate their capital gain from the capital return using either:

- the difference between the amount of the capital return and the indexed cost base of the shares (indexed to 30 September 1999); or
- the discount capital gains provisions (see below).

Shareholders who are individuals, complying superannuation entities or trusts (Discount CGT Entities) and who have held their shares for at least 12 months prior to the capital return may choose to apply the discount capital gains provisions to any capital gain realised on the capital return such that any capital gain realised after the application of any capital losses will be discounted by 50 per cent (for individuals and trusts) or 33 1/3 per cent (for complying superannuation entities).

For shareholders who acquired shares after 11.45 am on 21 September 1999, those shareholders will only be entitled to use the discount capital gains provisions provided that they are one of the Discount CGT Entities and the share was held for at least 12 months prior to the capital return.

(2) **Non-resident shareholders**

Non-resident shareholders will not be liable to CGT in respect of the capital return provided that they and their associates have not, at any time during the five years preceding the capital return, beneficially owned at least 10 per cent (by value) of the shares in Wesfarmers.

## Timing and trading implications

Subject to shareholder approval of the proposed capital return, the proposed capital return will take effect in accordance with the following timetable approved by the Australian Stock Exchange Limited.

Event	Date
Meeting to approve the capital return.	Friday 18 February 2005
Wesfarmers shares trade on an "ex" return of capital basis.	Monday 21 February 2005
Record Date for determining entitlements to participate in the capital return.	Friday 25 February 2005
Despatch date for payment of capital return.	Wednesday 2 March 2005

## Payment methods

If the proposed capital return is approved by shareholders, the payment of the capital return will ordinarily be satisfied by sending a cheque to those persons who are shareholders as at the Record Date.

However, shareholders who have previously completed and returned to the company or the company's share registry an instruction for direct crediting of dividend payments to a designated bank account will have received with this notice of meeting a direct credit authority form. If a shareholder wishes to have their entitlement to the proposed capital return deposited to the same designated bank account rather than receive a cheque, the shareholder must complete the enclosed direct credit authority form and return it to the share registry so that it is received before the Record Date. While the company will endeavour to comply with shareholder requests, it reserves absolutely the right to satisfy entitlements to the proposed capital return by cheque.

## Other material information

There is no other information material to the making of a decision by shareholders whether or not to vote in favour of the proposal (being information that is known to directors of the company which has not previously been disclosed to holders of shares in the company) other than as set out in this document.

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## 2. Amendment to constitution

In an Exposure Draft issued on 30 September 2004, Australian Stock Exchange Limited (ASX) has proposed deleting Listing Rule 14.3 of the ASX Listing Rules with effect from 1 March 2005. Listing Rule 14.3 imposed an obligation on listed companies to accept nominations for the election of directors up to 35 business days (or in the case of a meeting that members have requested the directors to call, 30 business days) before the date of a general meeting at which directors may be elected.

In the Exposure Draft, ASX indicated that it does not consider this rule to be something that should be imposed by ASX and is "essentially an issue to be dealt with in an entity's constitution and as a matter of general corporate governance".

Rule 83 of the Wesfarmers constitution currently provides:

"No person (other than a person who is in office as a Director immediately before the meeting in question or has been nominated by the Directors for election at the meeting in question) shall be eligible for election to the office of Director at any general meeting unless, **within the period specified in the Listing Rules**, a notice in writing signifying his candidature is delivered to the Company's registered office duly signed:

- (a) in the case of a Member nominating himself, by such Member; and
- (b) in the case of a Member intending to nominate another person, by the nominee giving his consent to the nomination and by such Member signifying his intention to nominate the person." (emphasis added)

The effect of the proposed deletion of Listing Rule 14.3 is that there will no longer be any relevant period specified in the Listing Rules, making rule 83 of the company's constitution unworkable. Accordingly, it is proposed that the company's constitution be amended by replacing the underlined phrase with the words "on or before the date that is 35 Business Days before the date of the general meeting".



Mark this box with an 'X' if you have made any changes to your address details (see reverse)



**All correspondence to:**

Computershare Investor Services Pty Limited  
GPO Box D182 Perth  
Western Australia 6840 Australia  
Enquiries (within Australia) 1300 557 010  
(outside Australia) 61 3 9415 4000  
Facsimile 61 8 9323 2033  
www.computershare.com

### Appointment of Proxy

I/We being a member/s of Wesfarmers Limited and entitled to attend and vote hereby appoint



the Chairman  
of the Meeting  
(mark with an 'X')

OR

*If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.*

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Wesfarmers Limited to be held at the Burswood Convention Centre on 18 February 2005 at 10.00 am and at any adjournment of that meeting.

### Voting directions to your proxy - please mark to indicate your directions

		For	Against	Abstain*
1	Capital Return of \$1.00 per fully paid ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	To amend the Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

\*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and  
Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

/ /





# How to complete the Proxy Form

## 1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'X') should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

## 2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

## 3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of your voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

## 4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

## 5 Signing Instructions

You must sign this form as follows in the spaces provided:

- Individual: where the holding is in one name, the holder must sign.
- Joint Holding: where the holding is in more than one name, only one of the securityholders need sign but the vote of the most senior holder who tenders a vote will be accepted to the exclusion of the other joint holders.
- Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
- Company: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry.

## Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting ie by 10.00 am WST on Wednesday, 16 February 2005. Any Proxy Form received after that time will not be valid for the scheduled meeting.

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### Documents may be lodged:

- IN PERSON Registered Office - 11th Floor, Wesfarmers House, 40 The Esplanade, Perth WA 6000, Australia  
Share Registry - Computershare Investor Services Pty Limited, Level 2, 45 St George's Terrace, Perth WA 6000, Australia
- BY MAIL Registered Office - GPO Box M978, Perth WA 6843, Australia  
Share Registry - Computershare Investor Services Pty Limited, GPO Box D182, Perth WA 6840, Australia
- BY FAX 61 8 9323 2033